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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF RÍO GRANDE**

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**BASIC FINANCIAL STATEMENTS  
WITH ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE  
SINGLE AUDIT ACT**

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**Year Ended June 30, 2011**

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Municipality of Río Grande, P.O. Box 847, Río Grande, Puerto Rico 00745  
Hon. Eduard Rivera Correa

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2011

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CONTENTS

	Page
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to Basic Financial Statements	19-51
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	52
Notes to Budgetary Comparison Schedule-General Fund	53
Schedule of Expenditures of Federal Awards	54-56
Notes to the Schedule of Expenditures of Federal Awards	57

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE

BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2011

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CONTENTS

**INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS**

Page

Report on internal control over financial reporting and on compliance and  
Other matters based on an audit of financial statements performed in  
Accordance with *Government Auditing Standards*

58-59

Independent Auditor's Report on compliance with requirements  
That could have a direct and material effect on each major  
Program and on internal control over compliance in accordance  
With OMB Circular A-133

60-62

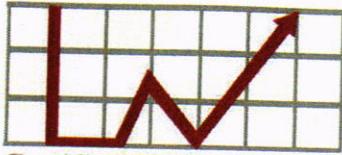
**FINDING AND QUESTIONED COSTS**

Schedule of Findings and Questioned Cost

63-65

Summary Schedule of Prior Year Audit Findings

66



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and  
the Municipal Legislature  
Municipality of Río Grande  
Río Grande, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico (Municipality)** as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico**, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2012, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

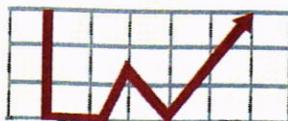
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **3** through **12** and **52** be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Río Grande's** basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2011

Stamp No. 2575554 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RIO GRANDE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2011**

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This discussion and analysis of the **Municipality of Río Grande** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2011. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2010. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2010-2011 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

**FINANCIAL HIGHLIGHTS**

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2011 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$79,568,571 which represents a decrease of 3% compared to prior fiscal year.
2. At the end of fiscal year 2011, total liabilities amounted to \$42,040,765. Out of said amount, \$33,642,659 corresponded to long-term liabilities of which \$30,143,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$37,527,806 which represents a decrease of 12% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$33,197,074, derived from the following sources: \$1,964,451 from charges for services; \$2,780,985 from operating grants and contributions; \$2,214,168 from capital grants and contributions obtained from other sources, and \$26,237,470 from general revenues available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$38,090,612.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by \$4,893,538.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$11,292,849.
8. In the fund financial statements, the governmental activities revenue increased \$4,081,060 (or 14%), however, governmental activities expenditures increased \$8,391,740 (or 25%).
9. At the end of the current fiscal year, the Municipality's general fund deficit amounted to \$(2,237,058) compared to a fund deficit of \$(2,308,197) in the prior fiscal year 2009-2010.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$(980,537).

**FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2011. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

**FINANCIAL STATEMENTS COMPONENTS**

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**USING THIS ANNUAL REPORT**

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

**GOVERNMENT – WIDE FINANCIAL STATEMENTS**

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

**FUND FINANCIAL STATEMENTS**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**FUND FINANCIAL STATEMENTS (CONTINUED)**

information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**INFRASTRUCTURE ASSETS**

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Rio Grande**, primary government assets exceeded total liabilities by \$37,527,806 at the end of 2011, as compared with \$42,421,344, which reflect a decrease of \$(4,893,538) under previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$(4,893,538) decrease reflected in the Net Assets figure.

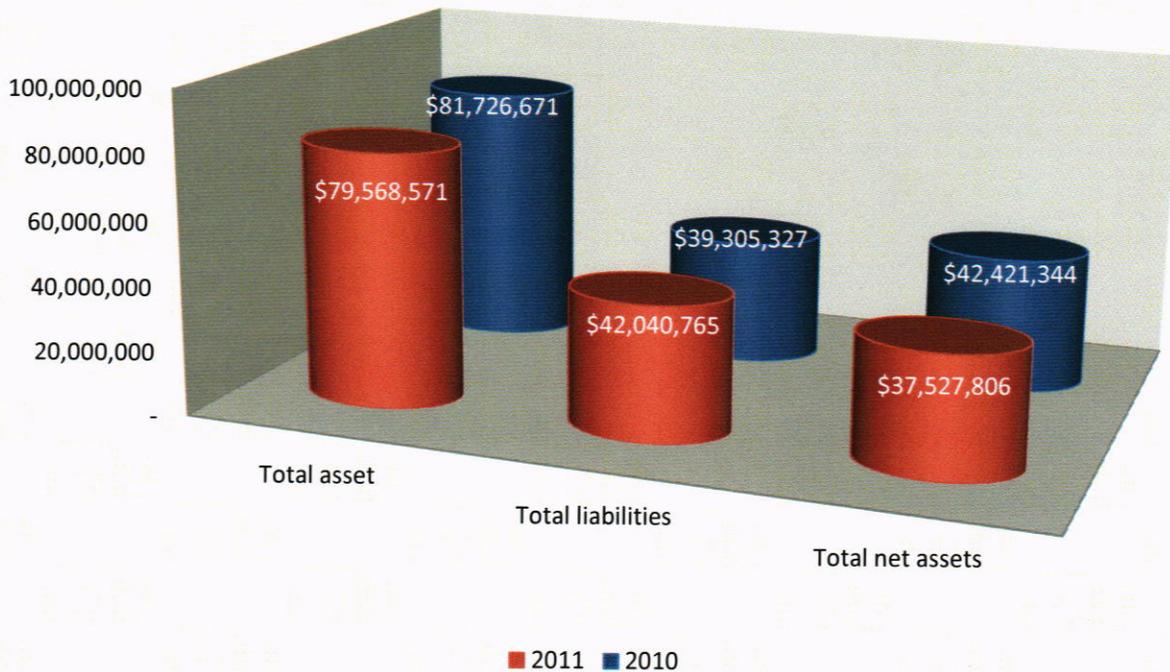
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

<b>Condensed Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>%</b>
Current and other assets	\$17,535,859	\$20,936,122	(3,400,263)	(16)%
Capital assets	62,032,712	60,790,549	1,242,163	2%
<b>Total assets</b>	<b>79,568,571</b>	<b>81,726,671</b>	<b>(2,158,100)</b>	<b>3%</b>
Current and other liabilities	8,398,106	6,924,177	(1,473,929)	(21)%
Long-term liabilities	33,642,659	32,381,150	(1,261,509)	(4)%
<b>Total liabilities</b>	<b>42,040,765</b>	<b>39,305,327</b>	<b>(2,735,438)</b>	<b>(7)%</b>
Invested in capital assets, net of related debt	40,998,712	43,294,549	(2,295,837)	(5)%
Restricted	13,032,749	17,874,508	(4,841,759)	(27)%
Unrestricted deficit	(16,503,655)	(18,747,713)	2,244,058	12%
<b>Total net assets</b>	<b>37,527,806</b>	<b>\$42,421,344</b>	<b>(4,893,538)</b>	<b>(12)%</b>



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets decreased by \$4,893,538. Approximately sixty-three percent (63%) of the Municipality's total revenue came from taxes, while twenty-eight percent (28%) resulted from grants and contributions, including federal aid. Charges for Services provided six percent (6%), Interest and Investment earnings two percent (2%) and miscellaneous one percent (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, culture and recreation, and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2011 and 2010. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

<b>Condensed Statement of Activities</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>%</b>
<b>Program Revenues:</b>				
Charge for services	\$ 1,964,451	\$ 2,286,086	\$ (321,635)	(14)%
Operating grants and contributions	2,780,985	3,678,017	(897,032)	(24)%
Capital grants and contributions	2,214,168	1,901,648	312,520	16%
<b>General revenues:</b>				
Property taxes	10,573,032	10,798,040	(225,008)	(2)%
Municipal license tax	2,946,564	2,638,386	308,178	12%
Municipal sales and use tax	2,908,187	2,635,013	273,174	10%
Other local taxes	4,460,155	994,043	3,466,112	349%
Grants and contributions not restricted to specific programs	4,434,636	3,435,598	999,038	29%
Interest and investment earnings	618,831	333,124	285,707	86%
Miscellaneous	296,065	416,058	(119,993)	(29)%
<b>Total revenues</b>	<u>33,197,074</u>	<u>29,116,013</u>	<u>4,081,061</u>	<u>14%</u>
<b>Expenses</b>				
General government	12,308,373	8,419,573	(3,888,800)	(46)%
Public safety	2,590,584	5,535,896	2,945,312	53%
Public works	10,302,139	6,162,234	(4,139,905)	(67)%
Health and welfare	5,773,605	7,138,164	1,364,559	19%
Culture and recreation	4,669,354	939,354	(3,730,000)	(397)%
Economic development	472,035	291,992	(180,043)	(62)%
Community development	908,724	377,201	(531,523)	(141)%
Urban development	485	19,100	18,615	97%
Interest on long-term debt	1,065,313	893,536	(171,777)	(19)%
<b>Total expenses</b>	<u>38,090,612</u>	<u>29,777,050</u>	<u>(8,313,562)</u>	<u>(28)%</u>
Change in net assets	(4,893,538)	(661,037)	(4,232,501)	(640)%
Net assets, beginning of year	42,421,344	43,082,381	(661,037)	(2)%
Net assets, end of year	<u>\$ 37,527,806</u>	<u>\$ 42,421,344</u>	<u>\$ (4,893,538)</u>	<u>(12)%</u>

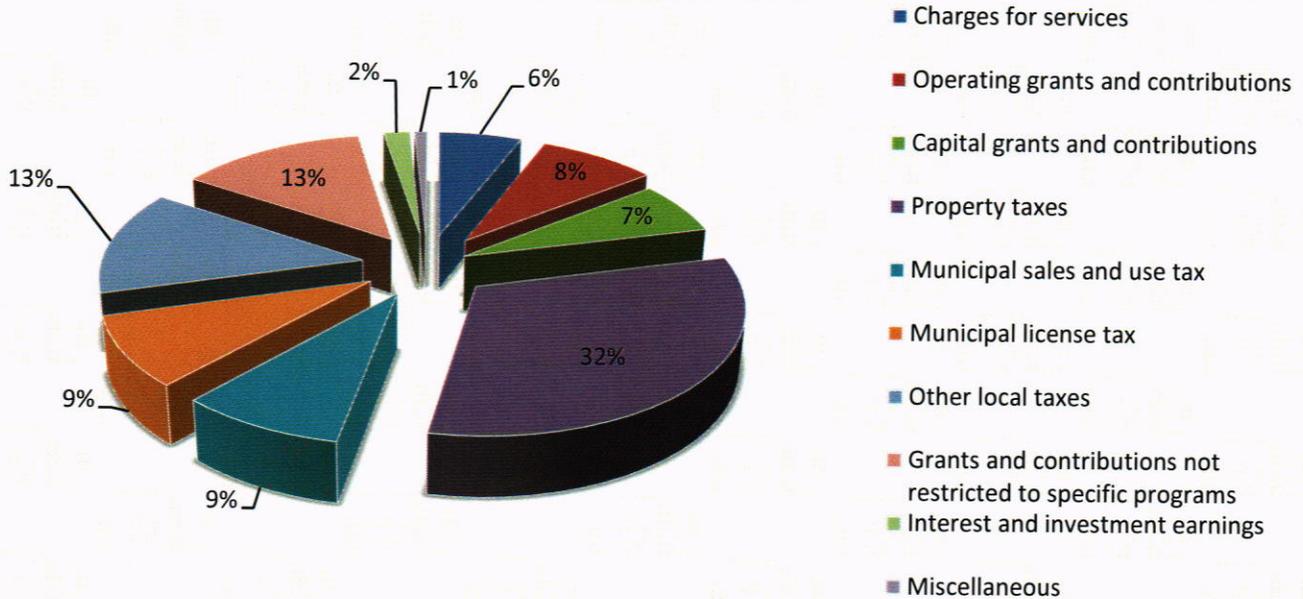
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

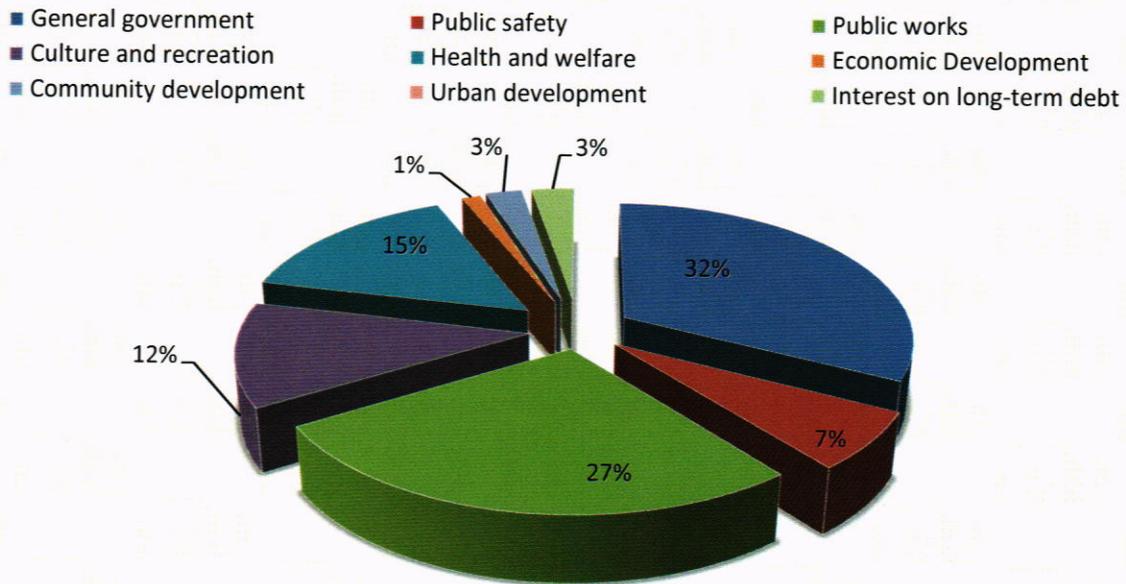
YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2011



Expenses 2011



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$11,292,849, which represents a decrease of \$(4,612,578) when compared with the prior year. Out of the indicated balance, \$422,932 were classified as nonspendable; \$13,624,720 were classified as restricted for the following purposes: (1) \$5,101,141 for debt service payments; 2) \$8,272,821 to pay for capital projects; 3) \$250,758 for other purposes.

As of June 30, 2011, the General Fund, which is the main operating fund of the Municipality, and the Special Revenue Fund-State & Local Grants, reflected an unassigned fund deficit of \$(2,671,792), and \$(83,011), respectively.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2010-2011, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, as reflected in exhibit, Budgetary Comparison Schedule-General Fund attached hereto, budgetary analysis reflected a deficiency of \$(980,537) of total operating revenues over current expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2011, amounted to \$91,756,461 which upon deduction of accumulated depreciation in the amount of \$29,723,749 produced a net book value attributable to capital assets in the amount of \$62,032,712. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately two percent (2%) of net book value. Depreciation charges for the year totaled \$2,292,629.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2011, the Municipality has \$6,161,916 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, and State Grants.

**Debt Administration**

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the **Municipality of Río Grande**, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2011-2012.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**FINAL COMMENTS**

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

**Commonwealth of Puerto Rico**  
**Municipality of Río Grande**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,759,137
Cash with fiscal agent	11,193,700
Accounts receivable:	
Construction excise tax	1,428,244
Property tax	190,864
Municipal sales and use tax	185,372
Intergovernmental	745,023
Others	28,546
Other assets	4,973
Capital assets	
Land, improvements, and construction in progress	30,295,436
Other capital assets, net of depreciation	31,737,276
Total capital assets	<u>62,032,712</u>
<b>Total assets</b>	<u>79,568,571</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	5,898,785
Due to other governmental entities	366,320
Deferred revenues:	
Municipal license tax	1,510,976
Federal grant revenues	80,054
Interest payable	541,971
Noncurrent liabilities:	
Due within one year	2,020,314
Due in more than one year	31,622,345
<b>Total liabilities</b>	<u>42,040,765</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	40,998,712
Restricted for:	
Capital projects	8,222,821
Debt service	4,559,170
Other purposes	250,758
Unrestricted (deficit)	<u>(16,503,655)</u>
<b>Total net assets</b>	<u>\$ 37,527,806</u>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico  
Municipality of Río Grande  
Statement of Activities  
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 12,308,373	\$ 9,249	\$ 853	\$ -	\$ (12,298,271)
Public safety	2,590,584	15,538	22,293		(2,552,753)
Public works	10,302,139	49,331	46,241	604,186	(9,602,381)
Health and welfare	5,773,605	1,890,333	2,066,855		(1,816,417)
Culture and recreation	4,669,354		212,242	744	(4,456,368)
Economic development	472,035		418,746		(53,289)
Community development	908,724		13,755	1,609,238	714,269
Urban development	485				(485)
Interest on long-term debt	1,065,313				(1,065,313)
<b>Total governmental activities</b>	<b>\$ 38,090,612</b>	<b>\$ 1,964,451</b>	<b>\$ 2,780,985</b>	<b>\$ 2,214,168</b>	<b>(31,131,008)</b>
General revenues:					
					10,573,032
					2,946,564
					2,908,187
					4,460,155
					4,434,636
					618,831
					296,065
					<u>26,237,470</u>
					(4,893,538)
					42,421,344
					<u>\$ 37,527,806</u>

**Commonwealth of Puerto Rico**  
**Municipality of Río Grande**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	Special Revenue Fund- Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 118,100	\$ 2,982,563	\$ -	\$ 658,474	\$ 3,759,137
Cash with fiscal agent	11,802		6,161,916	5,019,116	866	11,193,700
Accounts receivable:						
Construction excise tax	1,428,244					1,428,244
Property tax	108,839			82,025		190,864
Municipal sales and use tax			185,372			185,372
Intergovernmental	1,215	680,858			62,950	745,023
Other	28,546					28,546
Advances from other funds	422,932					422,932
Due from other funds	501,445		682,669			1,184,114
Other assets	4,973					4,973
<b>Total assets</b>	<b>\$ 2,507,996</b>	<b>\$ 798,958</b>	<b>\$ 10,012,520</b>	<b>\$ 5,101,141</b>	<b>\$ 722,290</b>	<b>\$ 19,142,905</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Accounts payable and accrued liabilities	\$ 2,423,278	\$ 95,853	\$ 1,481,510	\$ -	\$ 285,019	\$ 4,285,660
Due to other governmental entities	128,131		238,189			366,320
Advances to other funds		325,591			97,341	422,932
Due to other funds	682,669	297,460	20,000		183,985	1,184,114
Deferred revenues:						
Municipal license tax	1,510,976					1,510,976
Federal grant revenues		80,054				80,054
<b>Total liabilities</b>	<b>4,745,054</b>	<b>798,958</b>	<b>1,739,699</b>	<b>-</b>	<b>566,345</b>	<b>7,850,056</b>
<b>Fund balances:</b>						
Nonspendable	422,932					422,932
Restricted	11,802		8,272,821	5,101,141	238,956	13,624,720
Unassigned	(2,671,792)	-	-	-	(83,011)	(2,754,803)
<b>Total fund balances</b>	<b>(2,237,058)</b>	<b>-</b>	<b>8,272,821</b>	<b>5,101,141</b>	<b>155,945</b>	<b>11,292,849</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,507,996</b>	<b>\$ 798,958</b>	<b>\$ 10,012,520</b>	<b>\$ 5,101,141</b>	<b>\$ 722,290</b>	<b>\$ 19,142,905</b>

**Commonwealth of Puerto Rico**  
**Municipality of Río Grande**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	General Fund	Special Revenue Fund- Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 7,065,570	\$ -	\$ -	\$ 3,507,462	\$ -	\$ 10,573,032
Municipal license taxes	2,946,564					2,946,564
Municipal sales and use tax			2,430,414	477,773		2,908,187
Licenses, permits and other local taxes	4,469,404					4,469,404
Charges for services					1,890,333	1,890,333
Intergovernmental	4,434,636	802	1,123,770		358,200	5,917,408
Fines and forfeitures	15,538					15,538
Rent of property	49,331					49,331
Interest	618,831					618,831
Federal grants		2,962,306			550,074	3,512,380
Miscellaneous	219,609	3,799			72,657	296,065
<b>Total revenues</b>	<b>19,819,483</b>	<b>2,966,907</b>	<b>3,554,184</b>	<b>3,985,235</b>	<b>2,871,264</b>	<b>33,197,073</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	13,577,727		662,498			14,240,225
Public safety	2,594,922				3,475	2,598,397
Public works	5,297,549		4,560,886		40,600	9,899,035
Health and welfare	1,713,597	1,012,438	500		3,027,800	5,754,335
Culture and recreation	797,297	70,320	4,503,468		231,987	5,603,072
Economic development		246,545			226,194	472,739
Community development		1,622,994				1,622,994
Urban development			485			485
<b>Debt service:</b>						
Principal				1,067,000		1,067,000
Interest				866,369		866,369
<b>Total expenditures</b>	<b>23,981,092</b>	<b>2,952,297</b>	<b>9,727,837</b>	<b>1,933,369</b>	<b>3,530,056</b>	<b>42,124,651</b>
Excess (deficiency) of revenues over (under) expenditures	(4,161,609)	14,610	(6,173,653)	2,051,866	(658,792)	(8,927,578)
<b>Other financing sources (uses)</b>						
Transfers in	52,524	10,100	1,600,000	74,790	703,885	2,441,299
Transfers out	(134,776)	(24,710)	(681,314)	(1,600,000)	(499)	(2,441,299)
Long-term debt issued	4,315,000					4,315,000
<b>Total other financing sources (uses)</b>	<b>4,232,748</b>	<b>(14,610)</b>	<b>918,686</b>	<b>(1,525,210)</b>	<b>703,386</b>	<b>4,315,000</b>
Net change in fund balances	71,139	-	(5,254,967)	526,656	44,594	(4,612,578)
Fund balance, beginning	(2,308,197)	-	13,527,788	4,574,485	111,351	15,905,427
Fund balance, ending	<u>\$ (2,237,058)</u>	<u>\$ -</u>	<u>\$ 8,272,821</u>	<u>\$ 5,101,141</u>	<u>\$ 155,945</u>	<u>\$ 11,292,849</u>

*[Handwritten signature and date: 2/2/2012]*

**Commonwealth of Puerto Rico**  
**Municipality of Rio Grande**  
**Reconciliation of the Balance Sheet - Governmental Funds**  
**to the Statement of Net Assets**  
**For the Year Ended June 30, 2011**

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**Total Fund Balances - Governmental Funds** \$ 11,292,849

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 30,295,436	
Depreciable Capital Assets, net of depreciation	<u>31,737,276</u>	
Total Capital Assets		62,032,712

Account payables related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (1,613,125)

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds (541,971)

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General bonds and notes payable	30,143,000	
LIMS repayment plan	48,159	
Property taxes debt	853,768	
Compensated absences	2,535,232	
Claims and judgments	<u>62,500</u>	
Total Long-Term Liabilities		<u>(33,642,659)</u>

**Total Net Assets of Governmental Activities** **\$ 37,527,806**

**Commonwealth of Puerto Rico**  
**Municipality of Río Grande**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2011**

**Net Change in Fund Balances - Total Governmental Funds** \$ (4,612,578)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 3,534,792

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (2,292,629)

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year. (198,944)

Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which debt proceeds exceed the debt service principal payments. (3,248,000)

Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current year. 40,655

Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year. 72,072

Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year. 1,113,000

Long-term P.R. Aqueduct and Sewer Authority Repayment Plan is reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, federal cost disallowances are not reported as expenditures in Government Funds. This is the amount paid in the current year. 208,905

Repayment of long term Land Information Management System (LIMS) is an expenditure in Governmental Funds, but the repayment reduces long term LIMS in the Government-Wide Statement of Net Assets. This is the amount paid in the current year. 92,183

Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Assets but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period. (62,670)

Long-term repayment of Retirement System Administration is reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, Retirement System debt is not reported as expenditures in Government Funds. The following amount represent the change in long-term Retirement System debt from prior year. 459,676

**Change in Net Assets of Governmental Activities** \$ (4,893,538)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Río Grande** (the Municipality) was founded on the year 1840. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the retroactive capitalization of infrastructure assets in the year ended June 30, 2006.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The following is a summary of the significant accounting policies of the Municipality:

**A. Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

**B. Government-wide and fund financial statements**

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

**General Fund** - is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

**Special Revenue Funds-Federal grants** - is a major governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Projects Fund – State and Local Grants** – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

**Debt Service Fund** – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

**C. Financial reporting presentation**

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

**General Fund** – General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

**Special Revenue Fund – Local and State Grants** - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Section 8** - Special Revenue Fund used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Federal Grants** - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Capital Projects Fund – State and Local Grants** - Capital Projects Fund are used to account for financial resources used for the acquisition or construction of major capital facilities.

**Debt Service Fund** - Debt Service Fund are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement focus, basis of accounting and financial presentation**

**Government-wide financial statements** – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

**Government Fund Financial Statements** – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

**E. Assets, liabilities and net assets**

1. **Cash and cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

2. **Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Receivables and payables-(Continued)*

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM), related to preliminary liquidation. Intergovernmental and federal grant receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state founded programs. Intergovernmental receivable in the debt service fund represent the distribution of property tax collected by the CRIM which is restricted for the debt service.

3. *Inventories-* Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

4. *Capital assets-* Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	30 to 50 years	\$1
Infrastructure	20 to 50 years	\$1
Works of art	10 years	\$1
Vehicles	8 years	\$1
Furniture and fixtures	5 to 20 years	\$25
Machinery and equipment	5 to 20 years	\$25

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5. Deferred revenues-** In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

**6. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**7. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

**8. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. **Fund Balances**– In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered nonspendable, restricted, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Nonspendable* – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**9. Fund Balances--(Continued)**

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources, if any.

- 10. Net Assets-** Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net assets are segregated into three categories:

- a. *Invested in capital assets, net of related debt:* Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- b. *Restricted net assets*: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. *Unrestricted net assets*: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

**11. Accounting for Pension Costs-** On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

**12. Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:

- a. *Operating Transfers-* Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**12. *Interfund and intra-entity transactions*-(Continued)**

b. Intra-Entity Transactions- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**13. *Risk financing***- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2011 amounted to \$226,103. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2011 amounted to \$372,492.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**14. Use of Estimates** – The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

**2. CASH AND CASH EQUIVALENTS**

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments.

The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2011.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

**Deposits** – The Municipality's bank balances in commercial banks of \$118,100 in the special revenue fund – other federal grants, and \$2,982,563 in the capital projects fund – state and local grants were fully collateralized at June 30, 2011. In the other governmental funds there were deposits with commercial banks of \$658,474 that were fully collateralized.

The deposits at GDB of \$11,802 in the general fund, the \$6,161,916 in the capital projects fund – state and local grants, the \$5,019,116 that is restricted for debt service fund, and the \$866 in the other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. Construction excise tax**- Construction excise tax receivables amounting to \$ 1,428,244 in the general fund represent the amount owed to the Municipality corresponding to the fiscal year 2010-11 that will be collected and collected after June 30, 2011.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RECEIVABLES (CONTINUED)

- B. Property Tax-** Property tax receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2011, as described in Note 9. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts. Following is a detail of the property tax receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ <u>108,839</u>
<b>Total</b>	\$ <u>108,839</u>

Property tax receivables in the debt service fund represent the amounts due from the CRIM related to current year advances and delinquent debts. Following is a detail of the property tax receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ <u>82,025</u>
<b>Total</b>	\$ <u>82,025</u>

- C. Municipal sales and use tax-** On July 29, 2007, an amended to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create the Municipal Development Fund (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$ 185,372 in capital projects fund – state & local grants represents filed municipal sales and use tax returns that were uncollected as of June 30, 2011, net of allowance for uncollectible accounts.

- D. Intergovernmental Receivables-** Intergovernmental receivables in the general fund represent receivables from penalties issued by the Commonwealth of Puerto Rico. Following is a detail of the intergovernmental receivables:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**3. RECEIVABLES (CONTINUED)**

<u>Program Description</u>	<u>Amount</u>
Commonwealth of Puerto Rico – Treasury Department	\$ <u>1,215</u>
<b>Total</b>	<b>\$ <u>1,215</u></b>

Intergovernmental receivables in special revenue fund – other federal grants represent expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant – Entitlement Grant	\$ 21,745
Community Development Block Grant – State’s Program	55,416
Child Care and Development Block Grant	213,521
Community Services Block Grant	56,759
Even Start – State Educational Agencies	183,305
Special Program for Aging – Title III, Part B	64,100
Special Program for Aging – Title III, Part B-ARRA	15,393
Housing Preservation Grant	21,246
Homelessness Prevention and Rapid Re-Housing-ARRA	11,875
Energy Efficiency Conservation Grant-ARRA	35,682
Others	<u>1,816</u>
<b>Total</b>	<b>\$ <u>680,858</u></b>

Intergovernmental receivables in the other governmental funds represent expenditures incurred not yet reimbursed by the local government. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Commonwealth of Puerto Rico – Department of Labor and Human Resources	\$ <u>62,950</u>
<b>Total</b>	<b>\$ <u>62,950</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2011, and interfund transfers during the fiscal year ended at June 30, 2011, are summarized as follows:

**a. Due from/to other fund and advances from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	\$ 281,326
General Fund	Special Revenue Fund – Other Federal Grants	Payroll and related accruals paid and not reimbursed	623,051
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	20,000
Capital Projects Fund – State and Local Grants	General Fund	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	<u>682,669</u>
			<u>\$ 1,607,046</u>

**b. Transfer in/out to other fund**

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Special Revenue Fund – Other Federal Grants	General Fund	Transfer of funds for special funds outlays	\$ 24,710
Other Governmental Funds	Special Revenue Fund – Other Federal Grants	Reimbursement of expenditures	499
General Fund	Other Governmental Funds	Transfer of funds for special funds outlays	50,385
General Fund	Debt Service Fund	Debt retirement	74,790
General Fund	Special Revenue Fund – Other Federal Grants	Transfer of funds for special funds outlays	9,601
Capital Projects Fund – State and Local Grants	General Fund	Reimbursement of expenditures	27,814
Capital Projects Fund – State and Local Grants	Other Governmental Funds	Transfer of funds for special funds outlays	653,500
Debt Service Fund	Capital Projects Fund – State and Local Grants	Transfer of funds for capital outlays	<u>1,600,000</u>
			<u>\$ 2,441,299</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 16,573,384	\$ -	\$ -	\$ 16,573,384
Construction in progress	<u>12,394,280</u>	<u>2,187,103</u>	<u>(859,331)</u>	<u>13,722,052</u>
<b>Total capital assets not being depreciated</b>	<u>28,967,664</u>	<u>2,187,103</u>	<u>(859,331)</u>	<u>30,295,436</u>
<b>Capital assets, being depreciated:</b>				
Buildings and building improvements	23,048,188	200,043	-	23,248,231
Infrastructure	14,010,436	684,151	-	14,694,587
Infrastructure improvements	13,248,567	888,927	-	14,137,494
Equipment	3,003,113	102,811	-	3,105,924
Furnishing	117,383	13,559	-	130,942
Works of art	4,625	-	-	4,625
Computers	145,088	5,377	-	150,465
Vehicles	<u>5,676,605</u>	<u>312,152</u>	<u>-</u>	<u>5,988,757</u>
<b>Total capital assets being depreciated</b>	<u>59,254,005</u>	<u>2,207,020</u>	<u>-</u>	<u>61,461,025</u>
<b>Less accumulated depreciation for:</b>				
Buildings and building improvements	(7,333,496)	(640,973)	-	(7,974,469)
Infrastructure	(6,493,569)	(480,299)	-	(6,973,868)
Infrastructure improvements	(6,035,734)	(459,583)	-	(6,495,317)
Equipment	(2,276,186)	(284,816)	-	(2,561,002)
Furnishing	(54,297)	(18,914)	-	(73,211)
Works of art	(1,655)	(463)	-	(2,118)
Computers	(101,610)	(24,935)	-	(126,545)
Vehicles	<u>(5,134,573)</u>	<u>(382,646)</u>	<u>-</u>	<u>(5,517,219)</u>
<b>Total accumulated depreciation</b>	<u>(27,431,120)</u>	<u>(2,292,629)</u>	<u>-</u>	<u>(29,723,749)</u>
<b>Total capital assets being depreciated, net</b>	<u>31,822,885</u>	<u>(85,609)</u>	<u>-</u>	<u>31,737,276</u>
<b>Governmental activities capital assets, net</b>	<u>\$60,790,549</u>	<u>\$ 2,101,494</u>	<u>\$ (859,331)</u>	<u>\$ 62,032,712</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**5. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the Municipality as follows:

<b>Governmental activities:</b>	<b><u>Amount</u></b>
General government	\$ 181,432
Public safety	161,816
Public works	1,229,464
Health and welfare	73,363
Culture and recreation	527,115
Economic development	1,941
Education	550
Community development	<u>116,948</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 2,292,629</u></b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

<b>Description</b>	<b>General Fund</b>	<b>Special Revenue Fund - Other Federal Grants</b>	<b>Capital Projects Fund - State &amp; Local Grants</b>	<b>Debt Service Fund</b>	<b>Other Governmental Fund</b>	<b>Total</b>
Accounts payable	\$ 2,128,894	\$ 95,853	\$ 1,481,510	\$ -	\$ 285,019	\$3,991,276
Accrued liabilities	<u>294,384</u>	-	-	-	-	<u>294,384</u>
<b>Total</b>	<b><u>\$ 2,423,278</u></b>	<b><u>\$ 95,853</u></b>	<b><u>\$ 1,481,510</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 285,019</u></b>	<b><u>\$4,285,660</u></b>

**7. DUE TO OTHER GOVERNMENTAL ENTITIES**

The amounts due to other governmental entities in the general fund include the following:

<b>Governmental Entity</b>	<b><u>Amount</u></b>
Puerto Rico Telephone Company	\$ 62,147
Puerto Rico Aqueduct and Sewer Company	51,371
Puerto Rico Electric Power Authority	634
General Services Administration	1,975
Department of Labor and Human Resources	<u>12,004</u>
<b>Total</b>	<b><u>\$ 128,131</u></b>

The amounts due to other governmental entities in the capital projects fund - state & local grants include the following:

<b>Governmental Entity</b>	<b><u>Amount</u></b>
Commonwealth of Puerto Rico - Treasury Department	\$ 238,189
<b>Total</b>	<b><u>\$ 238,189</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**7. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED)**

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System – LIMS, contracted by the CRIM. A total of \$739,506 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2011, the outstanding debt balance was \$ 48,159. This amount will be presented in the government wide statement of net assets.

**8. DEFERRED REVENUES**

**A. Municipal License Tax-** The deferred revenues of \$ 1,510,976 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

**B. Federal Grants-** The deferred revenues presented in the other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Wildlife Restoration	\$ 14,018
Housing Opportunities for Persons with AIDS	53,232
Child and Adult Care Food Program	6,687
Others	<u>6,117</u>
<b>Total</b>	<b><u>\$ 80,054</u></b>

**9. PROPERTY TAXES**

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**9. PROPERTY TAXES (CONTINUED)**

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**9. PROPERTY TAXES (CONTINUED)**

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30 2011, the related unpaid property tax advances presented in the Statement of Net Assets amounted to \$ 853,768.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**10. MUNICIPAL LICENSE TAX**

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2011, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2011, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 21,470,000	\$2,395,000	\$ (797,000)	\$ 23,068,000	\$ 1,039,000
Notes Payable	5,425,000	1,920,000	(270,000)	7,075,000	630,000
Property Tax-Treasury Department	894,423	171,014	(211,669)	853,768	40,655
Compensated absences	2,607,304	152,568	(224,640)	2,535,232	200,000
Claims and Judgments	1,175,500	-	(1,113,000)	62,500	62,500
P.R. Aqueduct and Sewer Authority - repayment plan	208,905	-	(208,905)	-	-
Retirement System Administration - repayment plan	459,676	-	(459,676)	-	-
LIMS - repayment plan	<u>140,342</u>	<u>-</u>	<u>(92,183)</u>	<u>48,159</u>	<u>48,159</u>
	<u>\$ 32,381,150</u>	<u>\$4,638,582</u>	<u>\$(3,377,073)</u>	<u>\$33,642,659</u>	<u>\$2,020,314</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**11. LONG-TERM LIABILITIES (CONTINUED)**

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
  
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2011 are as follows:

Description	Balance at June 30, 2011
1995 Public improvement bond for infrastructure's construction with an original amount of \$1,187,000 due in annual installments of \$61,000 to \$91,000, through January 1, 2019, with interest of 4.5%	\$ 599,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,045,000 due in annual installments of \$45,000 to \$90,000 through January 1, 2020, with interest ranging from 4.70% to 6.63%	655,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,715,000 due in installments of \$75,000 to \$150,000, through July 1, 2020, with interest ranging from 4.70% to 6.63%	1,085,000
1998 Public improvement bond for infrastructure's construction with an original amount of \$355,000 due in installments of \$35,000 to \$40,000, through July 1, 2012, with interest ranging from 4.87% to 6.71%	75,000
2002 General obligation bond for payment of operational debts with an original amount of \$5,105,000 due in installments of \$140,000 to \$445,000, through July 1, 2026, with interest ranging from 5% to 8%	4,235,000
2002 Public improvement bond for infrastructure's construction with an original amount of \$1,400,000 due in installments of \$105,000 to \$155,000, through July 1, 2016, with interest ranging from 2.70% to 8.00%	760,000
2003 General obligation bond for infrastructure's construction with an original amount of \$4,746,000 due in installments of \$133,000 to \$366,000, through July 1, 2027, with interest ranging from 5.00% to 7.25%	3,934,000
2003 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$1,175,000 due in installments of \$35,000 to \$95,000, through July 1, 2027, with interest ranging from 5.00% to 6.50%	940,000
2008 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$985,000 due in installments of \$45,000 to \$105,000, through July 1, 2023, with interest ranging from 3.93% to 7.50%	865,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**11. LONG-TERM LIABILITIES (CONTINUED)**

Description	Balance at June 30, 2011
2009 General obligation bond for land acquisition with an original amount of \$700,000 due in installments of \$10,000 to \$60,000, through July 1, 2033, with interest ranging from 4.75% to 7.50%	685,000
2010 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$6,995,000 due in installments of \$170,000 to \$640,000, through July 1, 2030, with interest ranging from 4.75% to 7.50%	6,840,000
2011 Special obligation bond for operational debts payment with an original amount of \$870,000 due in installments of \$10,000 to \$75,000, through July 1, 2035, with interest ranging from 6.50% to 7.50%	870,000
2011 General obligation bond for waste disposal debt payment with an original amount of \$1,525,000 due in installments of \$175,000 to \$270,000, through July 1, 2017, with interest ranging from 6.00% to 7.50%	1,525,000
<b>Total</b>	<b>\$ 23,068,000</b>

These bonds, except the 2003 Series \$1,175,000 bond, are payable from the special ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2003 Series \$1,175,000 bond is payable with General Fund resources. The Series 2011, amounting 870,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,039,000	\$ 898,283
2013	1,116,000	1,540,743
2014	1,164,000	1,463,739
2015	1,248,000	1,381,523
2016	1,338,000	1,293,412
2017-2021	6,549,000	5,055,397
2022-2026	6,150,000	2,831,137
2027-2031	3,974,000	699,460
2032-2036	490,000	84,000
<b>Total</b>	<b>\$ 23,068,000</b>	<b>\$ 15,247,694</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**11. LONG-TERM LIABILITIES (CONTINUED)**

- 3. Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2011</u>
2006-Series	7/1/2012	\$ 1,555,000	1.55% to 7.25%	\$ 520,000
2009-Series	7/1/2028	4,570,000	5.00% to 7.50%	4,350,000
2010-Series	7/1/2016	320,000	6.00% to 7.50%	285,000
2011-Series	7/1/2017	1,920,000	6.00% to 7.50%	<u>1,920,000</u>
<b>Total notes payable</b>				<u>\$ 7,075,000</u>

The Series 2006 note is payable from the special ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2009, amounting 4,570,000, is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 630,000	\$ 341,770
2013	675,000	457,725
2014	440,000	416,250
2015	470,000	382,125
2016	505,000	345,563
2017-2021	1,730,000	1,238,625
2022-2026	1,455,000	727,312
2027-2031	<u>1,170,000</u>	<u>136,125</u>
<b>Total</b>	<u>\$ 7,075,000</u>	<u>\$ 4,045,495</u>

- 4. Compensated absences-** The government-wide statement of net assets includes \$1,149,502 of accrued sick leave benefits, and approximately \$1,385,730 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**12. PENSION PLAN**

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, the Act. No. 447 (of May 15, 1951) which created the Retirement System was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**12. PENSION PLAN (CONTINUED)**

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

***Funding Policy***

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

<b>Municipality</b>	9.275% of gross salary
<b>Employees:</b>	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

***Annual Contribution***

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
<b>2011</b>	\$ 298,615	\$ 404,244
<b>2010</b>	\$ 268,787	\$ 350,276
<b>2009</b>	\$ 298,590	\$ 366,933

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**12. PENSION PLAN (CONTINUED)**

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**13. Fund Balance (Deficit)**

As of June 30 2011, fund balance (deficit) is comprised of the following:

<u>Fund Balance (Deficit)</u>	<u>General</u>	<u>Special Revenue Fund-Federal Grants</u>	<u>Capital Projects Fund- State &amp; Local</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Nonspendable:</b>						
Interfund loans receivable	\$ 422,932	\$ -	\$ -	\$ -	\$ -	\$ 422,932
<b>Restricted for:</b>						
General Government	11,802		212,886			224,688
Health and Welfare					238,956	238,956
Capital Projects			8,059,935			8,059,935
Debt Service				5,101,141		5,101,141
<b>Unassigned</b>	<u>(2,671,792)</u>				<u>(83,011)</u>	<u>(2,754,803)</u>
<b>Total Fund Balance (Deficit)</b>	<u>\$ (2,237,058)</u>	<u>\$ -</u>	<u>\$ 8,272,821</u>	<u>\$ 5,101,141</u>	<u>\$ 155,945</u>	<u>\$ 11,292,849</u>

**14. RISK MANAGEMENT**

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Treasury Department of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**15. COMMITMENTS AND CONTINGENCIES**

**a. Federal Grants:**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2011, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

**b. Claims and lawsuits:**

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$62,500 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

**c. Other commitments:**

At June 30, 2011, the general fund had commitments of approximately \$716,000 for executory purchase orders or contracts that will be honored during the subsequent year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

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**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

**17. SUBSEQUENT EVENTS**

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

**YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 6,946,324	\$ 7,132,765	\$ 7,568,194	\$ 435,429
Municipal license tax	3,200,000	3,200,000	2,946,564	(253,436)
Licenses, permits and other local taxes	4,020,000	4,020,000	3,041,160	(978,840)
Intergovernmental	4,736,895	4,736,895	4,340,068	(396,827)
Rent of property	59,000	59,000	47,506	(11,494)
Fines and forfeitures	20,000	20,000	27,621	7,621
Interest	400,000	400,000	592,335	192,335
Miscellaneous	<u>305,029</u>	<u>305,029</u>	<u>219,382</u>	<u>(85,647)</u>
<b>Total revenues</b>	<u>19,687,248</u>	<u>19,873,689</u>	<u>18,782,830</u>	<u>(1,090,859)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	9,276,294	9,504,629	9,640,922	(136,293)
Public safety	2,828,524	2,709,130	2,594,932	114,198
Public works	4,879,994	4,988,994	4,841,917	147,077
Health and welfare	1,838,531	1,828,531	1,750,833	77,698
Culture and recreation	765,530	744,030	799,987	(55,957)
Operating transfer to other fund	<u>98,375</u>	<u>98,375</u>	<u>134,776</u>	<u>(36,401)</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>19,687,248</u>	<u>19,873,689</u>	<u>19,763,367</u>	<u>110,322</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (980,537)</u>	<u>\$ (980,537)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$18,782,830
Differences-budget to USGAAP:				
Non-budgeted transfer in				52,524
USGAAP adjustment to revenues				<u>1,036,653</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 19,872,007</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 19,763,367
Differences-budget to USGAAP:				
Non-budgeted expenditures				4,303,845
Prior year encumbrances recorded as current year expenditures for USGAAP basis				614,997
Current year encumbrances recorded as expenditures for budgetary purposes				(431,565)
Non-budgeted transfer out				<u>(134,776)</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 24,115,868</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED JUNE 30, 2010**

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**1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program: Rural Housing Preservation Grant	10.433		\$ 25,384
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>74,889</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>100,273</u></b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-72-0019	1,609,238
Direct Program: Urban Development Action Plan	14.221		13,755
Direct Program: Homelessness Prevention and Rapid Re-Housing (Recovery Act funded)	14.257	S09-MY-72-0023	229,537
Direct Program: Section 8 Housing Choice Vouchers	14.871		585,643
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan: Housing Opportunities for Persons with Aids	14.241	Not Available	<u>80,720</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>2,518,893</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
Direct Program:			
Wildlife Restoration	15.611		70,320
<b>Total U.S. Department of the Interior</b>			<b>70,320</b>
<b>U.S DEPARTMENT OF ENERGY</b>			
Energy Efficiency and Conservation Block Grant (Recovery Act funded)	81.128	SC0003091	246,546
<b>Total U.S. Department of Energy</b>			<b>246,546</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education: Even Start – State Educational Agencies	84.213	Not Available	151,860
<b>Total U.S. Department of Education</b>			<b>151,860</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Office of the Ombudsman for the Elderly: (Cluster of Programs)			
Special Program for Aging – Title III, Part B – Grant for Supporting Services and Senior Centers	93.044	Not Available	201,062
ARRA-Aging Congregate Nutrition Services for States	93.707	09AAPRC1RR	33,916

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	179,282
ARRA-Child Care and Development Block Grant (Recovery Act funded)	93.713	Not Available	31,989
<b>Total U.S. Department of Health and Human Services</b>			<b>446,249</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,534,141</b>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

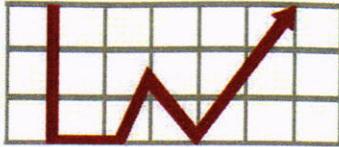
**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Río Grande** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund – Federal Grants and in the Other Governmental Funds in the Municipality’s fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue Fund Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,948,498	\$ 585,643	\$ 3,534,141
Non federal programs expenditures	<u>3,799</u>	<u>2,944,413</u>	<u>2,948,212</u>
Total expenditures in the basic financial statements	<u>\$ 2,952,297</u>	<u>\$ 3,530,056</u>	<u>\$ 6,482,353</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Río Grande  
Río Grande, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico**, as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 20, 2011, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Río Grande's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Río Grande's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Río Grande's** internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

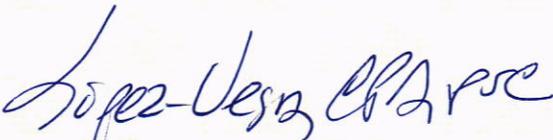
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Municipality of Río Grande's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

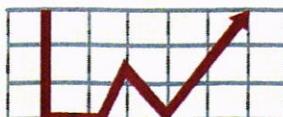
We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated March 20, 2012.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2011

Stamp No. 2575555 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Río Grande  
Río Grande, Puerto Rico**

**Compliance**

We have audited the **Municipality of Río Grande's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Municipality of Río Grande's** major federal programs for the year ended June 30, 2011. The **Municipality of Río Grande's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Río Grande's** management. Our responsibility is to express an opinion on the **Municipality of Río Grande's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Río Grande's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the **Municipality of Río Grande's** compliance with those requirements.

In our opinion, the **Municipality of Río Grande** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

**Internal Control Over Compliance**

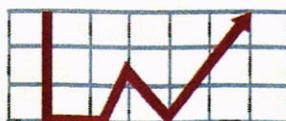
Management of the **Municipality of Río Grande** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Río Grande's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Río Grande's** internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Río Grande** in a separate letter dated March 20, 2012.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

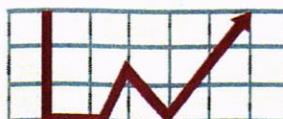


**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

*López Vega, CPA, PSC*  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 20, 2012

Stamp No. 2575556 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2011**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	<b>Unqualified</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <b>X</b>
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <b>X</b>

**Type of auditor’s report issued on compliance for major programs:**

**Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No <b>X</b>
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**Identification of major programs:**

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grant
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000	
Auditee qualified as low-risk auditee?	Yes	No <b>X</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**Section II - Financial Statements Findings**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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**Section III - Financial Statements Findings**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RÍO GRANDE

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

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Prior year audit findings for the Single Audit of the **Municipality of Río Grande** were cleared in the report issued in the year ended June 30, 2008. No prior year audit findings remained un-cleared as of the date of our report.