

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE LAS PIEDRAS
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Municipal Legislative Body
Municipality of Las Piedras
Las Piedras, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining funds information of **Municipality of Las Piedras**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality of Las Piedras, Puerto Rico** basic financial statements as listed in the table of contents. We did not audit the financial statement of the Rio Plata Project, which represents 100% of total assets, net position and revenue of the business type activities.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Río Plata Project, is based solely on the report of the other auditors. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR’S REPORT (CONTINUED):

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

<u>Summary of opinions:</u>	<u>Type of opinion:</u>
Governmental activities	Qualified
Each mayor funds	Unqualified
Aggregate remaining funds	Unqualified

Basis for Qualified Opinion on Governmental Activities

Management has not recorded the proportional share in the net pension plan liability of the employee retirement system (ERS) and related disclosures. Accounting principles generally accepted in the United States of America require that the liability representing the Municipality proportion share in the ERS should be presented in the governmental-wide financial statements. In addition, other information of the ERS should be disclosed. The amount by which this departure would affect the liabilities, fund balance and expenses of the governmental-wide financial statements has not been determined.

Qualified opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Las Piedras, Puerto Rico**, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the **Municipality of Las Piedras, Puerto Rico** as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 18 and 77 to 78 be presented to supplement the basic financial statements. Such information, although not a 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 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.

Management has omitted information related to the Municipality proportionate share of net pension plan liability of the employer retirement systems information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Las Piedras, Puerto Rico's** basic financial statements. 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 basic financial statements.

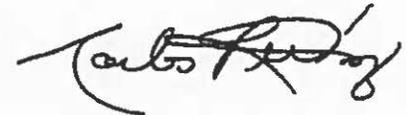
Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the **Municipality of Las Piedras** 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Las Piedras** internal control over financial reporting and compliance.

March 15, 2016
Aguas Buenas, Puerto Rico



Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

The stamp No. E199139 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

As management of the Municipality of Las Piedras (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets amounted to \$64,223,406 at June 30, 2015, of which \$49,868,144 consists of capital assets (net of accumulated depreciation of \$20,847,136), \$9,109,122 consist of cash (of which \$9,109,027 are restricted for specific purposes), \$5,176,338 consist of accounts receivable, net of reserve for doubtful accounts and \$69,802 of other assets (net of accumulated amortization of \$9,081).
- The Municipality's liabilities and accrued inflows of resources amounted to \$38,358,670 at June 30, 2015, of which \$26,270,455 consist of bonds and notes payable, \$5,447,208 consist of accounts payable and accrued liabilities, \$954,736 consist of claims and judgment, \$3,619,691 consist of deferred inflows of resources, and \$2,066,580 consist of accrued compensated absences.
- The Municipality's assets exceeded its liabilities and deferred inflows of resources (net position) by \$25,864,736 at June 30, 2015.
- The Municipality's revenues amounted to \$22,676,494 for the fiscal year ended June 30, 2015, of which \$13,389,654 arose from taxes, \$6,053,986, arose from intergovernmental grants and contributions, \$379,468 arose from miscellaneous revenues and interest on deposits, and \$2,853,386 arose from charges for services.
- The Municipality's expenses amounted to \$22,036,714 for the fiscal year ended June 30, 2015, of which \$10,706,581 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, and culture, recreation and education. In addition, the Municipality incurred \$1,364,980 of its total expenses, in interests related to its long-term obligations, and \$9,965,153 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of \$1,857,071, for the fiscal year ended June 30, 2015.
- The Municipality's net position increased by \$639,780 during the fiscal year ended June 30, 2015.

Governmental Funds' Highlights:

- The total fund of governmental funds amounted to \$4,268,249 at June 30, 2015, of which \$2,193,893 is assigned, \$7,294,118 is restricted, and \$5,219,762 represents an unassigned deficit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Governmental Funds' Highlights (continued)

- The total fund balance of governmental funds increased by \$48,138 during the fiscal year ended June 30, 2015

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required and other supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the

Municipality's management to determine the economic condition at June 30, 2015. The GWFS are prepared using methods that are similar to those used by most private businesses.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Statement of Net Position

The purpose of SNP is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNP is presented as *net position*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2015, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net position*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

2. Statement of Activities (continued)

GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Governmental Fund Financial Statements

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) capital projects fund, (3) legislative joint resolutions fund, (4) debt service fund, (5) diagnostic and treatment center fund, and (6) other governmental funds.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings.

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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b) Governmental Fund Financial Statements (continued)

Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities and deferred inflows of resources is reported as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The five major governmental funds are: (1) general fund, (2) capital projects fund, (3) legislative joint resolutions fund, (4) debt service fund, and (5) diagnostic and treatment center fund.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and GFFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund and the Schedule of Expenditures of Federal Awards.

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations for the prior and the current fiscal year are summarized as follows, based on the information included in the accompanying GWFS:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS(CONTINUED)

Condensed Statement of Net Assets
Governmental Activities
June 30, 2015 and 2014

	2015	2014
<i>Assets:</i>		
Current assets	\$ 14,285,460	\$ 15,295,375
<i>Non-current assets:</i>		
Capital assets, net of accumulated depreciatio	49,868,144	50,383,354
Other assets	69,802	-
Total assets	64,223,406	65,678,729
<i>Liabilities:</i>		
Current liabilities	5,447,208	5,166,085
Long-term obligations due within one year	2,352,555	3,864,397
Long-term obligations due after one year	26,939,216	27,230,509
Total liabilities	34,738,979	36,260,991
<i>Deferred inflows of resources</i>	3,619,691	4,192,782
<i>Net position (deficit):</i>		
Invested in capital assets, net of debt	41,930,504	38,319,851
Restricted	5,121,402	4,786,121
Unrestricted	(21,187,170)	(17,881,016)
Total net position	25,864,736	25,224,956

At June 30, 2015, the Municipality's current assets, amounting to \$14,285,460, are mainly composed of cash (\$9,109,122), and accounts receivable (\$5,176,338), net of reserve for doubtful accounts.

The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded grant programs. Restricted cash also consists of unspent proceeds of bonds issued for acquisition, construction and improvement of major capital assets. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's non-current assets, amounting to \$49,937,946 at June 30, 2015, are composed of capital assets, with a cost basis of \$70,715,280 which are reported net of accumulated depreciation and amortization of \$20,847,136 and other assets amounting to \$69,802, reported net of accumulated amortization of \$9,081.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS(CONTINUED)

At June 30, 2015, the Municipality's current liabilities amounting to \$7,799,763 are mainly composed of accounts payable and accrued liabilities (\$5,447,208), and the current portions of long-term obligations (\$2,352,555). Deferred inflows of resources (\$3,619,691) consist principally of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions.

The Municipality's non-current liabilities, amounting to \$26,939,216 at June 30, 2015, are mainly composed of portions due after one year of bonds and notes payable (\$25,139,711), compensated absences (\$844,769), and claims and judgments (\$954,736).

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$25,864,736 at June 30, 2015. The most significant portion of net position (\$41,930,504) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, as capital assets cannot be used to liquidate these liabilities.

Another significant portion of net position (\$3,478,249) at June 30, 2015, represents resources that are restricted for debt service payments and capital projects.

The remaining component of total net position consists of unrestricted net liabilities amounting to \$21,187,170 at June 30, 2015. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net position of the Municipality increased by \$639,780 for the fiscal year ended June 30, 2015.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS(CONTINUED)

The following is a condensed presentation of the Municipality's results of operations as reported in the GWFS:

Condensed Statement of Activities
Governmental Activities
Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Program revenues:		
Program-specific operating grants and contributions	\$ 2,309,462	\$ 2,288,718
Program-specific capital grants and contributions	213,301	2,118,885
Charges for services	2,853,386	2,615,401
Total program revenues	5,376,149	7,023,004
General revenues:		
Property taxes	5,979,291	7,480,528
Municipal license taxes	5,599,553	4,897,102
Construction excise taxes	830,505	328,865
Sales and use tax	980,305	1,071,849
Unrestricted grants and contributions	3,531,223	3,130,745
Interests on deposits and miscellaneous revenues	379,468	645,865
Total general revenues	17,300,345	17,554,954
Total revenues	22,676,494	24,577,958
Program expenses:		
General government	9,965,153	11,145,537
Urban and economic development	2,941,389	2,236,863
Health and sanitation	3,648,999	3,274,896
Public safety	865,431	928,932
Public housing and welfare	2,550,346	2,475,134
Culture, recreation and education	700,416	797,074
Interest on long-term obligations	1,364,980	1,442,696
Total expenses	22,036,714	22,301,132
Net increase in net position	639,780	2,276,826
Net position, at beginning of fiscal year	25,224,956	22,866,347
Prior-period adjustments	-	81,783
Net position, at beginning of fiscal year, as restated	25,224,956	22,948,130
Net position, at end of fiscal year	\$ 25,864,736	\$ 25,224,956

As previously mentioned, the Municipality's net position increased by \$639,780 during the current fiscal year. Approximately 59% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes (\$13,389,654). Grants, contributions and charges for services (program revenues), amounting to \$8,369,706, provided 37% of the total revenues for the current fiscal year. Miscellaneous revenues and interest on deposits, amounting to \$917,134, provided 4% of total revenues.

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS(CONTINUED)

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2015 were related to: (1) general administrating and operating costs (\$9,965,153), which were classified as "general government", (2) urban and economic development (\$2,941,389), (3) public housing and welfare (\$2,550,346), (4) health and sanitation (\$3,648,999), (5) public safety (\$865,431), (6) culture, recreation and education (\$700,416), and (7) interest on long-term obligations (\$1,364,980). These expenses include depreciation of capital assets in the amount of \$1,857,071 for the fiscal year ended June 30, 2015.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2015, the total assets of governmental funds amounted to \$15,857,554, which consisted principally of: (1) cash of \$9,109,122 (2) accounts receivable, \$5,176,338, net of reserve for doubtful accounts, and (3) inter-fund receivables of \$1,572,094. Such assets are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2015, the total liabilities of governmental funds amounted to \$11,589,305, which consisted principally of: (1) accounts payable and accrued liabilities of \$4,809,571, (2) deferred inflows of resources of \$3,575,003, (3) inter-fund payables of \$1,572,094 and (4) matured bonds and interest due and payable of \$1,632,637.

The fund balances of governmental funds increased by \$48,138 during the fiscal year ended June 30, 2015.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Condensed Balance Sheet - Governmental Funds
June 30, 2015 and 2014

	2015	2014
<i>Assets:</i>		
Total assets - major governmental funds	\$ 15,272,706	\$ 15,081,457
Total assets - other governmental funds	584,848	804,535
Combined assets	15,857,554	15,885,992
<i>Liabilities:</i>		
Total liabilities - major governmental funds	7,600,268	7,026,477
Total liabilities - other governmental funds	414,034	446,622
Combined liabilities	8,014,302	7,473,099
<i>Deferred inflows of resources</i>	3,575,003	4,192,782
<i>Fund balances:</i>		
Assigned general fund	2,193,893	2,227,072
Restricted - major governmental funds	7,177,101	7,136,788
Restricted - other governmental funds	117,017	357,913
Unassigned - general fund	(5,219,762)	(5,501,662)
Combined fund balances	4,268,249	4,220,111
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	\$ 15,857,554	\$ 15,885,992

Mayor Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$5,218,056 at June 30, 2015. Such assets consist principally of: (1) cash and cash equivalents (\$13,651), (2) property tax, construction excise tax, sales and use tax, intergovernmental grants and contributions, and interest receivable (\$3,479,739), (3) short-term and long-term amounts due from other funds (\$1,571,114), and miscellaneous receivable (\$153,552).

The GF's total liabilities amounted to \$8,243,925 at June 30, 2015. Such liabilities are composed mainly of: (1) intergovernmental payables (\$2,098,636), (2) deferred inflows of resources (\$3,433,374), (3) accounts payable and accrued liabilities (\$2,710,935), and (4) short-term and long-term amounts due to other funds (\$980).

At the end of the current fiscal year, unassigned fund deficit of the GF amounted to \$5,219,762, while total fund deficit amounted to \$3,025,869.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Debt service fund (DSF)- The DSF's total assets amounted to \$4,364,822 at June 30, 2015, which consist mainly of restricted cash in fiscal agent (\$4,319,981), property taxes receivable (\$44,613), and accrued interest on deposits (\$228). The DSF's total liabilities amounted to \$1,632,784 at June 30, 2015, which are mainly composed of: (1) matured bonds and interest due and payable (\$1,632,637), and (2) short-term and long-term amounts due to other funds (\$147).

Capital projects fund (CPF) - The CPF's total assets amounted to \$3,015,680 at June 30, 2015, which consist mainly of cash and cash equivalents (\$3,006,759) and accrued interest on deposits (\$8,921). The CPF's total liabilities amounted to \$96,753 at June 30, 2015, which are composed of long-term amounts due to other funds (\$8,921), and deferred inflows of resources (\$87,832). At the end of the current fiscal year, CPF's total restricted fund balance reached \$2,918,927.

Legislative joint resolutions fund (LJRF) - The LJRF's total assets amounted to \$1,526,136 at June 30, 2015, which consist of cash and cash equivalents (\$1,526,136). At the end of the current fiscal year, LJRF's total restricted fund balance is \$1,526,136.

Diagnostic and treatment center fund (DTCF) - The DTCF's total assets amounted to \$1,148,012 at June 30, 2015, which consist mainly of cash and cash equivalents (\$24,352) and intergovernmental grants and contributions receivable (\$1,123,660). The DTCF's total liabilities amounted to \$1,148,012 at June 30, 2015, which are composed of amounts due to other funds (\$1,148,012).

Other governmental special revenue funds (OGSRF) - The OGSRF's total assets amounted to \$584,848 at June 30, 2015, which consist mainly of cash and cash equivalents (\$218,243), intergovernmental grants and contributions receivable (\$365,625), and due from other funds (\$980). The OGSRF's total liabilities amounted to \$467,831 at June 30, 2015, which are composed of due to other funds (\$414,034), and deferred inflows of resources (\$53,797). At the end of the current fiscal year, OGSRF's total restricted fund balance reached \$117,017.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Analysis of Operating Results of Governmental Funds

Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
<i>Revenues:</i>		
Total revenues - major governmental funds	\$ 21,023,917	\$ 18,635,132
Total revenues - other governmental funds	1,771,799	2,288,718
Combined total revenues	22,795,716	20,923,850
<i>Expenditures:</i>		
Total expenditures - major governmental funds	20,602,576	21,802,283
Total expenditures - other governmental funds	2,145,002	2,142,579
Combined total expenditures	22,747,578	23,944,862
<i>Excess (deficiency) of revenues over expenditures</i>	48,138	(3,021,012)
<i>Other financing sources, net:</i>		
Other financing sources, net - major governmental funds	2,519,506	2,279,161
Other financing sources (uses), net - other governmental funds	(2,519,506)	(2,279,161)
Combined other financing sources (uses), net	-	-
<i>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</i>	48,138	(3,021,012)
<i>Fund balance, at beginning of fiscal year, as restated</i>	4,220,111	7,241,123
<i>Fund balance, at end of fiscal year</i>	\$ 4,268,249	\$ 4,220,111

Major and Other Governmental Funds

General fund – The total fund balance of the GF increased by \$248,721 during current fiscal year. Approximately 74% (\$11,131,247) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise taxes, and sales and use taxes, 24% (\$3,531,223) resulted from intergovernmental grants and contributions, and 2% (\$328,852) resulted from interests, charges for services, and miscellaneous revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

General fund (continued)

The largest expenses of the GF for the fiscal year ended June 30, 2015 were related to: (1) general administrating and operating costs (\$9,613,162), (2) construction, rehabilitation and preservation of new or existing housing, (\$2,046,873), which were classified as "urban and economic development, (3) public housing and welfare (\$629,288), (4) health and sanitation (\$1,060,215), (4) public safety (\$773,267), and (6) culture, recreation and education (\$411,889).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$527,417 during current fiscal year. Approximately \$2,258,407 of DSF's total revenues for the current fiscal year came from restricted property taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$2,269,655).

Capital projects fund (CPF) - The total fund balance of the CPF decreased by \$487,104 during current fiscal year. CPF's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to \$332,613 and interest on deposits amounting \$115,829. CPF's total expenditures for the current fiscal year were mainly related to capital outlays, (\$916,516), general administrating and operating costs (\$46,992), and urban and economic development expenditures (\$34,280).

Legislative joint resolutions fund (LRF) - The LRF had no movement during the current fiscal year.

Diagnostic and treatment center fund (DTCF) - The total DTCF's total revenues for the current fiscal year came from charges for services amounting to \$2,784,963. DTCF's total expenditures for the current fiscal year were all related to health and sanitation (\$2,573,808).

Other governmental special revenue funds (OGSRF) – The total fund balance of the OGRF decreased by \$240,896 during current fiscal year. Substantially all of OGSRF's revenues for the current fiscal year came from intergovernmental grants and contributions (\$1,771,796). Total expenditures were mainly related to public housing and welfare (\$1,731,423), and capital outlays (\$413,579).

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$70,715,280 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$20,847,136 at June 30, 2015. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$1,341,861), which were partially offset by the depreciation and amortization expense.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2015, the Municipality's total bonded debt amounted to \$25,300,158 consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Las Piedras, Department of Finance.

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MUNICIPALITY OF LAS PIEDRAS
Basic Financial Statements,
Notes to Basic Financial Statements and Required Supplemental Schedules
FOR THE YEAR ENDED JUNE 30, 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Net Position
FOR THE YEAR ENDED JUNE 30, 2015**

Assets		Governmental activities
Current assets:		
Cash in commercial banks		\$ 95
Accounts receivable, net of allowance for doubtful accounts		
Taxes receivable:		
Property taxes	\$ 1,168,837	
Construction excise taxes	394,210	
Sales and use taxes	7,952	
Intergovernmental grants and contributions	1,908,688	
Interests	52	
Miscellaneous	153,552	
Total accounts receivable		3,633,291
Restricted assets:		
Cash in commercial banks	\$ 1,959,207	
Cash in fiscal agent	7,149,820	
Property taxes receivable	44,613	
Accrued interests on deposits	9,149	
Intergovernmental grants and contributions receivable	1,489,285	
Total restricted assets		10,652,074
Total current assets		14,285,460
Non-current assets:		
Capital assets, at cost:		
Depreciable capital assets	\$ 65,364,023	
Non-depreciable capital assets	5,351,257	
Total capital assets, at cost	70,715,280	
Less: accumulated depreciation and amortization	(20,847,136)	
Total capital assets, net		49,868,144
Other assets		69,802
Total non-current assets		49,937,946
Total assets		\$ 64,223,406

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Net Position (concluded)
FOR THE YEAR ENDED JUNE 30, 2015**

Liabilities and net position	Governmental activities
Current liabilities (due within one year):	
Accounts payable and accrued liabilities:	
Trade payables and accrued liabilities	\$ 2,710,935
Intergovernmental payables	2,098,636
Total accounts payable and accrued liabilities	\$ 4,809,571
Liabilities related to restricted assets:	
Accounts payable and accrued liabilities	637,637
Current portion of long-term obligations:	
Bonds payable	\$ 1,105,000
Notes payable	25,744
Compensated absences	1,221,811
Total current portion of long-term obligations	2,352,555
Total current liabilities	<u>7,799,763</u>
Non-current liabilities, excluding current portion (due in more than one year) :	
Bonds payable	24,195,158
Notes payable	944,553
Compensated absences	844,769
Claims and judgments	954,736
Total non-current liabilities	<u>26,939,216</u>
Total liabilities	<u>34,738,979</u>
Deferred inflows of resources	<u>3,619,691</u>
Net position	
Invested in capital assets, net of related debt	<u>41,930,504</u>
Restricted for:	
Debt service	\$ 2,732,038
Capital projects	746,211
Other purposes	1,643,153
Total restricted net position	5,121,402
Unrestricted	<u>(21,187,170)</u>
Total net position	<u>\$ 25,864,736</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2015

Functions/programs	Expenses, including depreciation and amortization \$1,857,071	Program revenues		Net (expenses) and changes in net assets	
		Charges for services	Program -- specific operating grants and contributions		Program -- specific capital grants and contributions
Governmental activities:					
General government	\$ 9,965,153	68,423	-	-	\$ (9,896,730)
Urban and economic development	2,941,389	-	-	213,301	(2,728,088)
Health and sanitation	3,648,999	2,784,963	-	-	(864,036)
Public safety	865,431	-	-	-	(865,431)
Public housing and welfare	2,550,346	-	1,771,796	-	(778,550)
Culture, recreation and education	700,416	-	-	-	(700,416)
Interests on long-term obligations	1,364,980	-	537,666	-	(827,314)
Total governmental activities	\$ 22,036,714	2,853,386	2,309,462	213,301	(16,660,565)
General revenues:					
Taxes:					
Property taxes					\$ 5,979,291
Municipal license taxes					5,599,553
Construction excise taxes					830,505
Sales and use taxes					980,305
Total tax revenues					13,389,654
Intergovernmental grants and contributions, not restricted to specific programs					3,531,223
Interests on deposits					267,350
Miscellaneous					112,118
Total general revenues					17,300,345
Net increase in net position					639,780
Net position at beginning of fiscal year					20,469,916
Prior period adjustments					4,755,040
Net position at beginning of fiscal year, as restated					25,224,956
Net position at end of fiscal year					\$ 25,864,736

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Balance Sheet – Governmental Funds
FORTHE YEAR ENDED JUNE 30, 2015

Assets	Major governmental funds						Total governmental funds
	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Diagnostic and treatment center fund	Other governmental funds	
Cash in commercial banks	\$ 95	-	-	-	-	-	\$ 95
Accounts receivable, net of allowance for doubtful accounts:							
Taxes:							
Property taxes	1,168,837	-	-	-	-	-	1,168,837
Construction excise taxes	394,210	-	-	-	-	-	394,210
Sales and use taxes	7,952	-	-	-	-	-	7,952
Intergovernmental grants and contributions	1,908,688	-	-	-	-	-	1,908,688
Interests	52	-	-	-	-	-	52
Miscellaneous	153,552	-	-	-	-	-	153,552
Restricted assets:							
Cash in commercial banks	-	208,066	1,526,136	-	24,352	200,653	1,959,207
Cash in fiscal agent	13,556	2,798,693	-	4,319,981	-	17,590	7,149,820
Accrued interest on deposits	-	8,921	-	228	-	-	9,149
Due from other governmental funds	1,571,114	-	-	-	-	980	1,572,094
Intergovernmental grants and contributions receivable	-	-	-	-	1,123,660	365,625	1,489,285
Property taxes receivable, net of reserve for doubtful accounts	-	-	-	44,613	-	-	44,613
Total assets	5,218,056	3,015,680	1,526,136	4,364,822	1,148,012	584,848	15,857,554
Liabilities							
Accounts payable and accrued liabilities:							
Trade payables and accrued liabilities	2,630,925	-	-	637,637	-	-	3,268,562
Intergovernmental payables	2,098,636	-	-	-	-	-	2,098,636
Advance from other governmental funds	80,010	-	-	-	-	-	80,010
Due and advances to other funds	980	8,921	-	147	1,148,012	414,034	1,572,094
Matured bonds due and payable	-	-	-	995,000	-	-	995,000
Total liabilities	4,810,551	8,921	-	1,632,784	1,148,012	414,034	8,014,302
Deferred inflows of resources	3,433,374	87,832	-	-	-	53,797	3,575,003
Fund balances (deficits)							
Assigned	2,193,893	-	-	-	-	-	2,193,893
Restricted	-	2,918,927	1,526,136	2,732,038	-	117,017	7,294,118
Unassigned	(5,219,762)	-	-	-	-	-	(5,219,762)
Total fund balances (deficits)	(3,025,869)	2,918,927	1,526,136	2,732,038	-	117,017	4,268,249
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 5,218,056	3,015,680	1,526,136	4,364,822	1,148,012	584,848	\$ 15,857,554

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
FOR THE YEAR ENDED JUNE 30, 2015

The amounts of governmental activities reported in the statement of net position and the balance sheet-governmental funds are different for the following reasons:

Total fund balances reported in the balance sheet-governmental funds	\$ 4,268,249
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation of \$20,847,136 at June 30, 2015, which is reported in	49,868,144
Other assets recorded in the statement of net position are not considered available financial resources at fiscal year-end, therefore, are not reported in the	69,802
Deferred inflows of resources	(44,688)
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2015:	
Bonds payable	(24,305,158)
Notes payable	(970,297)
Compensated absences	(2,066,580)
Claims and judgments	(954,736)
<u>Net position-governmental activities, as reported in the statement of net position</u>	<u>\$ 25,864,736</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds
FOR THE YEAR ENDED JUNE 30, 2015

	Major governmental funds						Total governmental funds	
	General fund	Capital improvements bonds fund	Legislative		Debt service fund	Diagnostic and treatment center fund		Other governmental funds
			joint resolutions fund	-				
Revenues:								
Taxes:								
Property taxes	\$ 3,720,884	-	-	2,258,407	-	-	\$ 5,979,291	
Municipal license taxes	5,599,553	-	-	-	-	-	5,599,553	
Construction excise taxes	830,505	-	-	-	-	-	830,505	
Sales and use taxes	980,305	-	-	-	-	-	980,305	
Total tax revenues	11,131,247	-	-	2,258,407	-	-	13,389,654	
Intergovernmental grants and contributions	3,531,223	332,613	-	537,666	-	1,771,796	6,173,298	
Charges for services	68,423	-	-	-	2,784,963	-	2,853,386	
Interests on deposits	148,311	115,829	-	3,117	-	3	267,260	
Miscellaneous	112,118	-	-	-	-	-	112,118	
Total revenues	14,991,322	448,442	-	2,799,190	2,784,963	1,771,799	22,795,716	
Expenditures:								
Current:								
General government	9,613,162	46,992	-	-	-	-	9,660,154	
Public housing and welfare	629,288	-	-	-	-	1,731,423	2,360,711	
Health and sanitation	1,060,215	-	-	-	2,573,808	-	3,634,023	
Urban and economic development	2,046,873	34,280	-	-	-	-	2,081,153	
Public safety	773,267	-	-	-	-	-	773,267	
Culture, recreation and education	411,889	-	-	-	-	-	411,889	
Debt service:								
Principal	124,540	-	-	995,000	-	-	1,119,540	
Interest	90,325	-	-	1,274,655	-	-	1,364,980	
Capital outlays	11,766	916,516	-	-	-	413,579	1,341,861	
Total expenditures	14,761,325	997,788	-	2,269,655	2,573,808	2,145,002	22,747,578	
Revenues over (under) expenditures	229,997	(549,346)	-	529,535	211,155	(373,203)	48,138	
Other financing sources (uses):								
Transfers-in from other governmental funds	1,269,115	312,539	-	-	784,852	153,000	2,519,506	
Transfers-out to other governmental funds	(1,250,391)	(250,297)	-	(2,118)	(996,007)	(20,693)	(2,519,506)	
Total other financing sources (uses), net	18,724	62,242	-	(2,118)	(211,155)	132,307	-	
Net increase (decrease) in fund balances (deficits)	248,721	(487,104)	-	527,417	-	(240,896)	48,138	
Fund balances (deficit), at beginning of fiscal year,	(3,274,590)	3,406,031	1,526,136	2,204,621	-	357,913	4,220,111	
Fund balance (deficit) at end of fiscal year	\$(3,025,869)	2,918,927	1,526,136	2,732,038	-	117,017	\$ 4,268,249	

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) –
Governmental Funds to Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2015**

The amounts of governmental activities reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances (deficits) - governmental funds, are different for the following reasons:

Total net increase in fund balances (deficits) reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 48,138
Add (Deduct):	
Net change in deferred inflows of resources that are measurable but not available at June 30, 2015.	(119,222)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the excess of depreciation expense over capital outlays.	(515,210)
Governmental funds report debt issue costs as expenditures. However, in the statement of activities, these costs are considered other assets and amortized over a period of time as amortization expense.	(2,061)
Repayment of principal of long-term obligations is reported as expenditures in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net position.	1,119,540
Net change in compensated absences payable	<u>108,595</u>
Net increase in net position, as reported in the statement of activities	<u>\$ 639,780</u>

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

1. Background Information and Summary of Significant Accounting Policies

The Municipality of Las Piedras (the Municipality) is a local municipal government constituted in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, whose members are also elected every four years, exercises the legislative power of the Municipality. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2015, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI, consisting of a Management's Discussion and Analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

a) Financial Reporting Model (continued)

June 30, 2015 Other supplementary information presented in this report for purposes of additional analysis consists of a budgetary comparison schedule – general fund.

On 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 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56).

GASB 55 incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all GAAP for state and local governments so that they derive from a single source.

GASB 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.

The adoption of GASB 55 and GASB 56 did not have retroactive cumulative effects affecting the accompanying financial statements as of July 1, 2013, and have not affected the financial positions and the results of operations reported as of and for the fiscal year ended June 30, 2014. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2013.

On July 1, 2012, the Municipality adopted the following two new statements of financial accounting standards issued by the Governmental Accounting Standards Board: (1) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and (2) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65).

GASB 63 provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period and deferred inflows of resources which are acquisitions of net position by the government that is applicable to a future reporting period. GASB 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

a) *Financial Reporting Model (continued)*

GASB 63 also amends the reporting of the “net investment in capital assets” component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

There was no impact on the Municipality’s financial statements as a result of the implementation of Statement No. 65.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality’s Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality’s management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality’s basic financial statements to be misleading or incomplete.

**COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

b) Financial Reporting Entity (continued)

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

On July 1, 2011, the Municipality adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amended of GASB Statement No. 14 and No. 34* (GASB No. 61). GASB No. 61 modified certain requirements for inclusion of component units in the financial reporting entity.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

c) *Government-wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity) and or net liabilities. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position is classified in the accompanying statement of net position within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets (capital-related debt). For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

Pursuant to the provisions of GASB 63, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets is included in this component of net position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

c) Government-wide Financial Statements (continued)

In addition, for the purposes of determining the outstanding debt attributed to capital assets, the following items are excluded from the calculation: (1) bond issuance costs, (2) interest payable, (3) accrued interest on deep discount debt and non-capital accrued liabilities (e.g. compensated absences, claims and judgments, etc.), and (5) debt used to finance capital acquisitions by parties outside the Municipality. Furthermore, the computation of net position invested in capital assets, net of related debt, excludes inter-fund loans and other financial assets.

- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by 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.

On July 1, 2005, the Municipality adopted the provisions of Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). This Statement requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. This Statement clarified that 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. This Statement states that the legal enforceability of an enabling legislation should be reevaluated 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. Although the determination that a particular restriction is not legally enforceable may cause the Municipality to review the enforceability of other restrictions, it should not necessarily lead the Municipality to the same conclusion for all enabling legislation restrictions.

The classification of restricted net position 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 designations 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

c) Government-wide Financial Statements (continued)

The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2015:

- (1) Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.
 - (2) Capital projects** – Represent net resources available to cover the cost of the acquisition, construction, and improvement of major and non-major capital assets.
 - (3) Federal and state funded programs** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- **Unrestricted** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

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**COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

c) Government-wide Financial Statements (continued)

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of planning and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of public relations

Urban and economic development:

- Department of public works
- Department of territorial ordering
- Department of building conservation

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Health and sanitation:

- Department of health

Culture, recreation and education:

- Department of sports and recreation
- Department of tourism
- Department of education

Public housing and welfare:

- Department of public housing
- Department of federal programs
- Department of citizen's affairs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

c) Government-wide Financial Statements (continued)

The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions. The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities. Inter-fund services provided and used have not been eliminated in the process of consolidation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

c) Government-wide Financial Statements (continued)

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, and (3) the statement of revenues and expenditures – budget and actual – budgetary basis – general fund.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

d) Governmental Fund Financial Statements(continued)

The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 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 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 also were also modified for clarity and consistency.

Pursuant to the provisions set forth by GASB 54, the Municipality reported the following governmental funds in the accompanying GFFS:

- **General fund** – The general fund is the Municipality’s main operating fund as defined below, used to account for all financial resources and governmental activities, except for financial resources 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is used by the Municipality to account for the accumulation of resources 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/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, accrued legal claims and judgments and the federal cost disallowances) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

- **Capital projects fund** – The capital projects fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets. In addition, the capital projects fund is used to account for the routine purchases of minor capital assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) and reported in the governmental fund from which financial resources were used for the payment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

d) Governmental Fund Financial Statements(continued)

- **Legislative joint resolution fund** – The legislative joint resolutions fund is a major capital project fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico, which are principally used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The most significant transactions of this fund are related to capital outlays and intergovernmental grants and contributions revenues.
- **Diagnostic and treatment center fund** – The diagnostic and treatment center fund is a major fund used to account for the services in the prevention, treatment, and management of illness, and the preservation of mental and physical well-being offered by the medical and allied health professions.
- **Special revenue funds** - The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital projects fund). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least ten percent (10%) of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Furthermore, any other non-major governmental fund would be reported as a major governmental fund in the GFFS if such fund is considered of significant interest to regulations or investors of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

d) Governmental Fund Financial Statements(continued)

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, (3) the capital projects fund, (4) the legislative joint resolutions fund, and (5) the diagnostic and treatment center fund.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that 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 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, the following types of similar internal funds have been combined into single funds in the accompanying fund financial statements:

- The various capital improvement bond funds and non-major capital projects funds have been reported as a single major capital projects fund.
- Program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico have been combined into a single major capital projects fund, the legislative joint resolutions fund.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

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) 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 and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

e) Measurement Focus and Basis of Accounting (continued)

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations).

In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four 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 the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, 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. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred (unearned) revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

e) Measurement Focus and Basis of Accounting (continued)

According to GASB No. 34, all general capital assets and the un-matured 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 and basis of accounting used in the preparation of the accompanying 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.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, 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 considers most revenues to be available if collected within 90 days after June 30, 2015, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (unavailable) revenues at June 30, 2015.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred (unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

e) Measurement Focus and Basis of Accounting (continued)

Governmental fund financial statements (continued) - Interests on deposits are recorded when earned, since these revenues are considered both measurable and available at June 30, 2015.

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 an 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.

Governmental fund financial statements (continued) GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects 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 un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2015, which have been recorded as governmental fund liabilities at June 30, 2015, which is the date when resources are available in the debt service funds (generally, June 30).
- Notes payable, claims and judgments, and compensated absences are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (un-matured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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.

**COMMONWEALTH OF PUERTO RICO
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FOR THE YEAR ENDED JUNE 30, 2015**

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Act No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it. If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

Budgetary Control (continued)

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare, capital outlays, principal expenditures, interest expenditures, etc.) within the general and debt service funds, respectively.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required settling claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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.

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Budgetary Accounting (continued)

The accompanying budgetary comparison schedule – general fund, provides information about the general fund's original budgets, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

At June 30, 2015, the Municipality has outstanding encumbrances in the general fund amounting to \$2,193,893.

g) Unrestricted and Restricted Deposits

The Municipality's deposits at June 30, 2015 are composed of: (1) cash on hand, (2) demand deposits in commercial banks, and (3) demand deposits in the Government Development Bank for Puerto Rico (GDB), fiscal agent.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash in fiscal agent in the debt service fund consists of cash related to property tax collections amounting to \$4,319,981, which is restricted for the payment of the Municipality's debt service, as required by law.

Cash in fiscal agent in the capital projects fund, amounting to \$2,798,693 consists of unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of capital assets. Restricted cash in commercial banks amounting to \$208,066, represents the balance of non-interest bearing account restricted for the purchase of minor capital assets such as furniture, office equipment, vehicles, and other minor capital assets or improvements

Restricted cash in commercial banks in the legislative joint resolutions fund consists of unspent program-specific grants and contributions amounting to \$1,526,136 awarded by the Legislature of the Commonwealth of Puerto Rico that are mainly restricted for the acquisition, construction or improvements of major capital assets. Restricted cash in commercial banks for other governmental funds, amounting to \$200,653, represents the balance of non-interest bearing accounts restricted to finance the operations of various federal and state funded programs.

**COMMONWEALTH OF PUERTO RICO
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h) Unrestricted and Restricted Accounts Receivable

Receivables consist of all revenues earned but not collected at June 30, 2015. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds."

i) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

COMMONWEALTH OF PUERTO RICO
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FOR THE YEAR ENDED JUNE 30, 2015

i) Capital Assets(continued)

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
<i>Land improvements</i>	20
<i>Buildings, structures and building improvements</i>	30 to 50
<i>Infrastructure</i>	20 to 50
<i>Motor vehicles</i>	5
<i>Furniture, fixtures, machinery and equipment, excluding those held under capital leases</i>	5 to 20
<i>Equipment held under capital leases</i>	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

j) Deferred Inflows of Resources

Deferred inflows of resources arise when 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 deferred inflow of resources is removed and revenue is recognized.

k) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

**COMMONWEALTH OF PUERTO RICO
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FOR THE YEAR ENDED JUNE 30, 2015**

k) Compensated Absences(continued)

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition, upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time. The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

l) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable; notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2015 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2015). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the life of the debt. In the GFFS, such costs are recorded as expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable is reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes.

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FOR THE YEAR ENDED JUNE 30, 2015**

l) Long-term Debt(continued)

The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

m) Accounting for pension plans

Substantially all full-time employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico including the Municipality of San Juan.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Employees' Retirement System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the Employees Retirement System as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as "System 2000"). Members who entered the Employees Retirement System on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. Prior to the amendment made by Act 3-2013, under the System 2000 benefit structure, a participant was entitled to receive a lump-sum payment, which could be received in full or used to purchase an annuity from a third party, based solely on the amounts contributed in cash by such participant and credited earnings on such cash. Act 3-2013 amended the law to eliminate the lump sum distribution and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the Employees Retirement System. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the Employees Retirement System together with the assets corresponding to the defined benefit structure. Thus, future benefit payments under the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the Employees Retirement System.

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m) Accounting for pension plans(continued)

Retirement and related benefits provided by the Employees Retirement System, and required contributions to the Employees Retirement System by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the Employees

Retirement System increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2015 is 13.275%.

Required employee contributions for the Employees Retirement System vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The Employees Retirement System provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as "Basic System Pension Benefits"). The Employee Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as "System Administered Pension Benefits"). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Municipality. The System Administered Pension Benefits corresponding to former employees of the Municipality are obligations of the Municipality. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

The June 30, 2013 actuarial valuations for the Employees Retirement System calculated accounting results for pension benefits under Governmental Accounting Standards Board No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" ("GASB 25").

The Employees Retirement System's actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of GASB Statement No. 67, "Financial Reporting for Pension Plans" ("GASB 67"), which replaced GASB 25. GASB 67 specifies certain significant changes for financial reporting purposes, including but not limited to (a) calculation of plan liabilities based on the "entry age normal" method (compared to the "projected unit credit" method used in the prior valuation), (b) calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments under certain assumptions, and (c) for purposes of valuing the plan's liabilities after the depletion date, use of a discount rate tied to a municipal bond index.

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m) Accounting for pension plans(continued)

GASB 67 also introduces certain new terminology, including: (i) Total Pension Liability, which is the actuarial accrued liability calculated in accordance with the new GASB 67 requirements, (ii) Fiduciary Net Position, which is the market value of plan assets, net of liabilities (in the case of the Employees Retirement System, Fiduciary Net Position is also equivalent to the previously reported actuarial value of assets), and (iii) Net Pension Liability, which is calculated as Total Pension Liability less Fiduciary Net Position, and is equivalent to the unfunded actuarial accrued liability.

To calculate the net pension liability of the Employees Retirement System, the actuarial valuation uses several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the Employees Retirement System is different from these assumptions, the net pension liability of the Employees Retirement System may increase or decrease to the extent of any variances.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects a fiduciary net position of \$127 million, total pension liability of \$30.2 billion and a net pension liability of \$30.1 billion.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (“GASB 68”) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50,

Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Employees Retirement System. GASB 68 will bring the effect of GASB 67 summarized above, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Employees Retirement System. The Commonwealth, as well as its component units and the municipalities, are considered “cost-sharing” employers of the Employees Retirement System; therefore, they must report their allocated share of the Commonwealth’s resulting net pension liability from GASB 67. The Commonwealth and the Employees Retirement System are still in the process of evaluating the impact of GASB 68 and have not provided the Municipality with the necessary information as of June 30, 2015 to adopt GASB 68 including its allocated share of the net pension liability mentioned above. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB 68.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

n) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth’s Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico.

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FOR THE YEAR ENDED JUNE 2015**

n) Risk Management(continued)

The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. 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 ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. 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. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth'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 of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2015. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

o) Fund Balances

On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 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 based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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o) Fund Balances(continued)

Pursuant to the provisions of GASB 54, the accompanying GFFS report fund balance amounts that are considered non-spendable since are net resources that cannot be spent readily with cash or are legally or contractually required not to be spent.

Other fund balances have been reported as restricted, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Restricted* - Represent net 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. In the accompanying basic financial statements, restricted fund balances have been reported in the following funds and for the following purposes:
 - *Capital projects fund* – restricted fund balance which consists of financial resources to be used only for the acquisition, construction or improvement of major capital assets under contracts and other commitments, as approved and financed by the Government Development Bank for Puerto Rico, and the acquisition, construction or improvement of other minor capital assets.
 - *Legislative joint resolutions fund* – restricted fund balance consists of financial resources arising from grants and contributions received through resolutions of the Legislature of the Commonwealth of Puerto Rico to be used principally for the acquisition, construction or improvement of capital assets under contracts and other commitments.
 - *Debt service fund* – restricted fund balance consists of financial resources available only to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund, as required by Law.
 - *Other governmental funds* – restricted fund balance consists of financial resources arising from operating and capital grants and contributions from state and federal grantors that can be spent only for the specific purposes stipulated by the respective external resource providers, or through enabling legislation.
- b. *Assigned* - Represent net resources recorded in the general fund, intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. At June 30, 2015 assigned fund balance in the general fund consists of fund balances reserved for encumbrances amounting to \$2,193,893.

**COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 2015**

o) Fund Balances(continue)

- 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, when applicable.

The Municipality had no fund balances classified as *committed* at June 30, 2015. Those types of fund balances are generally related to financial resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances), which would only be changed by a similar law, ordinance or resolution.

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 balance amounts as of and for the fiscal year ended June 30, 2015.

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

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2015 have not been affected for this change in accounting principle. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2014.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
FOR THE YEAR ENDED JUNE 2015

p) Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as “*advances*”. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- **Inter-fund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- **Inter-fund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

p) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

q) Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following standards that have not been adopted by the Municipality, and are currently under evaluation for their impact in future financial statements:

- GASB Statement No. 72, Fair Value Measurement and Application - was issued in February 2015. The requirements of GASB 72 are effective for financial statements for reporting periods beginning after June 15, 2015.

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q) Future adoption of Accounting Pronouncements(continued)

- GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, was issued in June 2015. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 74, Financial Reporting for Postemployment Benefits Other Than Pensions - was issued in June 2015. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued in June 2015. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, was issued in June 2015. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.
- GASB Statement No. 77, Tax Abatement Disclosures, was issued in August 2015. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

2. Deposit

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the 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.

On July 1, 2005, 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, and (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*. Pursuant to this Statement, 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 collateralized for the amount in excess of federal depository insurance.

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- **Credit risk (continued)** - securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits.

The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, 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 other types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits are considered low at June 30, 2015.

Cash and cash equivalents at June 30, 2015, are classified in the accompanying balance sheet – governmental funds as follows:

	Major governmental funds						Total
	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Diagnostic and treatment center fund	Other governmental funds	
Unrestricted:							
Cash in commercial banks	\$ 95						\$ 95
Restricted:							
Cash in commercial banks		208,066	1,526,136		24,352	200,653	1,959,207
Cash in fiscal agent	13,556	2,798,693		4,319,981		17,590	7,149,820
Total carrying amount of dep	<u>\$ 13,651</u>	<u>3,006,759</u>	<u>1,526,136</u>	<u>4,319,981</u>	<u>24,352</u>	<u>218,243</u>	<u>\$ 9,109,122</u>

**COMMONWEALTH OF PUERTO RICO
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3. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Las Piedras. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return filed every April 15, based on the actual volume of business (revenues) earned in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$3,433,374 at June 30, 2015.

4. Property Taxes

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

CRIM is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds to the Municipality based on the initial estimated collection amounts for the fiscal year. 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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a preliminary basis not later than December 31 following the fiscal year end.

COMMONWEALTH OF PUERTO RICO
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4. Property Taxes (continued)

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 7.53 percent (of which taxpayers pay 7.33 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (5.53 percent and 8.53 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Act No. 81, included within the total personal and real property tax rates of 7.03 percent and 10.53 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

In addition, included within the total personal and real property tax rates of 7.53 percent and 10.53 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of 7.53 percent and 10.53 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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4. Property Taxes (continued)

The Additional Lottery System of the Commonwealth (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty-five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2015, property taxes receivable recorded in the general fund amounted to \$1,168,837.

5. Sales and Use Taxes

The Municipality imposes a municipal sales and usage tax within the territorial limits of the Municipality. This is a derived tax applied to the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected on a monthly basis through a tax return that is due ten calendar days after the end of each month.

On January 24, 2014, Act No.18, known as Municipal Administration Fund Act (Act No. 18), and Act No. 19, known as Municipal Finance Corporation Act (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as Internal Revenue Code for a New Puerto Rico.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one point five percent (1.5%) to one point zero percent (1.0%). Simultaneously, Act No.19 created the Municipal Finance Corporation (MFC), an affiliated public company of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the Municipality by allowing it to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero point five percent (0.5%) of the sales and usage taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as Municipal Administration Fund (MAF) in the name and for the benefit of the Municipality.

COMMONWEALTH OF PUERTO RICO
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5. Sales and Use Taxes(continued)

Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality.

The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

- i.* Forty percent (40%) of the amounts transferred are available to cover general operating expenses of the *General Fund* of each municipality.
- ii.* Forty percent (40%) of the of the amounts transferred are available and restricted in the MFC's redemption fund to guarantee the repayment of any municipal loan, bond, note, or other evidence of debt whose repayment source is the monies deposited therein under the custody of GDB.
- iii.* Twenty percent (20%) of the amounts transferred are available and restricted to finance the acquisition, construction and improvement of major capital assets.

Sales and use tax revenues recorded in the general fund amounted to \$980,305 for the fiscal year ended June 30, 2015.

Sales and use tax receivable represents sales tax levied that were collected subsequent to June 30, 2015, but pertaining to current year period. At June 30, 2015, the sales and use taxes receivable amounted to \$7,952.

6. Construction Excise Taxes

The Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings and structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, project design and other engineering fees, licenses and permits, legal and accounting fees, and most marketing and advertising costs. The tax is paid by the taxpayer at the beginning of the project.

All single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, are partially exempt from construction excise taxes. In addition, a portion of all single-family residential improvement projects are exempt from construction excise taxes. All projects carried out on buildings and structures classified as historical treasures by the Puerto Rico Planning Board have an in the tax rate applicable to construction excise taxes.

**COMMONWEALTH OF PUERTO RICO
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Construction excise tax revenues recorded in the general fund amounted to \$830,505 for the fiscal year ended June 30, 2015.

7. Intergovernmental Receivable and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows at June 30, 2015:

	Major governmental funds					Total
	General fund	Capital projects fund	Debt service fund	Diagnostic and treatment center fund	Other governmental funds	
Intergovernmental receivables:						
<i>Grants and contributions:</i>						
Puerto Rico Treasury Department - Employees' Christmas bonus cost reimbursement	\$ 80,010	-	-	-	-	\$ 80,010
Commonwealth of Puerto Rico - contribution of the state						
department of health	-	-	-	-	\$ 23,327	23,327
Puerto Rico Electric Power Authority - Contributions in lieu of municipal taxes	1,828,678	-	-	-	-	1,828,678
Puerto Rico Department of Labor - Law 82	-	-	-	-	40,493	40,493
Law 52	-	-	-	-	82,570	82,570
Labor Rights Administration - Cadets Consortium	-	-	-	-	36,802	36,802
U.S. Department of Housing and Urban Development, through the Puerto Rico Office of the Commissioner of Municipal Affairs - SBGP Block Grant	-	-	-	-	182,433	182,433
State Budget / C.D.T. Las Piedras	-	-	-	\$1,123,660	-	1,123,660
Total Intergovernmental receivables	\$ 1,908,688	-	-	\$1,123,660	365,625	\$ 3,397,973
Intergovernmental payables:						
<i>Utilities and charges for services:</i>						
Puerto Rico Electric Power Authority-Electric power consumption	\$ 1,828,678	-	-	-	-	\$ 1,828,678
<i>U.S Internal Revenue Service:</i>						
Social Security Administration	269,958	-	-	-	-	269,958
Total Intergovernmental payables	\$ 2,098,636	-	-	-	-	\$ 2,098,636

**COMMONWEALTH OF PUERTO RICO
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FOR THE YEAR ENDED JUNE 30, 2015**

8. Inter-Fund Transactions

The composition of inter-fund balances at June 30, 2015 and for the fiscal year then ended is as follows:

Due from:	Due to:			
	General fund	Debt service fund	Other governmental funds	Total governmental funds
<i>Major governmental funds:</i>				
General fund	\$ -	\$ -	\$ 980	\$ 980
Debt service fund	147			147
Capital improvements bond fund	8,920			8,920
Capital projects fund	1			1
Diagnostic and treatment center fund	1,148,012			1,148,012
Other governmental funds	414,034			414,034
Total	\$ 1,571,114	\$ -	\$ 980	\$ 1,572,094

Transfers from:	Transfers to:				
	General fund	Capital projects fund	Diagnostic and treatment center fund	Other governmental funds	Total governmental funds
<i>Major governmental funds:</i>					
General fund	\$ -	312,539	784,852	153,000	\$ 1,250,391
Capital improvements bonds fund	115,818	-	-	-	115,818
Capital projects fund	134,479	-	-	-	134,479
Debt service fund	2,118	-	-	-	2,118
Diagnostic and treatment center fund	996,007	-	-	-	996,007
Other governmental funds	20,693	-	-	-	20,693
Total	\$ 1,269,115	312,539	784,852	153,000	\$ 2,519,506

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9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015:

	Balance at June 30,2014	Additions (Reclassifications)	Balance at June 30,2015
<u>COST BASIS:</u>			
Cost basis of capital assets, not subject to depreciation and amortization:			
Infrastructure land	\$ 5,350,257	-	\$ 5,350,257
Construction in progress	-	\$ 1,000	1,000
Total cost basis of capital assets, not subject to depreciation and amortization	5,350,257	\$ 1,000	5,351,257
Cost basis of capital assets, subject to depreciation and amortization:			
Buildings, structures and building improvements	15,339,283	118,765	15,458,048
Infrastructure	28,104,547	950,091	29,054,638
Land Improvements	12,881,124	222,394	13,103,518
Licensed vehicles	4,722,562	16,300	4,738,862
Furniture, fixtures, machinery and equipment	2,257,789	33,311	2,291,100
Machinery and equipment held under capital leases	717,857	-	717,857
Total cost basis of capital assets subject to depreciation and amortization	64,023,162	1,340,861	65,364,023
Total cost basis of capital assets	\$ 69,373,419	\$ 1,341,861	\$ 70,715,280
	Balance at June 30,2014	Depreciation and amortization expense	Balance at June 30,2015
<u>ACCUMULATED DEPRECIATION AND AMORTIZATION:</u>			
Buildings, structures and building improvements	\$ 3,107,396	\$ 469,633	\$ 3,577,029
Infrastructure	8,797,883	1,060,749	9,858,632
Land Improvements	3,394,680	113,640	3,508,320
Licensed vehicles	2,147,789	25,571	2,173,360
Furniture, fixtures, machinery and equipment	1,542,317	187,478	1,729,795
Total accumulated depreciation and amortization	18,990,065	1,857,071	20,847,136
CAPITAL ASSETS, NET	\$ 50,383,354	\$ (515,210)	\$ 49,868,144

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Depreciation and amortization expense for the fiscal year ended June 30, 2015 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	375,054
Public safety		97,822
Public housing and welfare		194,176
Health and sanitation		22,860
Culture, recreation and recreation		291,381
Urban and economic development		875,778
Total depreciation and amortization expenses	\$	<u>1,857,071</u>

10. Deferred Inflows of Resources and Advance from Other Governmental Entities

At June 30, 2015, deferred inflows of resources and advance from other governmental entities recorded in the GWFS and the GFFS are as follows:

	Major governmental funds				Statement of net position
	General fund	Capital projects fund	Other governmental funds	Total governmental funds	
<i>Deferred inflows of resources:</i>					
Municipal license taxes	\$ 3,433,374	-	-	\$ 3,433,374	\$ 3,433,374
<i>Advance from other governmental entities:</i>					
Intergovernmental grants and c	-	\$ 87,832	\$ 53,797	\$ 141,629	\$ 186,317
Total deferred inflows of resources and advance from other governm	\$ 3,433,374	\$ 87,832	\$ 53,797	\$ 3,575,003	\$ 3,619,691

11. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2015 is as follows:

	Balance at beginning of fiscal year, as restated	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	\$ 26,972,083	\$ -	\$ (1,671,925)	\$ 25,300,158	\$ 1,105,000
Notes payable:					
Advanced property taxes	992,912	-	(22,615)	970,297	25,744
Compensated absences	2,175,175	844,769	(953,364)	2,066,580	1,221,811
Claims and judgements	954,736	-	-	954,736	-
Total	\$ 31,094,906	\$ 844,769	\$ (2,647,904)	\$ 29,291,771	\$ 2,352,555

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Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances, obligations under capital leases and any other long-term liabilities other than bonds.

a. Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b. Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2015:

	<u>Outstanding Amount</u>
1998-1999 serial bonds (face amount of \$ 3,040,000) due in annual principal installments ranging from \$45,00 to 245,000; plus interests due in semiannually installments at variable rates (4.80% at June 30, 2015) through July 1, 2023	\$ 1,700,000
2000-2001 serial bonds (face amount of \$490,000) due in annual principal installments ranging from \$10,000 to \$40,000; plus interests due in semiannually installments at variable rates (4.80% at June 30, 2015) through January 1, 2025	315,000
2001-2002 serial bonds (face amount \$765,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through January 1, 2027	545,000
2001-2002 serial bonds (face amount of \$810,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannually installments at variable rates (4.53% at June 30, 2015) through January 1, 2027	575,000
2002-2003 serial bonds (face amount of \$1,030,000) due in annual principal installments ranging from \$20,000 to \$75,000; plus interests due in semiannually installments at variable rates (4.53% at June 30, 2015) through July 1, 2028	750,000
2004-2005 serial bonds (face amount of \$830,000) due in annual principal installments ranging from \$40,000 to \$85,000; plus interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through January 1, 2018	300,000
2005-2006 serial bonds (face amount of \$930,000) due in annual principal installments ranging from \$15,000 to \$70,000; plus interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through July 1, 2030	745,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

	Outstanding Amount
2006-2007 serial bonds (face amount of \$1,220,000) due in annual principal installments ranging from \$70,000 to \$145,000; plus, interests due in semiannually installments at variable rates (1.48% at June 30, 2014) through July 1, 2017	400,000
2008-2009 serial bonds (face amount of \$405,000) due in annual principal installments ranging from \$45,000 to \$140,000; plus, interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through July, 1, 2014	5,000
2008-2009 series (original amount of \$ 2,245,000) due in annual principal installments ranging from \$30,000 to \$195,000; plus, interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through July, 1, 2032	2,010,000
2009-2010 series (original amount of \$305,000) due in annual principal installments ranging from \$35,000 to \$55,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2015) through July 1, 2016	105,000
2009-2010 series (original amount of \$990,000) due in annual principal installments ranging from \$70,000 to \$135,000; plus, interests due in annual installments at variable rates (4.75% at June 30, 2014) through July 1, 2019	570,158
2010-2011 series (original amount of \$1,785,000) due in annual principal installments ranging from \$20,000 to \$150,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2015) through July 1, 2036	1,675,000
2010-2011 series (original amount of \$1,575,000) due in annual principal installments ranging from \$20,000 to \$130,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2015) through July 1, 2035	1,475,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Outstanding Amount</u>
2010-2011 series (original amount of \$800,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2015) through July 1, 2035	745,000
2010-2011 series (original amount of \$75,000) due in annual principal installments ranging from \$10,000 to \$15,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2014) through July 1, 2017	35,000
2011-2012 series (original amount of \$9,610,000) due in annual principal installments ranging from \$140,000 to \$800,000; plus, interests due in annual installments at variable rates (7.50% at June 30, 2014) through July 1, 2036	9,155,000
2011-2012 series (original amount of \$4,570,000) due in annual principal installments ranging from \$115,000 to \$430,000; plus, interests due in annual installments at variable rates (6.00% at June 30, 2015) through July 1, 2030	<u>4,195,000</u>
Total bonds payable	<u>\$ 25,300,158</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code. Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 1,105,000	\$ 1,748,948	\$ 2,853,948
2017	1,170,000	1,674,257	2,844,257
2018	1,207,083	1,596,060	2,803,143
2019	1,130,000	1,519,189	2,649,189
2020	1,587,000	1,773,353	3,360,353
2021-2025	5,474,075	6,116,868	11,590,943
2026-2030	4,953,925	3,483,788	8,437,713
2031-2035	4,508,925	1,622,532	6,131,457
2036-2038	4,164,150	1,498,165	5,662,315
	\$ 25,300,158	\$ 21,033,160	\$ 46,333,318

At June 30, 2015, accrued interest payable on bonds amounted to \$637,637.

c. Municipal Revenue Collection Center

- **Public Act No. 42** – The Commonwealth's Pubic Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (2.0 percent at June 30, 2015) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to \$970,297 at June 30, 2015.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

12. Pension Plans

i. Cost-Sharing Multiple-Employer Defined Pension Plan

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth and administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico. Substantially all full-time employees of the Commonwealth and municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- ***Merit Annuity***

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015**

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

(a) \$165 per month, if retired with 55 years of age and 30 years of credited service.

(b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.

(c) All other between \$82 and \$100 per month.

(d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan, the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Non-occupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

- ***Death Benefits***

Occupational:

(a) **Surviving spouse** – annuity equal to 50 percent of the participating employee’s salary at the date of the death.

(b) **Children** – \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Non-occupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Hybrid Defined Contribution Pension Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee’s contribution (with a minimum of 8.28 percent of the employee’s salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS’ investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 30, 2015

- ***Hybrid Defined Contribution Pension Plan (continued)***

The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

- ***Recent Amendments to Act No. 447***

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the system. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the System, including, but not limited to, the following:

- (a) For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the define contribution formula used for system 2000 participants, and will be paid at retirement through a lifetime annuity.
- (b) Increased the minimum pension for current retirees from \$400 to \$500 per month.
- (c) The retirement age for Act No. 447 participants will be gradually increased from age 58 to 61.
- (d) The retirement age for Act No. 447 participants will be gradually increased from age 60 to 65.
- (e) Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
- (f) Eliminated the "merit annuity" available to participants who joined the System prior to April 1, 1990.
- (g) The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters and custody officers, which will be age 58.
- (h) The employee contribution rate was increased from 8.275% to 10%.
- (i) For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution; instead, they will be paid through a lifetime annuity.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
FOR THE YEAR ENDED JUNE 2015**

• ***Recent Amendments to Act No. 447 (continued)***

- (a) Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated.
- (b) Disability benefits were eliminated and substituted for mandatory disability insurance policy.
- (c) Survivor benefits were modified.

a. Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	12.28 percent of applicable payroll
Employees:	
Coordination plan:	7.00 percent of gross salary up to \$6,600 per year, plus 10.00 percent of gross salary in excess of \$6,600.
Supplementation plan:	10.00 percent of gross salary. This is the only choice available to policemen, firemen and majors.

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

Municipality and other	9.28 percent of applicable payroll
Employers	
Employees:	5.78 per cent of gross salary up to \$6,600 per year, plus 8.28 percent of gross salary in excess of \$6,600.

Readers can obtain information of the audited basic financial statements of ERS and System 2000 from the Retirement System Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 4203, Minillas Station, Santurce, Puerto Rico 00940-2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Financial Statements
Year ended June 30, 2015**

13. Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any. However, at June 30, 2015 the Municipality recorded a reserve of \$954,736 for claims and judgments in the statement of net assets.

The Municipality has reported, outstanding encumbrances amounting to \$2,193,893 in the general fund at June 30, 2015. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

14. Fund Balances

As of June 30 2015, fund balances are comprised of the following:

<i>Fund balances:</i>	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Other governmental funds	Total
Assigned for:						
General government	\$ 2,193,893	-	-	-	-	\$ 2,193,893
Restricted:						
Federal and state funded program	-	-	\$ 1,526,136	-	\$ 117,017.00	1,643,153
Debt service	-	-	-	\$ 2,732,038	-	2,732,038
Capital projects	-	\$ 2,918,927	-	-	-	2,918,927
Unassigned	(5,219,762)	-	-	-	-	(5,219,762)
Total fund balances	<u>\$ (3,025,869)</u>	<u>\$ 2,918,927</u>	<u>\$ 1,526,136</u>	<u>\$ 2,732,038</u>	<u>\$ 117,017</u>	<u>\$ 4,268,249</u>

15. Prior Period Adjustments

On July 1, 2014, the Municipality restated the fund balances of the general fund and the net position of its governmental activities, to eliminate certain accounts payable amounting to \$4,755,040 related to a supplier for which the Municipality's management has concluded will not be required to be paid, considering void the contract with the supplier, based on the legal opinion obtained by management from the Municipality's legal advisors.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2015

	Budgeted amounts		Actual amounts (budgetary basis-Note 1)	Variance with final budget-over (under)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 5,371,666	5,226,309	4,172,630	\$ (1,053,679)
Municipal license taxes	4,797,500	4,797,500	4,840,145	42,645
Construction excise taxes	219,908	219,908	436,295	216,387
Total tax revenues	10,389,074	10,243,717	9,449,070	(794,647)
Intergovernmental grants and contributions	4,538,412	4,538,412	3,162,949	(1,375,463)
Interests on deposits	152,618	152,618	147,508	(5,110)
Charges for services	59,999	59,999	68,423	8,424
Miscellaneous revenues	479,029	624,386	149,475	(474,911)
Total revenues	15,619,132	15,619,132	12,977,425	(2,641,707)
Expenditures:				
Current:				
General government	10,872,982	10,789,260	7,071,526	(3,717,734)
Urban and economic development	1,443,225	1,687,111	1,917,571	230,460
Health and sanitation	1,351,231	1,187,231	993,242	(193,989)
Public safety	656,722	748,658	724,419	(24,239)
Public housing and welfare	719,709	704,109	589,536	(114,573)
Culture, recreation and education	575,263	502,763	385,870	(116,893)
Capital outlays	-	-	11,766	11,766
Total expenditures	15,619,132	15,619,132	11,693,930	(3,925,202)
Revenues over (under) expenditures	-	-	1,283,495	1,283,495
Other financing sources (uses):				
Transfers from other funds	-	-	1,269,115	1,269,115
Transfers to other funds	-	-	(1,250,391)	(1,250,391)
Total other financing sources, net	-	-	18,724	18,724
Excess (deficiency) of revenues and other financing sources, over expenditures and other financing	\$ -	-	1,302,219	\$ 1,302,219
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule			\$ 12,977,425	
Differences - budgetary basis to GAAP:				
Non-budgeted revenues and other financing sources				906,142
Net change in receivables				1,107,755
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 14,991,322
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$ 11,693,930	
Differences - budgetary basis to GAAP:				
Non-budgeted expenditures and other financing uses				662,502
Prior year encumbrances recorded as current year expenditures for GAAP basis				426,027
Net change in payables				447,475
Current year encumbrances recorded as expenditures for budgetary purposes				1,531,391
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 14,761,325

The accompanying notes to the budgetary comparison schedule are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to the Budgetary Comparison Schedule – General Fund
FOR THE YEAR ENDED JUNE 2015

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 GAAP, 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. Transfer of certain appropriations within the budget, known as Mayor's Executive Orders, 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, encumbrances accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are disclosed in the notes of the financial statements as other significant commitments and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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 projects 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 resolutions at June 30, 2015 representing the original budget.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>CFDA NUMBER</u>	<u>EXPENDITURES</u>
US Department of Housing and Urban Development		
Passed through programs:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$1,103,070
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	765,759
Passed through programs:		
PR Department of Family:		
Emergency Shelter Grants Program	14.231	20,052
Municipality of San Juan:		
Housing Opportunities for Persons with AIDS	14.241	27,816
US Department of Homeland Security		
Passed through programs:		
PR Office of Management and Budget (GAR):		
Public Assistance Grant	97.036	<u>70,524</u>
Total Expenditures Federal Awards		<u>\$1,987,221</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Las Piedras, Puerto Rico and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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**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**



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S 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 Honorable Mayor and
Municipality Legislative Body
Municipality of Las Piedras
Las Piedras, Puerto Rico**

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Las Piedras, Puerto Rico** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Las Piedras, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Las Piedras, Puerto Rico's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality of Las Piedras, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Las Piedras, Puerto Rico's** internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

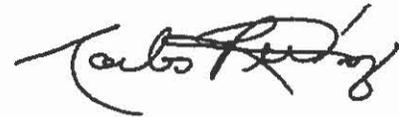
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be significant differences (Findings 2015-1 and 2015-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Las Piedras, Puerto Rico's** financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

March 15, 2016
Aguas Buenas, Puerto Rico

The stamp No. E199140 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



CARLOS R. DIAZ, CPA, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**To Honorable Mayor and
Municipality Legislative Body
Municipality of Las Piedras
Las Piedras, Puerto Rico**

Report on Compliance for Each Major Federal Program

We have audited Municipality of Las Piedras, Puerto Rico'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 Municipality of Las Piedras, Puerto Rico's major federal programs for the year ended June 30, 2015. Municipality of Las Piedras, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality of Las Piedras, Puerto Rico's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Municipality of Las Piedras, Puerto Rico'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality of Las Piedras, Puerto Rico's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Las Piedras, Puerto Rico complied, in all material respects, with the types of 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, 2015.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-3. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of Municipality of Las Piedras, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Las Piedras, Puerto Rico's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Las Piedras, Puerto Rico'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, or 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

March 15, 2016
Aguas Buenas, Puerto Rico

The stamp No. E199141 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Governmental activities
Fund Financial Statement

Qualified
Unqualified

Internal control over financial reporting:

- Material weakness identified? ___yes X no
 - Significant deficiency identified that is not considered to be material weaknesses? X yes ___no
- Noncompliance material to financial statement noted? X yes ___no

Federal Awards

Internal control over major programs:

- Material weakness identified? ___yes X no
- Significant deficiency identified that are not considered to be material weakness? ___yes X no

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133

X yes ___no

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.871

Section 8- Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited?

X yes ___no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2015-01

Condition

During our examination of the Municipality's accounting system, we noted that the Municipality's accounting records for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. The computerized system provided by the Office of Commissioner of Municipal Affairs (OCAM) and manual system maintained by the finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first years of the system operations.

Therefore, the Municipality's hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and complete the necessary information as required by GAAP and Law 81.

The unaudited financial statements delivered to us, contained missing adjustments and incomplete disclosures of financial information. Subsequently the Municipality provided the corrections after our suggestions.

Criteria

Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991, states that the Municipality should maintain an effective and updated accounting system.

Effect of Condition

The Municipality accounting system did not provide updated and complete financial information and reporting that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. Also, the Municipality's financial statements do not comply with GASB Statement No. 34.

Cause of Condition

The Municipality has not established effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2015-01 (Continued)

Recommendation

We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc. also, the Municipality should include increased monitoring and review in order to avoid this situation in the future.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2015-02

Accounting system

Condition

The Municipality's financial statements do not include such adjustments and disclosures required by GASB – 68.

Criteria

GASB 68 requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer's proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate share should be determined using the employer's proportion of the collective net pension liability.

Effect

The Municipality's financial statements are not presented in accordance with generally accepted in the United States of America.

Recommendation

The Municipality should adjust its financial statements to included such adjustments, if any, required by accounting principle generally accepted in the United States of America.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COST

Finding No. 2015-03

Federal program

Section 8 - Housing Choice Voucher

Compliance requirement

Cash Management

Type of Funds

Compliance and Internal Control

Condition

The Municipality used HCVP funds for activities not related to the program. On December 29, 2014, with the Mayor's consent, the Vice Mayor authorized a transfer of Housing Assistance Payment (HAP) and administrative funds to the Municipality of Las Piedras General Account for activities not related to Housing Choice Voucher Program (HCVP). The Finance Director transferred \$133,000 of HCVP Funds, which included \$96,488 of Administrative Funds and \$36,512 of HAP Funds, to pay the salaries of the Municipal employees not related to the HCVP. In addition, on November 3, 2014 the Municipality transfer \$70,000 from to the Municipality of Las Piedras General Account.

Criteria

HUD regulations states that the HAP funds shall not under any circumstances be used for any other purpose, such as to cover administrative expenses of be loaned, advanced or transferred to other component units or other programs. In addition, the PHA administrative fees may only be used to cover costs incurred to perform PHA Administrative responsibilities for the program. OMB-133A, 24 CFR 982.152(a), Annual Contributions Contract (ACC) and PIH Notice 2011-59.

Cause

The Municipality personnel lack the knowledge of HCVP financial regulations. There is a deficiency in the communication between upper management and HCVP office.

Effect

The condition could lead to fraud, waste and abuse of federal funds. Also, the program may fall into a financial situation where HAP payments and administrative expenses are not paid on time as required by HUD regulations. The condition could be considered a breach of the ACC. The situation may result in civil penalties or sanctions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COST (CONTINUED)

Finding No. 2015-03 (Continued)

Recommended Corrective Action

The Municipality was required to reimburse the HCVP \$133,000 from non-federal funds and the reimbursement was completed on January 21, 2015. The Municipality reimbursed to HCVP \$70,000 on November 10, 2014. The Municipality must develop a comprehensive set of financial standard operating procedures specifically designed to develop internal controls and monitoring systems to ensure compliance with HUD regulations. The Municipality must provide adequate training to the Finance Department and upper management staff to ensure compliance with HUD regulations.