

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

**MUNICIPIO DE LAS PIEDRAS
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008**

09-07-0087

09 JUL -2 PM 1:03

RECIBIDO
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
LAS PIEDRAS, PUERTO RICO**

**Independent Auditors' Report and
Financial Statements
(with Additional Information
and Reports Required by
OMB Circular A-133)**

Fiscal Year ended June 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

Table of Contents

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Governmental Funds' Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of Statement of Revenues, Expenditures and Changes in fund Balances of Governmental Funds to the Statement of Activities	8
Notes to Basic Financial Statements	9 – 39
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	40
Notes to Required Supplementary Information - Budgetary Comparison Schedule – General Fund	41-42
 <u>SINGLE AUDIT SECTION</u>	
Supplemental Information:	
Schedule of Expenditures of Federal Awards	43
Notes to Schedule of Expenditures of Federal Awards	44-45
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	46-47
Report on Compliance with Requirements Applicable to Each Major Program and on Internal control over Compliance in accordance with OMB Circular A-133	48-50
Schedule of Findings and Questioned Costs	51-55
Schedule of Status of Prior Year Audit Findings and Questioned Costs	56

FINANCIAL SECTION

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

P.O. Box 364831
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Las Piedras
Las Piedras, Puerto Rico

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Las Piedras as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management.

As explained in Note A to the accompanying financial statements, the management of the Municipality changed during the audit performance period. Accordingly, key accounting and management personnel resigned making it difficult to obtain financial reports, details, schedules and documentation which precluded us from carrying out customary and standard audit procedures. As a result, we were unable to obtain competent evidential matter sufficient to determine if the financial statements are in accordance with accounting principles generally accepted in the United States of America..

The actual management has not prepared and included the Management Discussion and Analysis Section in the accompanying financial statements. Accounting principles generally accepted in the United States of America require the presentation of the Management Discussion and Analysis as supplementary information to the financial statements.

The accompanying financial statements do not include certain required disclosures regarding capital asset additions and retirements, intergovernmental revenues composition, and costs incurred by the Municipality for post employment benefits for the year ended June 30, 2008. The disclosure of that information is required to conform to accounting principles generally accepted in the United States of America.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work has not been sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2009, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

The Budgetary Comparison Schedule- General Fund on page 40 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We were engaged to conduct an audit for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards, which is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, "Audits of States, Local Government and Non-profit Organizations", is not a required part of the basic financial statements. As described in the preceding paragraph of this report, we did not express an opinion on the basic financial statements. The schedule of expenditures of federal awards has not been subjected to the auditing procedures and, accordingly, we express no opinion on it.

San Juan, Puerto Rico
June 19, 2009



Stamp 2452522 was affixed
to the original.

Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 4,578,904
Receivables, net (note C):	
Sales and use tax	378,818
Construction excise tax	310,939
Other	4,486
Due from (note D):	
Commonwealth Government	300,672
Restricted assets:	
Cash in commercial banks	2,146,737
Cash with fiscal agents	1,457,753
Property taxes	122,586
Capital assets (note F):	
Land, improvements and construction in progress	1,134,094
Other capital assets, net of depreciation	27,871,790
Total capital assets	<u>29,005,884</u>
Total assets	<u>\$ 38,306,779</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 2,179,471
Interest payable	379,715
Due to:	
Commonwealth Government	274,421
Deferred revenues:	
Municipal license taxes (Note C)	2,331,591
Commonwealth Government	87,256
Other (Note H)	46,648
Long-term liabilities (note I):	
Due within one year	1,419,000
Due in more than one year	17,668,751
Total liabilities	<u>24,386,853</u>
NET ASSETS	
Invested in capital assets, net of related debt	17,235,884
Restricted for:	
Capital projects	5,664,882
Debt service	314,624
Other purposes	732,195
Unrestricted (deficit)	<u>(10,027,659)</u>
Total net assets	<u>\$ 13,919,926</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 9,249,932	\$ -	\$ -	\$ -	\$ (9,249,932)
Public Housing and Welfare	3,773,236	-	792,716	505,000	\$ (2,475,520)
Public safety	765,153	20,590	79,223	-	\$ (665,340)
Health	1,003,561	-	-	-	\$ (1,003,561)
Urban, economic and community development	888,261	-	742,047	-	\$ (146,214)
Depreciation	311,095	-	-	-	\$ (311,095)
Interest on long-term debt	379,715	-	-	-	\$ (379,715)
Total	\$ 16,370,953	\$ 20,590	\$ 1,613,986	\$ 505,000	(14,231,377)

General revenues:

Taxes:

Property taxes	5,569,078
Municipal license taxes	5,100
Sales and use taxes	1,388,165
Grants and contributions not restricted to specific programs	5,436,631
Interest	22,138
Other	3,462,745

Total general revenues

15,883,857

Change in net assets

1,652,480

Net assets-beginning

12,267,446

Net assets-ending

\$ 13,919,926

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Major Funds</u>					
	<u>General</u>	<u>Capital Projects - State and Local Grants</u>	<u>Debt Service</u>	<u>Joint Resolutions Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 407,105	\$ 3,585,151	\$ -	\$ -	\$ 586,648	\$ 4,578,904
Receivables, net (note C):						
Sales and other taxes	378,818	-	-		-	378,818
Construction excise taxes	310,939	-	-		-	310,939
Other	4,200	-	286		-	4,486
Due from:						
Commonwealth Government (note D)	-	90,186	122,586		-	212,772
Federal Government (note D)	-	-	-		210,486	210,486
Other funds (note E)	220,398	-	-		-	220,398
Restricted assets:						
Cash and cash equivalents			-	2,146,737		2,146,737
Cash with fiscal agents			1,457,753			1,457,753
Total assets	<u>\$ 1,321,460</u>	<u>\$ 3,675,337</u>	<u>\$ 1,580,625</u>	<u>\$ 2,146,737</u>	<u>\$ 797,134</u>	<u>\$ 9,521,293</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,231,072	\$ 62,399	\$ -	\$ -	\$ -	1,293,471
Matured bonds and interest payable	-	-	1,265,715		-	1,265,715
Due to:						
Commonwealth Government	274,421	-	-		-	274,421
Other funds (Note E)	-	7,537	286		212,575	220,398
Deferred revenues (notes C and G):						
Municipal license taxes	2,331,591	-	-		-	2,331,591
Intergovernmental-Commonwealth Government	-	87,256	-		-	87,256
Federal grants	-	-	-		46,648	46,648
Total liabilities	<u>3,837,084</u>	<u>157,192</u>	<u>1,266,001</u>	<u>-</u>	<u>259,223</u>	<u>5,519,500</u>
Fund balances (deficit):						
Reserved for:						
Encumbrances	1,146,658	-	-		-	1,146,658
Debt service	-	-	314,624		-	314,624
Capital projects	-	3,518,145		2,146,737		5,664,882
Other specified purposes	194,284	-	-		537,911	732,195
Unreserved	(3,856,566)	0	0		0	(3,856,566)
Total fund balances (deficit)	<u>(2,515,624)</u>	<u>3,518,145</u>	<u>314,624</u>	<u>2,146,737</u>	<u>537,911</u>	<u>4,001,793</u>
Total liabilities and fund balances	<u>\$ 1,321,460</u>	<u>\$ 3,675,337</u>	<u>\$ 1,580,625</u>	<u>\$ 2,146,737</u>	<u>\$ 797,134</u>	<u>\$ 9,521,293</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances:	\$ 4,001,793
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	29,005,884
Accrual basis of accounting accounts receivable recognized in government - wide financial statements	
Liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(19,087,751)</u>
Net assets of governmental activities:	<u>\$ 13,919,926</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Major Funds					Total Governmental Funds
	General	Capital Projects State and Local Grants	Debt Service	Joint Resolutions Funds	Other Governmental Funds	
Revenues:						
Taxes:						
Property taxes (note J)	\$ 3,994,502	\$ -	\$ 1,574,576	-	-	\$ 5,569,078
Municipal license taxes (note C)	5,100	-	-	-	-	5,100
Sales and use taxes (note C)	1,388,165	-	-	-	-	1,388,165
Intergovernmental:						
Commonwealth government (note K)	5,436,631	-	-	-	-	5,436,631
Federal government	-	505,000	-	-	1,613,986	2,118,986
Fees, fines and charges for services	20,590	-	-	-	-	20,590
Interest	-	-	22,138	-	-	22,138
Other	3,543,568	-	-	-	-	3,543,568
Total Revenues	14,388,556	505,000	1,596,714	-	1,613,986	18,104,256
Expenditures						
Current:						
General government	9,238,477	11,455	-	-	-	9,249,932
Public Housing and welfare	888,261	-	-	-	1,440,898	2,329,159
Public safety	765,153	-	-	-	-	765,153
Health	1,003,561	-	-	-	-	1,003,561
Urban, economic and community development	2,332,338	-	-	-	-	2,332,338
Debt service:						
Principal	-	-	886,000	-	-	886,000
Interest	-	-	379,715	-	-	379,715
Capital outlays	-	923,791	-	-	-	923,791
Total expenditures	14,227,790	935,246	1,265,715	-	1,440,898	17,869,649
Excess (deficiency) of revenues over expenditures	160,766	(430,246)	330,999	-	173,088	234,607
Other financing sources (uses):						
Proceed from Notes	-	2,245,000	-	-	-	2,245,000
Transfers in from other funds	-	-	-	-	46,660	46,660
Transfers out from other funds	-	(435,518)	(16,375)	-	(111,108)	(563,001)
Total other financing sources (uses)	-	1,809,482	(16,375)	-	(64,448)	1,728,659
Net change in fund balances	160,766	1,379,236	314,624	0	108,640	1,963,266
Fund balances (deficit) at beginning of year, as restated (note L)	(2,676,390)	2,138,909	-	2,146,737	429,271	2,038,527
Fund balances (deficit) at end of year	\$ (2,515,624)	\$ 3,518,145	\$ 314,624	\$ 2,146,737	\$ 537,911	\$ 4,001,793

The accompanying notes are an integral part of this statement.

CAS
8/6/09

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances-total governmental funds:	<u>\$ 1,963,266</u>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Expenditures for capital assets	923,791
Less: current year depreciation	<u>(311,095)</u>
	<u>612,696</u>
Proceeds from long-term Retirement System Administration debt notes payable are not a financing source in the governmental funds, but an increase in long-term liabilities in the Statement of Net Assets	<u>(923,482)</u>
Change in net assets of governmental activities:	<u><u>\$ 1,652,480</u></u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Organization

The Municipality of Las Piedras was founded in 1801. The Municipality is governed by the executive and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

In late 2008, during the audit performance period, there was a change in the Municipality's management. Accordingly, key accounting and management personnel resigned and the continuity of the financial reporting process was disrupted.

Summary of significant accounting policies

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Las Piedras (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1. The primary government can impose its will on the potential component unit and/or,
 - 2. A financial benefit/ burden exists between the primary government and the potential component unit.

In addition, a legally separate tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. 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.
- b. 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.
- c. 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 the primary government.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. Basis of presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of a Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Basic financial statements

The basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued**

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focuses on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued**

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Community Development Block Grant Fund).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

The Municipality reports the following major governmental funds:

General Fund The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects - State and Local Grants This fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Joint Resolutions Funds This fund accounts for revenue sources from grants provided by the Commonwealth Legislature for specific purposes which includes, among others, acquisition, development and improvement of capital assets.

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

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based (expenditure-driven) grants for which the availability period is 90 days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents

Cash and cash equivalents consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property tax and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of the current fiscal year collected by the CRIM on the first month (July) of the subsequent fiscal year.

5. *Interfund receivables and payables*

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

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

7. *Capital assets*

Capital assets of the primary government, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Municipality defines capital assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Buildings and building improvements	40
Infrastructure	40
Works of art	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3-5

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

8. *Long-term obligations*

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

10. *Fund balances and Net Assets*

a: Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represent net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.
Other specified purposes:	Represent amounts to be used for future expenditures of Federal and Commonwealth's grants to be used to finance activities other than construction or capital improvement commitments.

b. Net assets:

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

Invested in capital assets, net of related debt:	Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. *Interfund transactions*

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

12. *Risk financing*

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2008 amounted to \$163,267. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$160,464 for workers compensation insurance covering all municipal employees.

13. *Use of estimates*

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

Statement	To be Adopted in Fiscal year ended,
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
49 Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010
52 Land and other Real Estate Held as Investments by Endowments	June 30, 2009
53 Accounting and Financial Reporting for Derivative Instruments	June 30, 2010

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under the Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At fiscal year-end the Municipality's bank balance in commercial banks amounts to \$1,131,332.

Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At fiscal year-end the Municipality's bank balance in governmental banks amounts to \$5,076,886.

NOTE C - RECEIVABLES

1. *Municipal License Taxes*

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2008 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE C - RECEIVABLES – Continued

Municipal license taxes receivable and corresponding deferred revenues as of June 30, 2008 follows:

	Municipal License Tax receivable	Deferred Revenue
Prior years receivable balance	\$ -	\$ -
Taxes collected in advance as of June 30	-	2,331,591
Taxes receivables on tax returns filed but not collected as of June 30	273,155	
Less: allowance for uncollectible	- \$	
	\$ 273,155	\$ 2,331,591

As required by current standards, the Municipality recognizes assets related to municipal license taxes when cash is received or in the period when the exchange transaction on which the government imposes the tax occurs. Management understands that as of tax return filling date an enforceable legal claim arises against the provider of resources. Therefore, an asset (receivable) is recognized as of June 30 for the balance on tax returns filed but not paid at that date.

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Resources are intended to finance the operations of the applicable fiscal year. At this moment the Municipality recognizes revenues on municipal license taxes. A discount of 5% is allowed when full payment is made on or before April 15. Since this time requirement, cash collected and the receivable balance on tax returns filed but not collected are recorded as deferred revenues as of June 30.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE C - RECEIVABLES – Continued

2. Sales and use tax

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax on July 31, 2006 with Ordinance No. 5-2006-2007, effective on October 1, 2006. Municipalities were authorized to implement municipal sales and use tax of 1% starting on July 1, 2006 and the Municipality has already done so, as approved by the Municipal Legislature. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due the 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are part of the general fund of the Municipality.

Municipal sales and use tax receivable of \$105,663 represents the tax collected in June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE C - RECEIVABLES – Continued

3. *Construction excise tax*

Construction excise tax receivable amounting to \$310,939 in the general fund represents a payment agreement formalized by the Municipality during the fiscal year 2007-08 and collected on August 23, 2008.

NOTE D - DUE FROM GOVERNMENTAL ENTITIES

- Intergovernmental receivables in the Capital Projects Fund - State and Local Grants represent expenditures incurred not yet reimbursed by the state government.

Commonwealth of Puerto Rico – Legislature	\$90,186 =====
---	-------------------

- Intergovernmental receivables in the Debt Service Fund represents property tax receivable at June 30, 2008 due from the Municipal Revenue Collection Center (CRIM).

\$122,586 =====

- Intergovernmental receivables in the Other Governmental Funds represent expenditures incurred not yet reimbursed by the state and federal governments, or the pass-through grantor. Following is a detail of the intergovernmental receivables:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D DUE FROM GOVERNMENTAL ENTITIES - CONTINUED

<u>Program Description</u>	<u>Amount</u>
Commonwealth of Puerto Rico – Department of Labor and Human Resources	\$ 40 493
Community Development Block Grant – State’s Program	132 906
ADT - Consorcio	36 802
Others	<u>285</u>
	<u>210 486</u>
Grand total	<u>\$423 258</u> =====

NOTE E INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2008, and interfund transfers during the fiscal year ended at June 30, 2008, are summarized as follows:

Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Projects Fund - State and Local Grants	Reimbursable expenditures	\$ 7 537
General Fund	Debt Service Fund	Interest not transferred	286
General Fund	Other Governmental Funds	Reimbursable expenditures	<u>212 575</u>
Total			<u>\$ 220 398</u> =====

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2008 is as follows:

Governmental Activities	Balance July 1, 2007	(1) Additions	(1) Retirements	Balance June 30, 2008
Capital asset, not being depreciated: Land	<u>\$2,609,092</u>	\$	\$	<u>\$ 1,134,094</u>
Capital assets, being depreciated:				
Buildings improvements	3,335,340			8,030,696
Land improvements				12,399,078
Infrastructure	2,876,168			12,173,374
Equipment	<u>7,042,443</u>			<u>7,501,499</u>
Total capital assets being depreciated	<u>13,253,951</u>			<u>40,104,647</u>
Less accumulated depreciation for:				
Building				(1,862,793)
Land improvements				(2,830,902)
Infrastructure				(5,589,847)
Equipment	<u>(6,240,440)</u>			(1,949,315)
Total accumulated depreciation	<u>(6,240,440)</u>			<u>(12,232,857)</u>
Total capital assets being depreciated, net	<u>7,013,511</u>			<u>27,871,790</u>
Governmental activities capital assets, net	<u>\$9,622,603</u>	=====		<u>\$29,005,884</u>

(1) Detail of activity during the year is not available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F CAPITAL ASSETS - CONTINUED

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

Governmental activities:	Amount
General Government	\$ 70,664
Public safety	82,079
Public works	67,073
Health and welfare	40,932
Culture and recreation	39,795
Economic development	626
Community development	1,571
Urban development	3,753
Education	<u>4,601</u>
Total depreciation expense - governmental activities	<u>\$311,094</u>

NOTE G ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008 are summarized as follows:

Description	General Fund	Capital Projects Fund- State and Local Grants	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	\$1,231,072	\$62,399	\$ -	\$ -	\$1,293,471
Accrued liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,231,072</u>	<u>\$62,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,293,471</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H – DEFERRED REVENUES

Deferred revenues represent revenues not available as required by current standards or resources received before allowable expenditures are incurred. A detail of these balances as recorded in the fund statements follows:

<u>Program Description</u>	<u>Amount</u>
Child Care and Development Block Grant	\$ 13 305
Insec I and II	32
Housing Opportunities for Persons with Aids	19 457
Summer 2002	3 005
Title V - Delinquency Prevention Program	9 001
Department of Justice Proposal	5
Community Service Block Grant	<u>1 843</u>
Total	<u><u>\$ 46 648</u></u>

NOTE I - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2008, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions and Adjustments</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 12 120 000	\$ -	\$ 745 000	\$11 375 000	\$ 700 000
Notes payable	520 000	2 650 000	125 000	3 045 000	140 000
Municipal Revenue Collection Center - LIMS Repayment Plan	420 978		84 195	336 783	85 000
Advance Property Tax	1 470 612		174 910	1 295 702	175 000
Retirement System Administration	203 160	-	-	203 160	82 000
Compensated Absences	1 577 714	386 681	162 025	1 802 370	162 000
Claims and judgments	<u>1 043 729</u>	<u>-</u>	<u>13 993</u>	<u>1 029 736</u>	<u>75 000</u>
	<u><u>\$17 356 193</u></u>	<u><u>\$3 036 681</u></u>	<u><u>\$1 305 123</u></u>	<u><u>\$19 087 751</u></u>	<u><u>\$1 419 000</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I - LONG-TERM DEBT - CONTINUED

1. **Legal debt margin** - The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

2. **Bonds payable** - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities, and to pay debt incurred in prior years. Bonds payable outstanding at June 30, 2008 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2008</u>
1994 Series	7-1-2008	\$1 045 000	6.10% to 7.60%	\$ 115 000
1996 Series	7-1-2014	5 025 000	4.70% to 8.00%	2 775 000
1999 Series	7-1-2023	3 040 000	2.70% to 7.81%	2 470 000
2001 Series	7-1-2025	490 000	2.70% to 5.60%	430 000
2002 Series	7-1-2027	765 000	5.00% to 7.25%	700 000
2002 Series	7-1-2027	810 000	4.17% to 5.31%	735 000
2003 Series	7-1-2028	1 030 000	2.36% to 5.31%	950 000
2004 Series	7-1-2013	780 000	5.00% to 6.00%	525 000
2005 Series	7-1-2018	830 000	3.27% to 7.25%	700 000
2006 Series	7-1-2030	930 000	6.25% to 7.25%	900 000
2006 Series	7-1-2017	1 220 000	6.25% to 7.25%	<u>1 075 000</u>
Total general obligation bonds				<u><u>\$11 375 000</u></u>

These bonds are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE I - LONG-TERM DEBT - CONTINUED

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 815 000	\$ 576 538
2010	740 000	581 799
2011	790 000	537 503
2012	850 000	489 755
2013	915 000	438 356
2014 - 2018	3 455 000	1 452 748
2019 - 2023	2 065 000	784 411
2024-2028	1 470 000	268 738
2029-2033	<u>275 000</u>	<u>21 706</u>
Total	<u>\$11 375 000</u>	<u>\$5 151 554</u>

3. **Notes Payable** - The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years, to cover the expenditures of special events and acquisition of new equipment. The notes are payable as follows:

<u>Type of Notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2008</u>
<u>Special:</u>				
2001 Series	7-1-2008	\$ 325 000	2.70% to 5.00%	\$ 55 000
2002 Series	7-1-2008	150 000	4.17% to 5.00%	30 000
2005 Series	7-1-2012	410 000	4.73% to 5.33%	310 000
2007 Series	7-1-2014	405 000	3.93% to 7.50%	405 000
2008 Series	7-1-2032	2 245 000	3.93% to 7.50%	<u>2 245 000</u>
Total notes payable				<u>\$3 045 000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I - LONG-TERM DEBT - CONTINUED

The notes are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 140 000	\$ 103 376
2010	135 000	206 264
2011	145 000	197 601
2012	160 000	187 999
2013	165 000	177 717
2014-2018	470 000	758 997
2019-2023	400 000	614 998
2024-2028	580 000	431 624
2029-2033	<u>850 000</u>	<u>168 371</u>
Total	<u>\$ 3 045 000</u>	<u>\$2 846 947</u>

- 4, **Municipal Revenue Collection Center - LIMS Repayment Plan** - During the fiscal year 2001-2002 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System - LIMS, contracted by the CRIM. A total of \$805,315 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2008 the outstanding debt balance is \$336,783. This amount will be presented in the government-wide Statement of Net Assets.
5. **Property Tax Debt** - These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2008 as described in Note J.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I - LONG-TERM DEBT - CONTINUED

6. **Retirement System Administration** - This amount represents an outstanding balance at June 30, 2008 of payment agreement with the Retirement System Administration, related to special laws from prior years.
7. **Compensated Absences** - The government-wide Statement of Net Assets includes \$854,547 of accrued sick leave benefits and \$947,823 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Claims and judgments** - These amounts represent the balance related to legal claims at June 30, 2008, as described in Note P .

NOTE J - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2008 are 6.83% for personal property and 8.83% for real property. The distribution of these rates follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J - PROPERTY TAXES - CONTINUED

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund	<u>2.00%</u>	<u>2.00%</u>
Total tax rate	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department	(.02%)	(.20%)
Total percent to be paid by taxpayers	<u>6.83%</u>	<u>8.83%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE K - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

Amount of municipal equalization fund sent by CRIM	
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	detail not available
P.R. Department of Labor – Law No. 52	
P.R. Department of Labor – Law No. 82	
Reimbursement from P.R. Department of Treasury - Christmas Bonus reimbursement	
Amount of lottery and subsidy sent by CRIM	
Other intergovernmental revenues	
Total	<u>\$ 5,436,631</u>

NOTE L - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of 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 plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L - RETIREMENT PLAN - CONTINUED

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L - RETIREMENT PLAN - CONTINUED

The Municipality's actual contribution for the current fiscal year, which is equal to the required contribution, follows:

Fiscal year ended:	Law No.	System 2000
2008	447	
	<u>\$245 469</u>	<u>\$121 389</u>

NOTE M - POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note L, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines, bonus, Christmas bonus and death benefits. These benefits are recorded as expenditures when paid in the general fund.

NOTE N - COMMITMENTS

Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Management believes that the summary of the future minimum rental commitments under noncancelable operating leases with terms exceeding one year is not significant.

NOTE P - CONTINGENCIES

1. *Federal and Commonwealth grants*

Projects financed by Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE P CONTINGENCIES - CONTINUED

2. *Litigations*

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

With respect to pending and threatened litigations, the Municipality has reported liabilities of \$1,029,746 in the government-wide financial statements for awarded and anticipated unfavorable judgments. Of this amount, the Municipality expects to pay \$75,000 in the next fiscal year.

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

NOTE Q – SUBSEQUENT EVENT

1. *Sales and use tax implementation*

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amounts collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted amounts		Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
Revenues (resources):				
Property taxes	\$ 3,630,093	\$ 3,630,093	\$ 3,994,502	\$ 364,409
Municipal license taxes	4,200,000	4,200,000	5,100	(4,194,900)
Sales and construction excise taxes	1,203,000	1,203,000	1,388,165	185,165
Intergovernmental grants	3,801,921	3,801,921	4,025,777	223,856
Fines and penalties	15,100	15,100	11,466	(3,634)
Public debt redemption fund			1,410,854	1,410,854
Miscellaneous	491,099	491,099	3,552,692	3,061,593
Total revenues	13,341,213	13,341,213	14,388,556	1,047,343
Expenditures (appropriations):				
General government	8,257,616	7,966,064	7,694,580	271,484
Urban and economic development	2,789,384	3,084,697	4,031,997	(947,300)
Public safety	897,384	720,308	789,311	(69,003)
Health and sanitation	774,405	767,561	1,007,975	(240,414)
Public housing and welfare	622,424	802,583	880,461	(77,878)
Total expenditures	13,341,213	13,341,213	14,404,324	(1,063,111)
Excess (deficiency) of revenues over expenditures	-	-	\$ (15,768)	\$ (15,768)

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

June 30, 2008

NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

June 30, 2008

NOTE C - BUDGET TO GAAP RECONCILIATION - Continued

Excess (deficiency) of revenues over expenditures (budgetary basis):	<u>\$ (15,768)</u>
Budget to GAAP differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	1,146,658
Prior year encumbrances recorded as expenditures for financial reporting purposes	<u>(970,124)</u>
Basis of budgetary accounting differences - net change	<u>176,534</u>
Excess of revenues over expenditures - GAAP basis (general fund)	<u><u>\$ 160,766</u></u>

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - States's Program	14.228	FD - 30 AF - 30 AB - 30 CD - 30	\$ 792,716
Passed through the PR Department of Health Housing Opportunities for Persons with AIDS (HDPWA)	14.241		27,201
Section 8 Housing Choice Vouchers Program	14.871	N/A	<u>514,378</u>
			<u>\$ 1,334,295</u>
 Total Expenditures of Federal Awards			

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C – PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED
IN THE BASIC FINANCIAL STATEMENTS

<u>Description</u>		
HDPWA	14.241	\$ 27,201
CDBG	14.228	792,716
SECTION 8	14.871	<u>514,378</u>
Total federal awards expenditures		1,334,295
Total nonfederal awards expenditures		<u>106,603</u>
Total expenditures, fund statements		<u><u>\$ 1,440,898</u></u>

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

P.O. Box 364831
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Las Piedras
Las Piedras, Puerto Rico

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Las Piedras (the Municipality) as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated June 19, 2009. We did not express an opinion on the financial statements because we were unable to satisfy ourselves concerning the Municipality's compliance with the requirements of certain of its federal grants. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs Section II as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Section II as items 08-01 and 08-02.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
June 19, 2009

A handwritten signature in black ink, appearing to read "C. J. ...", with a stylized flourish at the end.

Stamp 2452523 was
affixed to the original.

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

P.O. Box 364831
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Las Piedras
Las Piedras, Puerto Rico

Compliance

We have audited the compliance of Municipality of Las Piedras (the Municipality) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

We were unable to obtain written representations from the Municipality's management with respect to federal award programs that were under a different management during the year under audit, as required by generally accepted auditing standards.

As described in Section III in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with a requirement regarding Special Tests and Provisions: Housing Quality Standard Enforcement (item 08-03). Compliance with such requirement is necessary, in our opinion, for the Municipality to comply with requirements applicable to the Section 8 Program.

In our opinion, except for the effects if any, as might have been determined had the written representations referred to above been furnished to us by management and for the noncompliance described in the preceding paragraph, the Municipality of Las Piedras complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
June 19, 2009



Stamp 2452524 was affixed
to the original.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Audit Results

Year ended June 30, 2008

I. Summary of audit results:

Part I - Financial Statements

1. Type of audit report: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Significant deficiencies Yes No
3. Significant deficiencies reported as material weaknesses Yes None reported
4. Material noncompliance disclosed: Yes No

Part II - Federal Awards

1. Significant deficiencies Yes No
2. Significant deficiencies reported as material weaknesses Yes None reported
3. Type of report on compliance on major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A-133: Yes No

5. Major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block State's Program
14.871	Section 8 Housing Choice Vouchers

6. Dollar threshold used to distinguish Type A and Type B programs: \$300,000
7. Low-risk auditee: Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding Reference	08-01
Requirement	Fixed/Capital Assets and Expenditures - Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991, states that the Municipality should maintain updated property accounting records. Also, GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets be depreciated during its useful life.
Cause	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect	The Municipality's Government Wide Financial statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
Questioned costs	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding Reference	08-02
Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds).
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.
Cause	The Municipality did not establish 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.
Effect	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to make management decisions.
Recommendation	We recommend that the Municipality 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.
Questioned costs	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Section III - Federal Awards Findings

Finding Reference: 08-03

Agency : U.S. Department of Housing and Urban Development

Award : Section 8 Housing Choice Vouchers

CFDA
Number : 14.871

Compliance
Requirement : Non-compliance-Special test and provisions - Housing Quality Standard
Enforcement (HQS)

Condition : In testing the Housing Quality Standards Enforcement procedures for failed
HQS inspections we found the PHA does not maintain complete an accurate
record for HWS Enforcement.

Criteria : 24 CFR Subpart I 982.404 (a) (2) (3) and (b) (2) (3) requires the following:

(a) Owner obligation. (1) The owner must maintain the unit in accordance
with Hqs.

(2) If the owner fails to maintain the dwelling unit in accordance with HQS,
the PHA must take prompt and vigorous action to enforce the owner
obligations. PHA remedies for such breach of the HQS include termination,
suspension or reduction of housing assistance payments and termination of
the HAP contract.

(Continues)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

**Section III - Federal Awards Findings
(Continued)**

Finding Reference: 08-03

(3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

(b) Family obligation. (1) The family is responsible for a breach of the HQS that is caused by any of the following:

(2) If an HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

(3) If the family has caused a breach of the HQS, the PHA must take prompt and vigorous action to enforce the family obligations. The PHA may terminate assistance for the family in accordance with Sec. 982.552.

Cause : The Municipality's officers in charge of the program do not perform effective monitoring review procedures for compliance regarding HQS enforcement inspection processes.

Effect: The Municipality may be paying HAP payments for housing units that do not meet program requirements and that could affect the quality of life of participants also it has an effect in the reporting of performance on the SEMAP report.

Recommendation: The Municipality should emphasize and perform timely inspections to ascertain that prompt corrective actions surrounding the owner and tenant obligations meet HQS requirements. The PHA Municipality's officers should review the inspection reports to ensure that required procedures are documented. If the owner and tenant do not comply with federal requirements, the Municipality has the obligation take adequate action with the HAP contract in accordance with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2008**

Original Finding Number	CFDA No.	Current Status or Prior Year Audit Federal Award Findings - Part III Findings (as required by OMB Circular A-133)
06-03	14.228	<p>For the construction projects OO-FD-39-002, 03-AB-39-001, 04-AB-39-002 and 05-FC-39-002 the Municipality did not perform monitoring procedures for the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates.</p> <p>No corrective action has been taken.</p>
06-04	14.228	<p>The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.</p> <p>No corrective action has been taken.</p>
05-03	14.228	<p>For the construction projects 00-FD-39-001 and 00-FD-39-002 the Municipality did not realize monitoring procedures for the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates.</p> <p>No corrective action has been taken.</p>
05-04	14.228	<p>The Municipality has not maintained a complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.</p> <p>No corrective action has been taken.</p>