

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

**MUNICIPIO DE LAS PIEDRAS
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009**

SECRETARIA DE COMISIONADO
DE ASUNTOS MUNICIPALES

10 MAR 31 AM 11:43

RECIBIDO
UNIDAD DE SERVICIO

10/23/2009

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

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

YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

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

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-16
Government-Wide Financial Statements:	
Statement of Net Assets	17-18
Statement of Activities	19
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Statement of Balance Sheet to the Statement of Net Assets	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23
Notes to Basic Financial Statements	24-70
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	71
Notes to Budgetary Comparison Schedule-General Fund	72-74
Schedule of expenditures of federal awards	75
Notes to the schedule of expenditures of federal awards	76

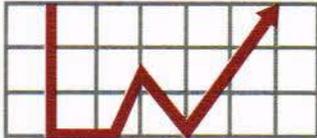
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

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

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report on internal control over financial reporting and on compliance and Other matters based on an audit of financial statements performed in Accordance with <i>Government Auditing Standards</i>	77-78
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	79-81
<u>FINDING AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	82-92
Summary schedule of prior year audit findings	93-94



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Las Piedras, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in **Note 6** to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported value 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 reasonably determinable.

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Las Piedras, Puerto Rico**, as of June 30, 2009, and the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Las Piedras, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages **3** through **16** and the Budgetary Comparison Schedule-General Fund on page **71** are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Las Piedras's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 20, 2009

Stamp No. 2407035 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



²
Lopez-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

As management of the **Municipality of Las Piedras** (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets amounted to \$43,797,361 at June 30, 2009, of which \$32,394,453 consists of capital assets (net of accumulated depreciation and amortization of \$12,593,283), \$6,653,448 consist of cash (of which \$6,142,957 are restricted for specific purposes), and \$4,749,460 consist of accounts receivable, net of the reserve for doubtful accounts.
- The Municipality's liabilities amounted to \$26,598,808 at June 30, 2009, of which \$13,465,000 consist of bonds and notes payable, \$7,620,515 consist of accounts payable and accrued liabilities, \$1,428,324 consist of accrued compensated absences, and \$954,736 consist of claims and judgments.
- The Municipality's assets exceeded its liabilities (net assets/surplus) by \$17,198,553 at June 30, 2009.
- The Municipality's revenues amounted to \$18,485,885 for the fiscal year ended June 30, 2009, of which \$10,862,413 arose from taxes, \$7,469,632 arose from intergovernmental grants and contributions, \$74,078 arose from miscellaneous revenue streams and \$79,762 arose from charges from services and miscellaneous revenues.
- The Municipality's expenses amounted to \$16,074,996 for the fiscal year ended June 30, 2009, of which \$7,511,018 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education. In addition, the Municipality incurred \$645,264 of its total expenses, in interests related to its long-term obligations, and \$7,918,714 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of \$360,426, for the fiscal year ended June 30, 2009.
- The Municipality's net assets increased by \$2,410,889 during the fiscal year ended June 30, 2009.

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

Governmental Funds' Highlights:

- The total fund balance of governmental funds amounted to \$856,733 at June 30, 2009, of which \$5,884,337 is reserved for capital projects, debt service, encumbrances, and long-term receivables, while \$(5,027,604) represents an unrestricted deficit.
- The total fund balances of governmental funds decreased by \$3,057,797 during the fiscal year ended June 30, 2009.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

a) *Government-wide Financial Statements*

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2009. The GWFS are prepared using methods that are similar to those used by most private businesses.

1. Statement of Net Assets

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

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

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2009, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

b) Governmental Fund Financial Statements

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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

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

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

c) Notes to Basic Financial Statements

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

d) Other Supplementary Information

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

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

**Condensed Statement of Net Assets
Governmental Activities
June 30, 2009 and 2008**

	2009	2008
<i>Assets:</i>		
Current assets	\$ 11,402,908	\$ 9,300,895
Noncurrent assets:		
Capital assets, net of accumulated depreciation	32,394,453	29,005,884
Total assets	\$ 43,797,361	\$ 38,306,779
<i>Liabilities:</i>		
Current liabilities	\$ 9,378,263	\$ 5,299,102
Long-term obligations due within one year	1,135,000	1,419,000
Long-term obligations due after one year	16,085,545	17,668,751
Total liabilities	\$ 26,598,808	\$ 24,386,853
<i>Net assets (deficit):</i>		
Invested in capital assets, net of debt	\$ 22,658,420	\$ 17,235,884
Restricted	4,349,018	6,711,700
Unrestricted	(9,808,885)	(10,027,658)
Total net assets	\$ 17,198,553	\$ 13,919,926

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the Municipality's current assets, amounting to \$11,402,908, are mainly composed of cash (\$6,653,448), and accounts receivable (\$4,749,460), net of reserve for doubtful accounts.

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

The Municipality's non-current assets, amounting to \$32,394,453 at June 30, 2009, are composed of capital assets, with a cost basis of \$44,987,736, which are reported net of accumulated depreciation and amortization of \$12,593,283.

At June 30, 2009, the Municipality's current liabilities amounting to \$10,513,263 are mainly composed of accounts payable and accrued liabilities (\$6,248,030), and unearned revenues (\$3,130,233), and the portions due within one year (\$1,135,000) of bonds and notes payable. Unearned revenues principally consist of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$16,085,545 at June 30, 2009, are mainly composed of portions due after one year of bonds and notes payable (\$13,702,485), compensated absences (\$1,428,324) and claims and judgments (\$954,736).

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$17,198,553 at June 30, 2009. The most significant portion of net assets (\$22,658,420) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets (\$4,349,018) at June 30, 2009, represents resources that are restricted for debt service payments, capital projects and other purposes.

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The remaining component of total net assets consists of unrestricted net liabilities amounting to \$9,808,885 at June 30, 2009. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality increased by \$2,410,889 for the fiscal year ended June 30, 2009.

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

Condensed Statement of Activities		
Governmental Activities		
Fiscal Years Ended June 30, 2009 and 2008		
	2009	2008
Program revenues:		
Program-specific operating grants and contributions	\$ 2,348,631	\$ 1,613,986
Program-specific capital grants and contributions	1,864,531	505,000
Charges for services	79,762	20,590
Total program revenues	4,292,924	2,139,576
General revenues:		
Property taxes	5,571,894	5,569,078
Municipal license taxes	3,242,997	5,100
Construction excise taxes	963,176	
Sales and use tax	1,084,346	1,388,165
Unrestricted grants and contributions	3,256,470	5,436,631
Other general revenues (various sources)	74,078	3,484,883
Total general revenues	14,192,961	15,883,857
Total revenues	18,485,885	18,023,433
Program expenses:		
General government	7,918,714	9,561,027
Urban and economic development	3,815,568	888,261
Health and sanitation	1,046,681	1,003,561
Public safety	836,472	765,153
Public housing and welfare	1,516,062	3,773,236
Culture, recreation and education	296,235	-
Interest on long-term obligations	645,264	379,714
Total expenses	16,074,996	16,370,952
Net increase in net assets	2,410,889	1,652,481
Net assets, at beginning of fiscal year	13,919,926	12,267,445
Prior-period adjustments	867,738	
Net assets, at beginning of fiscal year, as restated	14,787,664	12,267,445
Net assets, at end of fiscal year	\$ 17,198,553	\$ 13,919,926

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

As previously mentioned, the Municipality's net assets increased by \$2,410,889 during the current fiscal year. Approximately 59% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes (\$10,862,413). Grants, contributions and charges for services (program revenues), amounting to \$7,549,394, provided 40% of the total revenues for the current fiscal year. Miscellaneous revenues provided the remaining 1% of total revenues.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2009 were related to: (1) general administrating and operating costs (\$7,918,714), which were classified as "general government", (2) public housing and welfare (\$1,516,062), (3) health and sanitation (\$1,046,681), (4) urban and economic development (\$3,815,568), (5) public safety (\$836,472), (6) culture, recreation and education (\$296,235), and (7) interest on long-term obligations (\$645,264). These expenses include depreciation and amortization of capital assets and deferred charges in the amounts of \$360,426 for the fiscal year ended June 30, 2009.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

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

At June 30, 2009, the total assets of governmental funds amounted to \$11,595,562, which consisted principally of: (1) cash of \$6,653,448 (2) accounts receivable, \$4,749,460, net of reserve for doubtful accounts, and (3) inter-fund receivables of \$192,654. Such assets are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2009, the total liabilities of governmental funds amounted to \$10,738,829, which consisted principally of: (1) accounts payable and accrued liabilities of \$6,248,030, (2) deferred revenues of \$3,423,145, (3) inter-fund payables (\$192,654) and (4) matured bonds due and payable of \$875,000.

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (CONTINUED)

The fund balances of governmental funds decreased by \$2,977,797 during the fiscal year ended June 30, 2009.

**Condensed Balance Sheet - Governmental Funds
June 30, 2009 and 2008**

	2009	2008
Assets:		
Total assets - major governmental funds	\$10,798,896	\$ 8,724,159
Total assets - other governmental funds	796,666	797,134
Combined total assets	\$ 11,595,562	\$ 9,521,293
Liabilities:		
Total liabilities - major governmental funds	\$10,441,275	\$ 5,260,277
Total liabilities - other governmental funds	297,554	259,223
Combined total liabilities	10,738,829	5,519,500
Fund balances:		
Reserved - major governmental funds	5,385,225	7,320,448
Reserved - other governmental funds	499,112	537,911
Unreserved - all governmental funds	(5,027,604)	(3,856,566)
Combined total fund balances	856,733	4,001,793
Total liabilities and fund balances	\$11,595,562	\$ 9,521,293

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$4,643,789 at June 30, 2009. Such assets consist principally of: (1) cash and cash equivalents (\$518,464), (2) property tax, municipal license tax, construction excise tax, sales and use tax, and intergovernmental grants and contributions receivable (\$3,932,671), and (3) short-term and long-term amounts due from other funds (\$192,654).

The GF's total liabilities amounted to \$8,988,457 at June 30, 2009. Such liabilities are composed mainly of: (1) intergovernmental payables (\$2,618,255), (2) deferred revenues (\$3,049,806), and (3) accounts payable and accrued liabilities (\$3,320,396).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (CONTINUED)

At the end of the current fiscal year, unreserved fund deficit of the GF amounted to \$5,027,604, while total fund deficit amounted to \$4,344,668.

Debt service fund (DSF)- The DSF's total assets amounted to \$1,961,869 at June 30, 2009, which consist mainly of restricted cash in fiscal agent (\$1,613,047), restricted property taxes receivable, net of reserve for doubtful accounts (\$304,503), intergovernmental grants and contributions receivable and others (\$44,319). The DSF's total liabilities amounted to \$1,331,523 at June 30, 2009, which are mainly composed of: (1) matured bonds and interests due and payable (\$1,150,192) and deferred revenues (\$181,309).

Legislative joint resolutions fund (LRF) - The LRF's total restricted assets amounted to \$1,482,999 at June 30, 2009, which consist of cash in a commercial bank (\$1,178,274) and intergovernmental grants and contributions receivables (\$304,725). At the end of the current fiscal year, LRF's total fund balance is \$1,482,999.

Other governmental funds (OGF)- The OGF's total assets amounted to \$796,666 at June 30, 2009, which consist mainly of restricted cash and cash equivalents (\$667,463) and intergovernmental grants and contributions receivable (\$129,190). The OGF's total liabilities amounted to \$297,554 at June 30, 2009, which are mainly composed of deferred revenues (\$104,774), accounts payable and accrued liabilities (\$3,288) and short-term and long-term amounts due to other funds (\$189,492).

Capital projects funds (CPF) - The CPF's total assets amounted to \$2,710,239 at June 30, 2009, which consist mainly of cash and cash equivalents (\$2,676,200) and intergovernmental grants and contributions receivable (\$30,899). The CPF's total liabilities amounted to \$121,295 at June 30, 2009, which are composed of accounts payable and accrued liabilities \$30,899, due to other governmental funds (\$3,140) and of \$87,256 revenues that were unavailable at the end of fiscal year. At the end of the current fiscal year, CPF's total restricted fund balance reached \$2,588,944.

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

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (CONTINUED)

Analysis of Operating Results of Governmental Funds

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2009 and 2008**

	2009	2008
Revenues:		
Total revenues - major governmental funds	\$ 16,547,558	\$ 16,490,270
Total revenues - other governmental funds	1,645,416	1,613,986
Combined total revenues	18,192,974	18,104,256
Expenditures:		
Total expenditures - major governmental funds	19,641,671	16,428,751
Total expenditures - other governmental funds	1,609,100	1,440,898
Combined total expenditures	21,250,771	17,869,649
Deficiency of revenues under expenditures	(3,057,797)	234,607
Other financing sources, net:		
Other financing sources, net - major governmental funds	64,260	1,793,107
Other financing sources (uses), net - other governmental funds	(64,260)	(64,448)
Combined other financing sources (uses), net	-	1,728,659
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,057,797)	1,963,266
Fund balance, at beginning of fiscal year	4,001,792	2,038,526
Prior-period adjustments	(87,262)	-
Fund balance, at beginning of fiscal year (restated)	3,914,530	2,038,526
Fund balance, at end of fiscal year	\$ 856,733	\$ 4,001,792

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (CONTINUED)

Major Governmental Funds

General fund - The total fund balance of the GF decreased by \$1,829,044 during current fiscal year.

Approximately 73% (\$9,370,852) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes, while (\$3,256,471) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2009 were related to: (1) general administrating and operating costs (\$8,378,440), (2) construction, rehabilitation and preservation of new or existing housing, (\$2,080,318), which were classified as "urban and economic development, (3) health and sanitation (\$1,048,951), (4) public safety (\$838,742), (5) public housing and welfare (\$606,351), and (6) culture, recreation and education (\$298,505).

Debt service fund (DSF) - The total fund balance of the DSF increased by \$183,908 during current fiscal year. Approximately \$1,278,649 of DSF's total revenues for the current fiscal year came from restricted property taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,600,264).

Legislative joint resolutions fund (LJRF) - The total fund balance of the LJRF decreased by \$72,989 during current fiscal year. LJRF's total revenues for the current fiscal year came from state legislative assignments and contributions amounting to \$1,664,531. LJRF's total expenditures for the current fiscal year came principally from housing and urban development (\$1,737,520).

Capital projects funds (CPF) - The total fund balance of the CPF decreased by \$2,357,698 during current fiscal year. OGCPF's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to \$200,000. CPF's total expenditures for the current fiscal year were mainly related to capital outlays, (\$2,641,024).

Other governmental funds (OGF) - The total fund balance of the OGF decreased by \$64,260 during current fiscal year. Substantially all of OGSF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$1,644,847. Total expenditures were mainly related to capital outlays, (697,119), and public housing and welfare (\$911,981).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

MANAGEMENT DISCUSSION AND ANALYSIS-(CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$44,987,736 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$12,593,283 at June 30, 2009. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$3,388,569), which were partially offset by the depreciation and amortization expense.

b) Debt Administration

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

At June 30, 2009, the Municipality's total bonded debt amounted to \$13,465,000, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

REQUEST FOR INFORMATION

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

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Net Assets
June 30, 2009

Assets		Governmental Activities
Current assets:		
Cash in commercial banks		\$ 510,491
Accounts receivable, net of allowance for doubtful accounts:		
Taxes:		
Property taxes	\$ 309,751	
Municipal licence taxes	17,310	
Construction excise taxes	19,566	
Sales and use taxes	17,604	
Intergovernmental grants and contributions	3,864,437	
Total accounts receivable		4,228,668
Restricted assets:		
Cash in commercial banks	2,728,688	
Cash with fiscal agent	3,414,269	
Accrued interests on deposits	11,940	
Intergovernmental grants and contributions receivable	204,349	
Property taxes receivable, net of reserve for doubtful accounts	304,503	
Total restricted assets		6,663,749
Total current assets		11,402,908
Non-current assets:		
Capital assets, at cost:		
Depreciable capital assets	41,672,424	
Non-depreciable capital assets	3,315,312	
Total capital assets, at cost	44,987,736	
Less: accumulated depreciation and amortization	(12,593,283)	
Total capital assets, net of accumulated depreciation and amortization		32,394,453
Total non-current assets		32,394,453
Total assets		\$ 43,797,361

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

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Net Assets-Concluded
June 30, 2009

Liabilities and net assets		Governmental Activities
Current liabilities (due within one year):		
Accounts payable and accrued liabilities:		
Trade payables and accrued liabilities	\$ 3,354,583	
Intergovernmental payables	2,618,255	
Accrued interests on bonds and notes payable	275,192	
Total accounts payable and accrued liabilities		\$ 6,248,030
Unearned revenues		3,130,233
Current portion of long-term obligations:		
Bonds and notes payables	875,000	
Due to other governmental entities	260,000	
Total current portion of long-term obligations		1,135,000
Total current liabilities		10,513,263
Non-current liabilities, excluding current portion (due in more than one year):		
Bonds and notes payables	12,590,000	
Due to other governmental entities	1,112,485	
Compensated absences	1,428,324	
Claims and judgments	954,736	
Total non-current liabilities		16,085,545
Total liabilities		26,598,808
Net Assets (liabilities):		
Invested in capital assets, net of related debt		22,658,420
Restricted for:		
Debt service	1,686,655	
Capital projects	984,977	
Grants and contributions	1,677,386	
Total restricted net assets		4,349,018
Unrestricted (deficit)		(9,808,885)
Total net assets		\$ 17,198,553

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

**Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses, including depreciation and amortization	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Program- specific operating grants and contributions	Program- specific capital grants and contributions	Governmental Activities
Governmental Activities:					
General government	\$ 7,918,714	\$ 79,762	\$ -	\$ -	\$ (7,838,952)
Urban and economic development	3,815,568		404,622	1,864,531	(1,546,415)
Health and sanitation	1,046,681				(1,046,681)
Public safety	836,472				(836,472)
Public housing and welfare	1,516,062		1,724,847		208,785
Culture, recreation and education	296,235				(296,235)
Interest on long-term obligations	645,264		219,162		(426,102)
Total governmental activities	\$ 16,074,996	\$ 79,762	\$ 2,348,631	\$ 1,864,531	(11,782,072)
General revenues:					
Taxes:					
Property taxes					5,571,894
Municipal license taxes					3,242,997
Construction excise taxes					963,176
Sales and use taxes					1,084,346
Total tax revenues					10,862,413
Intergovernmental grants and contributions not restricted to specific programs					3,256,470
Miscellaneous					74,078
Total general revenues					14,192,961
Net increase in net assets					2,410,889
Net assets at beginning of fiscal year					13,919,926
Prior-period adjustments					867,738
Net assets at the beginning of fiscal year, as restated					14,787,664
Net assets at end of fiscal year					\$ 17,198,553

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

Commonwealth of Puerto Rico
Municipality of Las Piedras
Balance Sheet - Governmental Funds
Governmental Funds
June 30, 2009

	Major governmental funds					Total Governmental Funds
	General Fund	Capital Projects Fund	Legislative Joint Resolutions Fund	Debt Service Fund	Other Governmental Funds	
Assets						
Cash in commercial banks	\$ 510,491	\$ -	\$ -	\$ -	\$ -	\$ 510,491
Accounts receivable, net of reserve for doubtful accounts:						
Taxes:						
Property taxes	309,751					309,751
Municipal license taxes	17,310					17,310
Construction excise taxes	19,566					19,566
Sales and use taxes	17,604					17,604
Intergovernmental grants and contributions	3,559,712		304,725			3,864,437
Due from other governmental funds	192,654					192,654
Restricted assets:						
Cash in commercial banks		914,034	1,178,274		636,380	2,728,688
Cash with fiscal agent	7,973	1,762,166		1,613,047	31,083	3,414,269
Accrued interests on deposits	8,728	3,140		59	13	11,940
Intergovernmental grants and contributions receivable		30,899		44,260	129,190	204,349
Property taxes receivable, net of reserve for doubtful accounts				304,503		304,503
Total assets	<u>\$ 4,643,789</u>	<u>\$ 2,710,239</u>	<u>\$ 1,482,999</u>	<u>\$ 1,961,869</u>	<u>\$ 796,666</u>	<u>\$ 11,595,562</u>
Liabilities						
Accounts payable and accrued liabilities:						
Trade payables	3,320,396	30,899		275,192	3,288	3,629,775
Intergovernmental payables	2,618,255					2,618,255
Due to other governmental funds		3,140		22	189,492	192,654
Deferred revenues:						
Unearned revenues	2,938,203				104,774	3,042,977
Earned but unavailable revenues	111,603	87,256		181,309		380,168
Mature bonds due and payable				875,000		875,000
Total liabilities	<u>8,988,457</u>	<u>121,295</u>	<u>-</u>	<u>1,331,523</u>	<u>297,554</u>	<u>10,738,829</u>
Fund balances (deficits):						
Reserved for:						
Encumbrances	682,936					682,936
Debt service				630,346		630,346
Capital projects		2,588,944				2,588,944
Grants and contributions			1,482,999		499,112	1,982,111
Unreserved (deficit)	(5,027,604)					(5,027,604)
Total fund balances (deficit)	<u>(4,344,668)</u>	<u>2,588,944</u>	<u>1,482,999</u>	<u>630,346</u>	<u>499,112</u>	<u>856,733</u>
Total liabilities and fund balances	<u>\$ 4,643,789</u>	<u>\$ 2,710,239</u>	<u>\$ 1,482,999</u>	<u>\$ 1,961,869</u>	<u>\$ 796,666</u>	<u>\$ 11,595,562</u>

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

Commonwealth of Puerto Rico
Municipality of Las Piedras
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund	Legislative Joint Resolutions Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes	\$ 4,080,333	\$ -	\$ -	\$ 1,278,649	\$ -	\$ 5,358,982
Municipal license taxes	3,242,997					3,242,997
Construction excise taxes	963,176					963,176
Sales and use taxes	1,084,346					1,084,346
Total tax revenues	<u>9,370,852</u>	<u>-</u>	<u>-</u>	<u>1,278,649</u>	<u>-</u>	<u>10,649,501</u>
Intergovernmental grants and contributions	3,256,471	200,000	1,664,531	404,622	1,644,847	7,170,471
Interest on deposits	128,279	84,030		6,284	569	219,162
Charges for service	79,762					79,762
Miscellaneous	74,078					74,078
Total revenues	<u>12,909,442</u>	<u>284,030</u>	<u>1,664,531</u>	<u>1,689,555</u>	<u>1,645,416</u>	<u>18,192,974</u>
Expenditures						
Current:						
General government	8,378,440	704				8,379,144
Urban and economic development	2,080,318		1,737,520			3,817,838
Health and sanitation	1,048,951					1,048,951
Public safety	838,742					838,742
Public housing and welfare	606,351				911,981	1,518,332
Culture, recreation and education	298,505					298,505
Debt service:						
Principal				955,000		955,000
Interest				645,264		645,264
Capital outlays	410,852	2,641,024			697,119	3,748,995
Total expenditures	<u>13,662,159</u>	<u>2,641,728</u>	<u>1,737,520</u>	<u>1,600,264</u>	<u>1,609,100</u>	<u>21,250,771</u>
Excess (deficiency) of revenues over (under) expenditures	(752,717)	(2,357,698)	(72,989)	89,291	36,316	(3,057,797)
Other financing sources (uses)						
Transfers in from other governmental funds	1,407,474	1,784,274			15,000	3,206,748
Transfers out from other governmental funds	(2,483,801)	(638,304)		(5,383)	(79,260)	(3,206,748)
Total other financing sources (uses)	<u>(1,076,327)</u>	<u>1,145,970</u>	<u>-</u>	<u>(5,383)</u>	<u>(64,260)</u>	<u>-</u>
Net increase (decrease) in fund balances (deficit)	(1,829,044)	(1,211,728)	(72,989)	83,908	(27,944)	(3,057,797)
Fund balances (deficit) at beginning of fiscal year	(2,515,624)	3,518,144	2,146,737	314,624	537,911	4,001,792
Prior-period adjustments		282,528	(590,749)	231,814	(10,855)	(87,262)
Fund balance (deficit) at beginning of fiscal year, as restated	<u>(2,515,624)</u>	<u>3,800,672</u>	<u>1,555,988</u>	<u>546,438</u>	<u>527,056</u>	<u>3,914,530</u>
Fund balances (deficit) at end of fiscal year	<u>\$ (4,344,668)</u>	<u>\$ 2,588,944</u>	<u>\$ 1,482,999</u>	<u>\$ 630,346</u>	<u>\$ 499,112</u>	<u>\$ 856,733</u>

*Ortiz
07/15/2010*

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

Commonwealth of Puerto Rico
Municipality of Las Piedras
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
For the Year Ended June 30, 2009

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

Total fund balances reported in the balance sheet-governmental funds	\$ 856,733
--	------------

Add (Deduct):

Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$12,593,283 at June 30, 2009.	32,394,453
--	------------

Certain deferred revenues in the governmental funds are recognized as revenues in the statement of activities. This is the net change in unavailable property revenues that are measurable but not available at June 30, 2009.	292,912
--	---------

The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2009.

Bonds and notes payable	(12,590,000)
Due to other governmental entities	(1,372,485)
Compensated absences	(1,428,324)
Claims and judgments	(954,736)
	(3,345,545)

Net assets - governmental activities, as reported in the statement of net assets	<u>\$ 17,198,553</u>
--	----------------------

Commonwealth of Puerto Rico
Municipality of Las Piedras
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

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

Total net decrease in fund balances (deficits) reported in the statement of revenues, expenditures and change in fund balances - governmental funds.	\$ (3,057,797)
Add (deduct):	
Net change in deferred property tax revenues that are measurable but not available at June 30, 2009.	212,912
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the excess of capital outlays (\$3,748,995) over depreciation expenses (\$360,426).	3,388,569
Repayment of principal of long-term obligations is reported as expenditures in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net assets.	955,000
Certain operating expenses reported in the statement of activities do not required the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in accrued compensated absences, claims and judgements and other liabilities,	<u>912,205</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 2,410,889</u></u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

a) *Financial Reporting Model*

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2009, in conformity with Accounting Principles Generally Accepted in the United States of America (USGAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

RSI consists of: (1) a **Management's Discussion and Analysis (MD&A)** and (2) a **budgetary comparison schedule – general fund**. *RSI* is information presented along with, but separate from, the Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2009, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The *MD&A* also highlights certain key fiscal policies that control the Municipality's operations.

Other supplementary information presented in this report for purposes of additional analysis consists of a budgetary comparison schedule – debt service fund.

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

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

GASB 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' *Statements on Auditing Standards*. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events.

The adoption of GASB 55 and GASB 56 did not have retroactive cumulative effects affecting the accompanying financial statements as of July 1, 2008, and have not affected the financial positions and the results of operations reported as of and for the fiscal year ended June 30, 2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2008.

b) *Financial Reporting Entity*

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

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

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

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

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

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2009.

c) *Government-wide Financial Statements*

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

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

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2009, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

General government:

- Municipal Legislature
- Mayor's Office
- Department of Finance
- Department of Planning and Budget
- Department of Human Resources
- Department of Municipal Secretary
- Department of Internal Audit
- Department of Public Relations

Urban and economic development:

- Department of Public Works
- Department of Territorial Ordering
- Department of Building Conservation

Public safety:

- Department of Emergency Management - Civil Defense
- Department of Municipal Police

Health and sanitation:

- Department of Health

Culture, recreation and education:

- Department of Sports and Recreation
- Department of Tourism
- Department of Education

Public housing and welfare:

- Department of Public Housing
- Department of Federal Programs
- Department of Citizen Affairs

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

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

- (1) **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- (2) **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

Special items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

d) *Governmental Fund Financial Statements*

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

The accompanying GFFS are composed of: (1) the balance sheet - governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances - governmental funds.

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

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** - The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

- **Debt service fund** - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2009, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

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

- **Legislative joint resolutions fund** - The joint resolutions fund is a major governmental fund, as defined below, used by the Municipality to account for revenues derived from state legislative assignments and contributions that are legally restricted for a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services.
- **Capital projects funds** - Capital projects fund is a major governmental fund, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalize assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

- **Special revenue funds** – The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

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

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

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

The capital projects fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets.

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

The legislative joint resolutions fund is a major capital projects fund used to account for financial resources that are received from the state legislature for use in the acquisition, construction or improvement of major capital facilities and assets.

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

e) *Measurement Focus and Basis of Accounting*

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

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

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

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

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2009, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (unavailable) revenues at June 30, 2009.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long - term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

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

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2009, which have been recorded as governmental fund liabilities at June 30, 2009, which is the date when resources are available in the debt service funds (generally, June 30).
- Notes payable, claims and judgments, and compensated absences are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

- Executor purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

f) *Unrestricted And Restricted Deposits*

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

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

Cash with fiscal agent in the debt service fund consists of cash related to property tax collections amounting to \$1,613,047, which is restricted for the payment of the Municipality's debt service, as required by law. Cash with fiscal agent in the capital projects fund, amounting to \$1,762,166 consists of unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of capital assets.

Restricted cash in commercial banks, amounting to \$914,034 in the capital projects fund represents mainly the balance of interest and non-interest bearing accounts restricted to finance the operations of certain federal and state funded programs.

g) *Unrestricted And Restricted Accounts Receivable*

Accounts receivable consist of all revenues earned but not collected at June 30, 2009. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as “due to/from other funds.”

h) Capital Assets

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

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

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

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

i) **Deferred Revenues**

In the GFFS, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned but unavailable revenue*” in the accompanying balance sheet -governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2009 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net assets). No “*earned but unavailable revenue*” is accounted for in the accompanying statement of net assets.

j) *Compensated Absences*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

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

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

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

k) Long-Term Debt

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2009 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2009). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

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

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

l) Accounting For Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (formerly Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities) (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

m) Risk Management

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

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2009 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2009. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

n) Reservations Of Fund Balances

Reservations of fund balances represent portions of fund balances in the GFFS that are legally segregated for specific future uses or are not appropriated for expenditure. The Municipality has recorded the following types of reservations of fund balances in the GFFS:

- **Encumbrances** - Represent reservations of fund balances for commitments related to unperformed (executor) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future fiscal years as the goods or services are received.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED JUNE 30, 2009

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

- **Debt service** – Represent fund balances available and restricted to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund.
- **Capital projects** – Represent the reservation of financial resources that are restricted for the acquisition, construction or improvement of major capital assets under contracts and other commitments. These amounts are accounted for in the capital projects funds.
- **Intergovernmental grants and contributions** – Represent financial resources set aside for use in federal and state grant programs.

o) **Inter-Fund Activities**

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

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

p) Use of Estimates

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

q) Future Adoption of Accounting Pronouncements

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after June 15, 2009.
- b. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.

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

r) Accounting Changes

On July 1, 2008, the Municipality adopted the provisions of APB Opinion No. 20, *Accounting Changes*, as amended, to account for the accounting changes related to the adoption of GASB 54, GASB 55 and GASB 56 in a near future.

The financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2009 have not been affected for the aforementioned changes in accounting principles. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

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

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any other types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits are considered low at June 30, 2009.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

- **Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

The Municipality's bank balances in commercial banks of \$510,491 in the general fund were fully collateralized at June 30, 2009. The \$914,034 in capital projects fund, \$1,178,274 in legislature joint resolutions fund, and \$636,380 in other governmental funds, in commercial banks are restricted for specific purposes.

The restricted deposits at GDB of \$7,973 in the general fund, the \$1,762,166 in the capital projects fund, the \$1,613,047 that is restricted for debt service fund and the \$31,083 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Las Piedras. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

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

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. Total municipal license tax receivable amounted to \$17,310 at June 30, 2009. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$2,938,203 at June 30, 2009.

B. Property Taxes

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2009 was 6.00 percent (of which taxpayers pay 5.80 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2009 was 8.00 percent (of which 7.80 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Act No. 81, included within the total personal and real property tax rates of 5.80 percent and 7.80 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

In addition, included within the total personal and real property tax rates of 5.80 percent and 7.80 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of 5.80 percent and 7.80 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

Municipality's share of CRIM operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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

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

At June 30, 2009, property taxes receivable recorded in the general and debt service fund amounted to \$ 309,751 and \$ 304,503 respectively, net of a reserve for doubtful accounts.

C. Municipal sales and use tax

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

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

Municipal sales and use tax receivable of \$17,604 in general fund represents filed municipal sales and use tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

4. INTERGOVERNMENTAL GRANTS AND CONTRIBUTIONS

Intergovernmental receivable in general fund represents expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Treasury	\$ 111,603
Puerto Rico Electric Power Authority	1,409,893
Governmental Development Bank of Puerto Rico	<u>2,038,216</u>
Total	<u>\$ 3,559,712</u>

Intergovernmental receivable in the legislative joint resolutions fund represents receivable for resolutions approved by the Commonwealth of Puerto Rico. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Governmental Development Bank of Puerto Rico	<u>\$ 304,725</u>
Total	<u>\$ 304,725</u>

Intergovernmental receivable in the debt service fund represents municipal sales and use tax tax receivable at June 30, 2009. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Treasury	<u>\$ 44,260</u>
Total	<u>\$ 44,260</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

4. INTERGOVERNMENTAL GRANTS AND CONTRIBUTIONS (CONTINUED)

Intergovernmental receivable in other governmental funds represents expenditures incurred not yet reimbursed by the Federal government or the pass-through grantors. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Law 82	\$ 40,493
Community Development Block Grant-State Program	51,862
Others	<u>36,835</u>
Total	\$ <u>129,190</u>

5. INTERFUND TRANSACTION

The composition of inter-fund balances at June 30, 2009 and for the fiscal year then ended is as follows:

<u>Due to:</u>	<u>Due From:</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
Major governmental funds:		
Capital projects fund	\$ 3,140	\$ 3,140
Debt service fund	22	22
Other governmental funds	<u>189,492</u>	<u>189,492</u>
Total	\$ <u>192,654</u>	\$ <u>192,654</u>

<u>Transfers from other funds:</u>	<u>Transfer to other funds:</u>				
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Major governmental funds:					
General fund	\$ 1,238,801	\$ 84,030	\$ 5,383	\$ 79,260	\$ 1,407,474
Capital projects fund	1,230,000	554,274			1,784,274
Other governmental funds	<u>15,000</u>				<u>15,000</u>
Total	\$ <u>2,483,801</u>	\$ <u>638,304</u>	\$ <u>5,383</u>	\$ <u>79,260</u>	\$ <u>3,206,748</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

6. CAPITAL ASSETS

Capital assets those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

	<u>Balance at beginning of fiscal year</u>	<u>Additions</u>	<u>Balance at end of fiscal year</u>
Governmental activities:			
Cost basis:			
Capital assets, not being depreciated/amortized:			
Land	\$ 1,134,094	\$ -	\$ 1,134,094
Construction in progress	-	2,181,218	2,181,218
Total capital assets, not being depreciated/ amortized	<u>1,134,094</u>	<u>2,181,218</u>	<u>3,315,312</u>
Capital assets, being depreciated/amortized:			
Buildings, structures, and improvements	8,030,696	355,912	8,386,608
Infrastructure	12,173,374	1,115,751	13,289,125
Land improvements	12,399,078	-	12,399,078
Vehicles, machinery and equipment, and furniture and fixtures	7,501,499	96,114	7,597,613
Total capital assets, being depreciated/amortized	<u>40,104,647</u>	<u>1,567,777</u>	<u>41,672,424</u>
Total cost basis of capital assets	<u>41,238,741</u>	<u>3,748,995</u>	<u>44,987,736</u>
Accumulated depreciation / amortization			
Buildings, structures, and improvements	(1,862,793)	(54,893)	(1,917,686)
Infrastructure	(5,589,847)	(164,714)	(5,754,561)
Land improvements	(2,830,902)	(83,403)	(2,914,305)
Vehicle, machinery and equipment, and furniture and fixtures	(1,949,315)	(57,416)	(2,006,731)
Total accumulated depreciation	<u>(12,232,857)</u>	<u>(360,426)</u>	<u>(12,593,283)</u>
Net capital assets	<u>\$29,005,884</u>	<u>\$3,388,569</u>	<u>\$32,394,453</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

6. CAPITAL ASSETS (CONTINUED)

Depreciation and amortization expense for the fiscal year ended June 30, 2009 was charged to functions/programs in the accompanying statement of activities as follows:

Governmental activities:

General Government	\$ 72,902
Public Safety	82,187
Urban and economic development	123,638
Public housing and welfare	41,904
Culture, recreation and education	39,795
Total depreciation expense-governmental activities	<u>\$ 360,426</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

Description:	General Fund	Capital Projects Fund	Legislative			Other Governmental Funds	Total Governmental Funds
			Joint Resolutions Fund	Debt Service Fund			
Trade payables	\$ 3,320,396	\$ 30,899	\$ -	\$ 275,192	\$ 3,288	\$ 3,629,775	
Intergovernmental payables	<u>2,618,255</u>					<u>2,618,255</u>	
	<u>\$ 5,938,651</u>	<u>\$ 30,899</u>	<u>\$ -</u>	<u>\$ 275,192</u>	<u>\$ 3,288</u>	<u>\$ 6,248,030</u>	

8. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of \$ 2,938,203 in the general fund and \$181,309 in debt service fund, relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.
- b. **Christmas Bonus-** The deferred revenues of \$111,603 in the general fund corresponds to the estimated Christmas Bonus earned but unavailable at the end of the fiscal year.

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

8. DEFERRED REVENUES (CONTINUED)

- c. **Federal Grants-** The deferred revenues presented in capital project fund represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the pass-through grantors are as follows:

<u>Program Description</u>	<u>Amount</u>
Federal Transit Administration	\$ 10,560
Emergency Management Performance Grant	21,127
Disaster Grants-Public Assistance	39,906
Others	<u>15,663</u>
Total	<u>\$ 87,256</u>

The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government or the pass-through grantors are as follows:

<u>Program Description</u>	<u>Amount</u>
Special Program for the Aging–Title III, Part B–Grants for Supportive Services and Senior Centers	\$ 26,372
Child Care and Development Block Grant	13,305
Housing Opportunities for Persons with Aids	14,855
Others	<u>50,242</u>
Total	<u>\$ 104,774</u>

9. LONG-TERM LIABILITIES

The general long-term debt activity for the fiscal year ended June 30, 2009 is as follows:

	Balance at beginning of fiscal year, as restated	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds and Notes payable	\$ 14,420,000	\$ -	\$ 955,000	\$ 13,465,000	\$ 875,000
Municipal Revenue Collection Center-LIMS	336,783		85,000	251,783	85,000
Advanced property taxes	1,295,702		175,000	1,120,702	175,000
Retirement system administration debt	203,160		203,160	-	
Compensated absences	1,802,370		374,046	1,428,324	142,000
Claims and judgements	1,029,736		75,000	954,736	
Total	<u>\$ 19,087,751</u>	<u>\$ -</u>	<u>\$ 1,867,206</u>	<u>\$ 17,220,545</u>	<u>\$ 1,277,000</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

9. LONG-TERM LIABILITIES (CONTINUED)

A. Debt Limitation

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

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

B. Bonds and Notes Payable

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

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

As described in **Note 3B**, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds and notes payable are composed as follows at June 30, 2009:

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

9. LONG-TERM LIABILITIES (CONTINUED)

	Outstanding Amount
1995-1996 serial bonds (face amount of \$5,025,000) due in annual principal installments ranging from \$115,000 to \$505,000; plus interests due in semiannually installments at variable rates (6.20% at June 30, 2009) through July, 1, 2014	\$ 2,470,000
1998-1999 serial bonds (face amount of \$ 3,040,000) due in annual principal installments ranging from \$45,000 to 245,000; plus interests due in semiannually installments at variable rates (4.10% at June 30, 2009) through July 1, 2023	2,380,000
2000-2001 serial bonds (face amount of \$490,000) due in annual principal installments ranging from \$10,000 to \$40,000; plus interests due in semiannually installments at variable rates (4.10% at June 30, 2009) through January 1, 2025	415,000
2001-2002 serial bonds (face amount \$765,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannually installments at variable rates (2.43% at June 30, 2009) through January 1, 2027	680,000
2001-2002 serial bonds (face amount of \$810,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannually installments at variable rates (4.38% at June 30, 2009) through January 1, 2027	715,000
2002-2003 serial bonds (face amount of \$1,030,000) due in annual principal installments ranging from \$20,000 to \$75,000; plus interests due in semiannually installments at variable rates (4.38% at June 30, 2009) through July 1, 2028	925,000
2003-2004 serial bonds (face amount of \$780,000) due in annual principal installments ranging from \$55,000 to \$100,000; plus interests due in semiannually installments at variable rates (2.43% at June 30, 2009) through July 1, 2013	450,000
2004-2005 serial bonds (face amount of \$830,000) due in annual principal installments ranging from \$40,000 to \$85,000; plus interests due in semiannually installments at variable rates (2.43% at June 30, 2009) through January 1, 2018	650,000
2005-2006 serial bonds (face amount of \$930,000) due in annual principal installments ranging from \$15,000 to \$70,000; plus interests due in semiannually installments at variable rates (2.43% at June 30, 2009) through July 1, 2030	880,000
2006-2007 serial bonds (face amount of \$1,220,000) due in annual principal installments ranging from \$70,000 to \$145,000; plus interests due in semiannually installments at variable rates (2.43% at June 30, 2009) through July 1, 2017	995,000
2006-2007 series (original amount of \$405,000) due in annual principal installments of \$45,000; plus interests due in annual installments at variable rates ranging from 3.93% to 7.50% through July, 1, 2014	405,000
2007-2008 series (original amount of \$ 2,245,000) due in annual principal installments of \$30,000; plus interests due in annual installments at variable rates ranging from 3.93% to 7.50% through July 1, 2032	2,245,000
2004-2005 series (original amount of \$410,000) due in annual principal installments ranging from \$55,000 to \$100,000; plus interests due in annual installments at variable rates ranging from 4.73% to 5.33% through July 1, 2012	255,000
Total bonds and notes payable	\$ 13,465,000

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

9. LONG-TERM LIABILITIES (CONTINUED)

These bonds and notes, except the 2007 Series note and 2008 Series bond, are 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 purpose. The 2007 Series note and 2008 Series bond are payable with the revenues generated from the collection of the .2% of the sales and use tax imposed and collected by the Municipality.

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

Fiscal year ending June 30,	Principal	Interest	Total
2010	\$ 875,000	\$ 620,563	\$ 1,495,563
2011	935,000	736,135	1,671,135
2012	1,010,000	678,927	1,688,927
2013	1,080,000	617,217	1,697,217
2014	1,090,000	551,766	1,641,766
2015-2019	3,335,000	2,020,004	5,355,004
2020-2024	2,540,000	1,264,189	3,804,189
2025-2029	1,760,000	580,400	2,340,400
2030-2033	840,000	119,000	959,000
Total	\$ 13,465,000	\$ 7,188,201	\$ 20,653,201

At June 30, 2009, accrued interest payable on bonds amounted to \$275,192.

C. Municipal Revenue Collection Center – LIMS Repayment Plan

During the fiscal year 2001-2002, the Municipality authorized the Municipal Revenue Collection Center (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 ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2009, the outstanding debt balance is \$251,783.

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

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

9. LONG-TERM LIABILITIES (CONTINUED)

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

In addition, on December 16, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2009) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to \$1,120,702 at June 30, 2009.

D. Compensated Absences

The government-wide statement of net assets includes \$647,961 of accrued sick leave benefits, and \$780,363 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. EMPLOYEE'S RETIREMENT SYSTEMS

A. Plan Description

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

10. EMPLOYEE'S RETIREMENT SYSTEMS (CONTINUED)

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

- ***Retirement Annuity***

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

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

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

- ***Merit Annuity***

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

- ***Deferred Retirement Annuity***

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

- ***Coordinated Plan***

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

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

10. EMPLOYEE'S RETIREMENT SYSTEMS (CONTINUED)

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

• ***Non-Coordinated Plan***

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

• ***Reversionary Annuity***

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

• ***Occupational Disability Annuity***

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

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

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

• ***Death Benefits***

Occupational:

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

10. EMPLOYEE'S RETIREMENT SYSTEMS (CONTINUED)

Non-occupational:

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

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- **Refunds**

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

- **Cost of Living Adjustment for Pension Benefits**

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- **Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan**

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

10. EMPLOYEE'S RETIREMENT SYSTEMS (CONTINUED)

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

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

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

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

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

10. EMPLOYEE'S RETIREMENT SYSTEMS (CONTINUED)

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

a. Funding Policy

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

Municipality and other employers 9.28 percent of applicable payroll

Employees:

Coordination plan: 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.

Supplementation plan: 8.28 percent of gross salary. This is the only choice available to policemen, firemen and majors

11. CONTINGENCIES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

11. CONTINGENCIES (CONTINUED)

Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any. However, at June 30, 2009, the Municipality recorded a reserve of \$954,736 for claims and judgments in the statement of net assets.

The Municipality has reported, outstanding encumbrances amounting to \$682,936 in the general fund at June 30, 2009. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

12. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs. As part of this plan, the **Municipality of Las Piedras** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: (1) provide an immediate stimulus to the economy through funding of infrastructure projects island wide; and (2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Las Piedras** amounts to \$1,352,941 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: (1) funding of essential infrastructure, and (2) those municipalities with deficit that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use them to partially or fully liquidate existing debts with General Services Administration, Governmental Development Bank, and the Retirement System Administration. The Municipality assigned \$304,725 for infrastructure projects and \$1,048,216 for debts to agencies. Those debts were paid in August 2009.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2009**

12. SUBSEQUENT EVENTS (CONTINUED)

On August 2, 2009, the Municipal Legislature approved the issuance of a special obligation note in the amount of \$990,000, for debts retirement.

13. PRIOR PERIOD ADJUSTMENTS

On July 1, 2008, the Municipality recorded a net prior period adjustment of \$867,738 to correct various accounting errors previously reported in 2007 financial reporting.

The net cumulative effect of this adjustment has been charged and credited to the beginning fund balance and the beginning net assets in the accompanying funds and government-wide financial statements, respectively as follows:

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Capital Projects Fund	Legislative Joint Resolutions Fund	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$(2,515,624)	\$3,518,144	\$2,146,737	\$ 314,624	\$ 537,911	\$4,001,792
See note 1		282,528				282,528
See note 2			(590,749)			(590,749)
See note 3				231,814		231,814
See note 4	-	-	-	-	(10,855)	(10,855)
Fund balance, beginning as restated	<u>\$(2,515,624)</u>	<u>\$3,800,672</u>	<u>\$1,555,988</u>	<u>\$ 546,438</u>	<u>\$ 527,056</u>	<u>\$3,914,530</u>

Note 1:

The net amount of \$282,528 credited to consolidated capital projects fund as a prior period adjustment, was recorded to: (1) close fund in capital projects fund as this fund belongs to general fund (\$138,712), (2) record the balance of bank account in the amount of \$117,727 left out from books in 2007 and 2008, in development of permanent works and improvements I fund, (3) record the balance of bank account in the amount of \$277,137 left out from books in 2007 and 2008, in development of permanent works and improvements II fund, and (3) record the balance of federal fund escrow bank account in the amount of \$26,376 left out from books in 2007 and 2008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2009

14. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Note 2:

The amount of \$590,749 was credited to bank in commercial banks and debited to fund balance in the legislative joint resolutions fund as a prior period adjustment; it was recorded to adjust the bank account to its correct balance of \$1,555,988 at June 30, 2008.

Note 3:

The amount of \$231,814 was credited to fund balance as a second prior period adjustment, to adjust the cash held with fiscal agent (Redemption fund IVU) to its correct balance of \$504,173 at June 30, 2009.

Note 4:

The net amount of \$10,855 debited to consolidated capital projects fund as a prior period adjustment, was recorded to: (1) reclassify \$16,184 as deferred revenue in elderly center I fund, (2) record the balance of bank account in the amount of \$3,979 left out from books in 2007 and 2008 in the elderly center II fund, and (3) record the amount of \$1,350, to adjust the bank account to its correct balance of \$15,005 at June 30, 2008 in public order code I fund.

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 13,919,926
See notes in governmental fund financial restatement	(87,262)
To correct prior year long term debt	<u>955,000</u>
Net assets, beginning as restated	<u>\$ 14,787,664</u>

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

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

YEAR ENDED JUNE 30, 2009

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget- over (under)
	Original	Final		
Revenues				
Property taxes	\$ 3,671,959	\$ 3,671,959	\$ 3,770,582	\$ 98,623
Municipal license taxes	4,714,410	4,714,410	3,498,842	(1,215,568)
Construction excise taxes	1,692,763	1,692,763	1,254,549	(438,214)
Sales and use taxes	-	-	1,172,405	1,172,405
Total tax revenues	<u>10,079,132</u>	<u>10,079,132</u>	<u>9,696,378</u>	<u>(382,754)</u>
Intergovernmental grants and contributions	4,023,844	4,023,844	3,079,694	(944,150)
Interests on deposits	220,000	220,000	118,357	(101,643)
Charges for services	64,300	64,300	79,762	15,462
Miscellaneous	285,400	285,400	78,278	(207,122)
Total revenues	<u>14,672,676</u>	<u>14,672,676</u>	<u>13,052,469</u>	<u>(1,620,207)</u>
Expenditures				
Current:				
General government	7,764,843	8,189,040	5,935,755	(2,253,285)
Urban and economic development	3,662,168	3,502,208	2,025,450	(1,476,758)
Health and sanitation	1,156,545	1,037,710	1,032,687	(5,023)
Public safety	1,054,600	841,648	825,567	(16,081)
Public housing and welfare	573,372	626,300	594,039	(32,261)
Culture, recreation and education	295,448	310,070	296,149	(13,921)
Debt service:				
Principal	-	-	-	-
Interests	-	-	-	-
Capital outlays	165,700	165,700	64,671	(101,029)
Total expenditures	<u>14,672,676</u>	<u>14,672,676</u>	<u>10,774,318</u>	<u>(3,898,358)</u>
Total revenues over expenditures	<u>-</u>	<u>-</u>	<u>2,278,151</u>	<u>2,278,151</u>
Other financing sources (uses):				
Transfers from other funds			1,407,474	1,407,474
Transfers to other funds			(2,483,801)	(2,483,801)
Total other financing sources (uses), net			<u>(1,076,327)</u>	<u>(1,076,327)</u>
Revenues and other financing sources over expenditures and other financing uses			<u>1,201,824</u>	<u>1,201,824</u>

The accompanying notes are an integral part of this statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

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

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

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

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

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

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2007

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

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

Budgetary Accounting

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

The accompanying budgetary comparison schedule – general fund and the budgetary comparison schedule – debt service fund provide information about the general and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental funds under the budgetary basis of accounting for the fiscal year ended June 30, 2009. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2009, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general and debt service funds' budgetary bases and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		\$ 585,343
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	08-AB, FC 07-AB, FC 06-AB, FC 05-AB, FC, DR-39	793,340
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	37,409
Total U.S. Department of Housing and Urban Development			<u>1,416,092</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office):			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	52,718
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Not Available	86,594
Nutrition Services Incentive Program	93.053	Not Available	30,150
Total U.S. Department of Health and Human Services			<u>169,462</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,585,554</u>

The accompanying notes are an integral part of this schedule

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

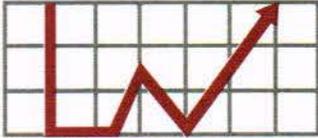
1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Other Governmental Funds</u>
Per Schedule of Expenditures of Federal Awards	\$ 1,585,554
Non federal programs Expenditures	<u>23,546</u>
Total expenditures in the general purpose financial statements	<u>\$ 1,609,100</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Las Piedras, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 20, 2009, which was unqualified at the fund financial statements level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. 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 of Las Piedras's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Las Piedras's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Las Piedras'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 weakness. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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.

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Las Piedras'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 **Municipality of Las Piedras's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Las Piedras's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items **09-01** and **09-02**.

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 **Municipality of Las Piedras's** internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we considered item **09-01** to be a material weakness.

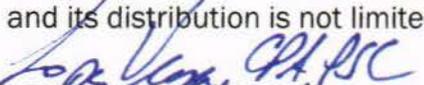
Compliance and Other Matters

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

We noted certain other matters that we reported to management of the **Municipality of Las Piedras** in a separate letter dated November 20, 2009.

The **Municipality of Las Piedras's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Las Piedras's** responses and, accordingly, we express no opinion on it.

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


LOPEZ-VEGA, CPA, PSC

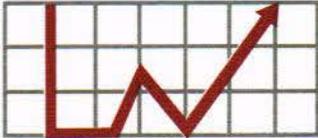
San Juan, Puerto Rico
November 20, 2009

Stamp No. 2407036 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**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 the Municipal Legislature
Municipality of Las Piedras
Las Piedras, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Las Piedras** 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, 2009. The **Municipality of Las Piedras's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Las Piedras's** management. Our responsibility is to express an opinion on the **Municipality of Las Piedras's** compliance based on our audit.

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

In our opinion, 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **09-03** through **09-06**.

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

Internal Control Over Compliance

The management of the **Municipality of Las Piedras** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Las Piedras'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 compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Las Piedras's** internal control over compliance.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **09-03 to 09-06** to be a significant deficiency.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item **09-06** to be a material weakness.

The **Municipality of Las Piedras's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Las Piedras's** response and, accordingly, we express no opinion on it.



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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Las Piedras** in a separate letter dated February 1, 2010.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 1, 2010

Stamp No. 2407070 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified, except for adverse for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes	None reported <input checked="" type="checkbox"/>

<u>Type of auditors' report issued on compliance for major programs:</u>	Unqualified
--	--------------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No
---	---	----

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant - State's Program
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	Yes No <input checked="" type="checkbox"/>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference	09-01
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, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	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 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 (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference **09-01 (continued)**

**Management Response
and Corrective Action**

The Municipality's Management goal is to improve the quality of its current accounting, auditing and financial reporting practices. During the fiscal year ending June 30, 2010, the Municipality will carry out a physical inventory and valuation of all of its capital assets to ensure all assets acquired prior to the fiscal year ended June 30, 2009 are accounted for in a complete manner in the Municipality's basic financial statements.

Implementation Date: June 30, 2010

Responsible Person: Ms. Cathy Negrón
Director of Finance

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference	09-02
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 of Condition	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 of Condition	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 take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference 09-02 (continued)

Management Response
and Corrective Action

A major goal of the Municipality's Department of Finance is to improve the quality of its current accounting, auditing, and financial reporting practices. During the last five fiscal years, the Department of Finance adopted several internal control measures to ensure its financial statements complied with generally accepted accounting principles. Such internal control measures compensate all of the deficiencies in the current accounting system used by the Municipality and reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The principal of the abovementioned internal control measures adopted by the Municipality was the establishment of a Financial Reporting Task Force composed of the management team of the Department of Finance and outside consultants. Such team works together throughout the year to prepare the Municipality's financial statements, including all of the accounting records and reports needed to support the balances and disclosures reported in the financial statements as of and for the fiscal year ended June 30, 2009. These control measures minimized the risks of possible errors, omissions or deviations from generally accepted accounting principles in the Municipality's basic financial statements.

This conclusion is evidenced by the following facts: (1) the Independent Auditors' Report on the Municipality's financial statements was unqualified for the fiscal year ended June 30, 2009 (except for capital assets), and (2) audit adjustments recorded in the financial statements were minimal and not material to the financial statements taken as a whole. The Financial Reporting Task Force referred to above will continue operating after the Single Audit of the fiscal year ended June 30, 2010 since it is the intention of management to keep improving its current accounting, auditing, and financial reporting practices every year thereafter.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference 09-02 (continued)

Management Response (continued)
and Corrective Action

In addition, the Municipality will start a process of evaluating different alternatives for the possible future implementation of a new accounting system in compliance with all applicable federal and local laws and regulations, including all the requirements established by generally accepted accounting principles. This process will be made under the guidance and approval of the Office of the Commissioner of Municipal Affairs of Puerto Rico. The possible alternatives of accounting system to be evaluated by the Municipality will provide the necessary financial information that will serve as the basis for the effective control of revenues, disbursements, assets and liabilities, and the reporting of such items in the Municipality's financial statements. The period of time required to annually carry out the Single Audit would be substantially reduced.

If a new accounting system is implemented in the near future, the Department of Finance will establish and document new accounting policies and procedures. Accounting policies and procedures will be promulgated by an appropriate level of management to emphasize their importance and authority. The documentation of such accounting policies and procedures will be updated periodically according to a predetermined schedule. In addition, the Department of Finance will improve its fund accounting by evaluating, within the next two years, its fund structure to ensure that individual funds that have become superfluous, if any, are eliminated.

Furthermore, as of the date of this Plan, the Municipality and its consultants prepared a reconciliation of the balances reported in the Municipality's basic financial statements and those accounted for in UAS as of June 30, 2009. Accordingly, the Municipality determined the required adjusting entries needed to agree UAS with the basic financial statement figures.

Implementation Date: June 30, 2010

Responsible Person: Ms. Cathy Negrón
Director of Finance

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Municipality maintained a monthly average cash balance in books of, approximately, \$420,558. Also, at June 30, 2009, the cash balance in book was \$445,481.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system; in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The PHA did not comply with the OMB Common Rules, Subpart C, Section .20 (b) (7).
Recommendation	We recommend to the Municipality's management to instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years, in order to identify the cash balance respects to its origin, and later, to make any necessary adjusting journal entries to correct accounting records.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's management instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years, in order to identify the cash balance respects to its origin, and later, to make the necessary adjusting journal entries to correct accounting records.</p> <p>We will follow HUD's instructions regarding this issue, in order to prevent this finding.</p> <p>Implementation Date: October 2009</p> <p>Responsible Person: Mrs. Fransheska Carradero Accountant</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-04
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting
Statement of Condition	We performed a Reporting Test and did not find evidence that the GAAP-based audited financial data was submitted electronically to HUD for the fiscal year 2007-2008.
Criteria	OMB No. 2535-0107, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC).
Cause of Condition	The Municipality did not maintain evidence of the Real Estate Assessment Center (REAC) audited information submission for the fiscal year 2007-2008.
Effect of Condition	The PHA did not comply with the OMB No. 2535-0107, 24 CFR section 5.801.
Recommendation	We recommend to the Municipality's management to instruct the program accountant to submit timely GAAP-based unaudited and audited financial information electronically to HUD.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's management instruct the program accountant to submit timely GAAP-based unaudited and audited financial information electronically to HUD.</p> <p>We designated a new accountant to the program. As of today, we are in compliance with the REAC submission.</p> <p>Implementation Date: October 2009</p> <p>Responsible Person: Mrs. Fransheska Carradero Accountant</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-05
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, for the Community Development Block Grants – State’s Program, we verified the construction projects 05-AB-39-002, 06-FC-39-002 and 07-FC-39-003. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. For the constructions projects 05-AB-39-002, 06-FC-39-002 and 07-FC-39-003, the Municipality did not request all the weekly payrolls for the period of activity of the project to be reviewed by the Municipal employee responsible of applying monitoring procedures.b. For the constructions projects 05-AB-39-002, 06-FC-39-002 and 07-FC-39-003, the Municipality did not document the required visits for monitoring the classifications of the workers and the wage rates paid.
Criteria	Davis-Bacon Act, as amended, DOL (40 USC 276a – 276a-7).
Cause of Condition	The Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a -276a-7).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 09-05 (continued)

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible Municipal employee, and interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors, promptly, about any failure in the payroll process.

Questioned Costs None

**Management Response
and Corrective Action** The Municipality's management instructed Program staff to follow the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees, and to assure that collections observed by the auditors do not occur again. We also designated a new Labor Standard Specialist. As of today, we are in compliance with Davis Bacon Act.

Implementation Date: July 2010

Responsible Person: Miss. Sasha E. Rosa Rivera
Administrative Assistant

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-06
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 09-01

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-03	14.871	<p><u>Non-compliance-Special test and provisions- Housing Quality Standard Enforcement (HQS)</u></p> <p>Corrective action was taken.</p>
07-03	14.228	<p><u>During our Davis-Bacon Act test, for the Community Development Block Grants- State's Program, we verified the construction projects 04-AB-39-001, 05-FE-39-001 and 05-FC-39-002. The following summarizes the situations found:</u></p> <p>a) <u>For the construction project 05-FC-39-002 and 05-FE-39-001 the Program did not request all the weekly payrolls for the period of the activity of the project to be reviewed by the Municipal employee responsible of applying monitoring procedures.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 09-05.</p>
07-04	14.228	<p><u>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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 09-06.</p>
06-03	14.228	<p><u>For the construction projects 00-FD-39-002, 03-AB-39-001, 04-AB-39-002 and 05-FC-39-002 the Municipality did not realized monitoring procedures for the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-04	14.228	<p><u>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.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>