

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

**Basic Financial Statements,
Notes to Basic Financial Statements and
Required Supplemental Schedules**

Fiscal Year Ended June 30, 2018

Commonwealth of Puerto Rico
Municipality of Las Piedras
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Fiscal Year ended June 30, 2018

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Independent Auditors' Report on Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

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

Report on the Financial Statements

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 of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based 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 of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions

As discussed in Note 14 to the basic financial statements, the Municipality partially adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB No. 68). Accordingly, the Municipality retroactively recorded a prior-period adjustment of \$31,936,627 to the beginning balance of its governmental activities as of July 1, 2017 to record its share and allocation of the net pension liability and the related deferred inflows of resources and deferred outflows of resources pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico on November 2, 2018.

However, the Employees Retirement System of the Commonwealth of Puerto Rico did not provide the information needed by the Municipality to record its proportionate share and allocation of the net pension liability, deferred inflows of resources and deferred outflows of resources at June 30, 2018, and the related pension expense for the fiscal year then ended. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB No. 68 as of and for the fiscal year ended June 30, 2018.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68 and 71, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of the amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, decrease net position and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68 and 71. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

As of June 30, 2018, the Municipality did not have complete and accurate administrative accounting records of its capital assets. In addition, the Municipality did not perform a physical inventory of such capital assets during the last four fiscal years, which may ultimately affect the valuation and existence of such assets at June 30, 2018. Accordingly, we could not apply adequate auditing procedures to the official accounting system to ascertain the existence, valuation and ownership of those capital assets recorded in the accompanying statement of net assets for \$45,241,355, net of accumulated depreciation of \$26,616,013.

Qualified Opinion on Governmental Activities (Government-Wide Financial Statements)

In our opinion, except for the possible effects of the matters described above in the Basis for Qualified Opinion on Government Activities and Note Disclosure Regarding Pension, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities

of the Municipality of Las Piedras as of June 30, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Governmental Funds Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Las Piedras of the Commonwealth of Puerto Rico, as of June 30, 2018, 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.

Emphasis of Matter

As described in Note 17, the Municipality has restated its 2017 governmental activities for the partial adoption of GASB No. 68. Our opinions on the 2017 financial statements are not modified with respect to this matter.

Other Matters

Required Supplementary Information Omitted

The Municipality has omitted the *Schedule of the Municipality's Proportionate Share of the Net Pension Liability*, and the *Schedule of Municipality's Contributions to the Employees' Pension Plan*, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Budgetary Comparison information on pages 5 through 19 and 73, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal*

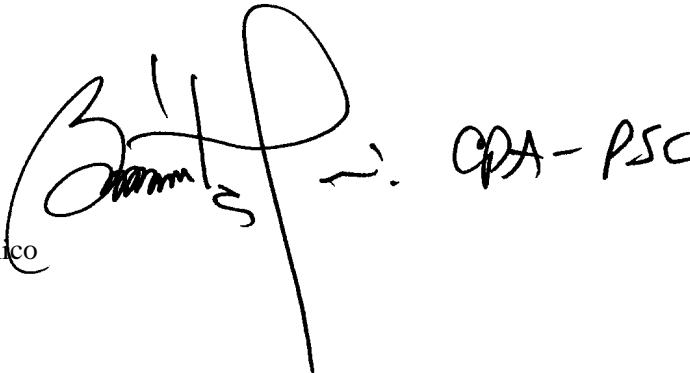
Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2019, on our consideration of the Municipality of Las Piedras of the Commonwealth of Puerto Rico internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 in considering the Municipality of Las Piedras of the Commonwealth of Puerto Rico internal control over financial reporting and compliance.

March 20, 2019
Toa Alta, Puerto Rico

A handwritten signature in black ink, appearing to be 'Bill [unclear]', with a large loop at the end. To the right of the signature, the initials 'CPA-PSC' are written in a similar cursive style.

Stamp No. O2752869
was affixed to the
original report.

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Management's Discussion and Analysis (Unaudited)
June 30, 2018

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, 2018. 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 and deferred outflows of resources amounted to \$64,911,415 at June 30, 2018, of which \$45,241,355 consists of capital assets (net of accumulated depreciation of \$26,616,013), \$10,658,004 consist of cash and cash equivalents (\$6,015,739), and restricted deposits with governmental bank (\$4,642,265), \$5,326,320 consists of deferred outflows of resources, \$3,622,115 consist of account receivable and \$63,621 consists of other assets.
- The Municipality's liabilities and deferred inflows of resources amounted to \$79,890,456 at June 30, 2018, of which \$34,733,451 consist of net pension liability, \$22,733,110 consist of bonds and notes payable, \$7,903,733 consist of accounts payable and intergovernmental payables, \$6,893,485 consist of claims and judgment, \$5,467,646 consist of deferred inflows of resources and \$2,159,031 consist of accrued compensated absences.
- The Municipality's liabilities and deferred inflows of resources (net position) exceed its assets and deferred outflows of resources by \$14,979,041.
- The Municipality's revenues amounted to \$22,690,828 for the fiscal year ended June 30, 2018, of which \$12,649,608 arose from taxes, \$9,391,817 arose from intergovernmental grants and contributions, \$553,787 arose from miscellaneous revenues and interest on deposits, and \$95,616 arose from charges for services.
- The Municipality's expenses amounted to \$30,108,634 for the fiscal year ended June 30, 2018, of which \$10,818,380 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, and culture, recreation and education. In addition, the Municipality incurred \$1,256,176 of its total expenses, in interests related to its long-term obligations, and \$18,034,078 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of \$1,935,153, for the fiscal year ended June 30, 2018.
- The Municipality's net position decreased by \$7,417,806 during the fiscal year ended June 30, 2018.

Governmental Funds' Highlights:

- The total fund balances of governmental funds amounted to \$3,971,361 at June 30, 2018, of which \$2,705,099 is assigned, \$8,079,003 is restricted, and \$6,812,741 represents an unassigned deficit.

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- The total fund balance of governmental funds increased by \$348,934 during the fiscal year ended June 30, 2018.

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, 2018. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

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

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2018. The GWFS are prepared using methods that are similar to those used by most private businesses.

1. Statement of Net Position

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

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

2. Statement of Activities

The SA presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2018, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

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 Funds 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-

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related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

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

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

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

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

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

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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, 2018 and 2017		
	2018	2017, as Restated (Note 16)
ASSETS		
Current assets	\$ 14,280,119	\$ 12,164,510
Non-current assets:		
Capital assets, net of accumulated depreciation	45,241,355	47,145,758
Other assets	63,621	65,681
Total assets	59,585,095	59,375,949
DEFERRED OUTFLOWS OF RESOURCES	5,326,320	5,326,320
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 64,911,415	\$ 64,702,269
LIABILITIES		
Current liabilities	\$ 7,903,733	\$ 3,603,757
Long-term obligations due within one year	2,023,062	2,103,062
Long-term obligations due after one year	64,496,015	59,386,664
Total liabilities	74,422,810	65,093,483
DEFERRED INFLOWS OF RESOURCES	5,467,646	7,170,021
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	79,890,456	72,263,504
NET POSITION		
Invested in capital assets, net of debt	39,262,307	40,505,444
Restricted	5,651,514	5,419,669
Unrestricted (deficit)	(59,892,862)	(53,486,348)
Total net position	\$ (14,979,041)	\$ (7,561,235)

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At June 30, 2018, the Municipality's current assets, amounting to \$14,280,119, are mainly composed of cash and cash equivalents (\$6,015,739), deposits with governmental banks (\$4,642,265), and accounts receivable (\$3,622,115), 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 \$45,241,355 at June 30, 2018, are composed of capital assets, with a cost basis of \$71,857,368 which are reported net of accumulated depreciation and amortization of \$26,616,013 and other assets amounting to \$63,621, reported net of accumulated amortization of \$15,262.

At June 30, 2018, the Municipality's current liabilities amounting to \$9,926,795 are mainly composed of accounts payable, intergovernmental payables and accrued liabilities (\$7,903,733), and the current portions of long-term obligations (\$2,023,062). Deferred inflows of resources (\$5,467,646) consist principally of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions.

The Municipality's non-current liabilities, amounting to \$64,496,015 at June 30, 2018, are mainly composed of net pension liability (\$34,733,451), portions due after one year of bonds and notes payable (\$21,699,034), claims and judgments (\$6,893,485) and compensated absences (\$1,170,045), and

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. The liabilities of the Municipality exceeded assets by \$14,979,041 at June 30, 2018. The most significant portion of net position (\$39,262,307) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, as capital assets cannot be used to liquidate these liabilities.

Another significant portion of net position (\$5,651,514) at June 30, 2018, represents resources that are restricted for debt service payments, capital projects, and other purposes.

The remaining component of total net position consists of unrestricted net liabilities amounting to \$59,892,862 at June 30, 2018. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net position of the Municipality decreased by \$7,417,806 for the fiscal year ended June 30, 2018.

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

	2018	2017, as restated
Condensed Statement of Activities		
Governmental Activities		
Fiscal Years Ended June 30, 2018 and 2017		
Program revenues:		
Program-specific operating grants and contributions	\$ 2,214,189	\$ 1,478,149
Program-specific capital grants and contributions	4,060,311	2,473,073
Charges for services	95,616	1,690,446
Total program revenues	6,370,116	5,641,668
General revenues:		
Property taxes	5,532,688	6,367,487
Municipal license taxes	5,159,730	4,156,770
Construction excise taxes	493,875	502,714
Sales and use tax	1,463,315	1,025,082
Unrestricted grants and contributions	3,117,317	1,761,547
Interests on deposits and miscellaneous revenues	553,787	341,950
Total general revenues	16,320,712	14,155,550
Total revenues	22,690,828	19,797,218
Program expenses:		
General government	18,034,078	9,791,518
Urban and economic development	2,366,581	3,134,443
Health and sanitation	4,987,171	3,636,228
Public safety	685,235	740,920
Public housing and welfare	2,187,318	2,021,738
Culture, recreation and education	592,075	788,439
Interest on long-term obligations	1,256,176	1,357,405
Total expenses	30,108,634	21,470,691
Net increase (decrease) in net position	(7,417,806)	(1,673,473)
Net position, at beginning of fiscal year, as restated	(7,561,235)	(5,887,562)
Net position, at end of fiscal year	\$ (14,979,041)	\$ (7,561,035)

As previously mentioned, the Municipality's net position decreased by \$7,417,806 during the current fiscal year. Approximately 56% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes (\$12,649,608). Grants, contributions and charges for services (program revenues), amounting to \$9,487,433, provided 42% of the total revenues for the current fiscal year. Miscellaneous revenues and interest on deposits, amounting to \$553,787, provided 2% 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, 2018 were related to: (1) general administrating and operating costs (\$18,034,078), which were classified as "general government", (2) urban and economic development (\$2,366,581), (3) public housing and welfare (\$2,187,318), (4) health and sanitation (\$4,987,171), (5) public safety (\$685,235), (6) culture, recreation and education (\$592,075), and (7) interest on

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long-term obligations (\$1,256,176). These expenses include depreciation of capital assets in the amount of \$1,935,153 for the fiscal year ended June 30, 2018.

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, 2018, the total assets of governmental funds amounted to \$15,801,285, which consisted principally of: (1) cash and cash equivalents of \$6,015,739 (2) deposits with governmental bank of \$4,642,265, (3) accounts receivable, \$3,622,115, net of reserve for doubtful accounts, and (4) inter-fund receivables of \$1,521,166. Such assets are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2018, the total liabilities and deferred inflows of resources of governmental funds amounted to \$11,829,924, which consisted principally of: (1) accounts payable, intergovernmental payables and accrued liabilities of \$6,365,608, (2) deferred inflows of resources of \$2,938,150, (3) inter-fund payables of \$1,521,166 and (4) matured bonds and interest due and payable of \$1,005,000.

The fund balances of governmental funds increase by \$1,188,633 during the fiscal year ended June 30, 2018.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Management's Discussion and Analysis (Unaudited)
June 30, 2018

Condensed Balance Sheet - Governmental Funds
June 30, 2018 and 2017

	2018	2017
<i>Assets:</i>		
Total assets - major governmental funds	\$ 14,950,543	\$ 13,037,939
Total assets - other governmental funds	850,742	801,354
Combined assets	15,801,285	13,839,293
 <i>Liabilities:</i>		
Total liabilities - major governmental funds	8,328,716	5,830,036
Total liabilities - other governmental funds	563,058	533,504
Combined liabilities	8,891,774	6,363,540
 <i>Deferred inflows of resources</i>		
	2,938,150	4,693,025
 <i>Fund balances:</i>		
Assigned general fund	2,705,099	1,347,786
Restricted - major governmental funds	7,834,141	5,766,941
Restricted - other governmental funds	244,862	210,919
Unassigned - general fund	(6,812,741)	(4,542,918)
Combined fund balances	3,971,361	2,782,728
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>		
	\$ 15,801,285	\$ 13,839,293

Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$4,305,080 at June 30, 2018. Such assets consist principally of: (1) cash and cash equivalents (\$486,587), (2) deposits with governmental bank (\$9,671), (3) property taxes, municipal license taxes, construction excise taxes, intergovernmental grants and contributions receivable and miscellaneous (\$2,543,990), and (4) short-term and long-term amounts due from other funds (\$1,264,832).

The GF's total liabilities and deferred inflows of resources amounted to \$8,412,722 at June 30, 2018. Such liabilities are composed mainly of: (1) intergovernmental payables (\$3,339,452), (2) deferred inflows of resources (\$2,689,073), (3) accounts payable and accrued liabilities (\$2,154,184), and (4) short-term and long-term amounts due to other funds (\$230,013).

At the end of the current fiscal year, unassigned fund deficit of the GF amounted to \$6,812,741, while total fund deficit amounted to \$4,107,642.

Debt service fund (DSF)- The DSF's total assets amounted to \$3,061,672 at June 30, 2018, which consist mainly of restricted cash and cash equivalents (\$874,448) and restricted deposits in governmental bank (\$2,187,224). The DSF's total liabilities amounted to \$1,613,823 at June 30, 2018, which are mainly composed of: (1) matured bonds due and payable (\$1,005,000), and (2) accounts payable and accrued liabilities (\$608,823).

COMMONWEALTH OF PUERTO RICO
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Capital projects fund (CPF) - The CPF's total assets amounted to \$4,957,096 at June 30, 2018, which consist mainly of cash and cash equivalents (\$2,529,607) and deposits with governmental bank (\$2,427,489). The CPF's total liability and deferred inflows of resources amounted to \$96,940 at June 30, 2018, which is composed of deferred inflows of resources (\$87,256) and account payable and accrued liabilities (\$9,684). At the end of the current fiscal year, CPF's total restricted fund balance reached \$4,860,156.

Legislative joint resolutions fund (LJRF) - The LJRF's total assets amounted to \$1,526,136 at June 30, 2018, which consist of cash and cash equivalents (\$1,526,136). At the end of the current fiscal year, LJRF's total restricted fund balance is \$1,526,136.

Diagnostic and treatment center fund (DTCF) - The DTCF's total assets amounted to \$1,100,559 at June 30, 2018, which consist of cash and cash equivalents (\$118,999), intergovernmental grants and contributions receivable (\$731,105), and short-term and long-term amounts due from other funds (\$250,455). The DTCF's total liabilities and deferred inflows of resources amounted to \$1,100,559 at June 30, 2018, which are composed of accounts payable and accrued liabilities (\$250,455), due to other funds (\$731,105), and deferred inflows of resources (\$118,999).

Other governmental special revenue funds (OGSRF) - The OGSRF's total assets amounted to \$850,742 at June 30, 2018, which consist mainly of cash and cash equivalents (\$479,962), deposits with governmental bank (\$17,881), intergovernmental grants and contributions receivable (\$347,020), and due from other funds (\$5,879). The OGSRF's total liabilities and deferred inflows of resources amounted to \$605,880 at June 30, 2018, which are composed of due to other funds (\$560,048), account payable and accrued liabilities (\$3,010) and deferred inflows of resources (\$42,822). At the end of the current fiscal year, OGSRF's total restricted fund balance reached \$244,862.

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COMMONWEALTH OF PUERTO RICO
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Analysis of Operating Results of Governmental Funds

Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
<i>Revenues:</i>		
Total revenues - major governmental funds	\$ 21,703,423	\$ 18,440,904
Total revenues - other governmental funds	1,039,905	1,359,522
Combined total revenues	22,743,328	19,800,426
<i>Expenditures:</i>		
Total expenditures - major governmental funds	20,508,011	20,128,890
Total expenditures - other governmental funds	1,046,684	1,354,320
Combined total expenditures	21,554,695	21,483,210
<i>Excess (deficiency) of revenues over expenditures</i>	1,188,633	(1,682,784)
<i>Other financing sources, net:</i>		
Other financing sources, net - major governmental funds	2,834,647	2,762,065
Other financing sources (uses), net - other governmental funds	(2,834,647)	(2,762,065)
Combined other financing sources (uses), net	-	-
<i>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</i>	1,188,633	(1,682,784)
<i>Fund balance, at beginning of fiscal year, as restated</i>	2,782,728	4,465,512
<i>Fund balance, at end of fiscal year</i>	\$ 3,971,361	\$ 2,782,728

Major and Other Governmental Funds

General fund – The total fund balance of the GF decreased by \$912,510 during current fiscal year. Approximately 75% (\$10,892,780) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes, 22% (\$3,169,817) resulted from intergovernmental grants and contributions, and 3% (\$522,103) resulted from interests, charges for services, and miscellaneous revenues.

The largest expenses of the GF for the fiscal year ended June 30, 2018 were related to: (1) general administrating and operating costs (\$11,402,124), (2) construction, rehabilitation and preservation of new or existing housing, (\$1,417,278), which were classified as “urban and economic development,

COMMONWEALTH OF PUERTO RICO
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June 30, 2018

(3) public housing and welfare (\$936,974), (4) health and sanitation (\$924,259), (4) public safety (\$577,929), and (6) culture, recreation and education (\$284,948).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$88,069 during current fiscal year. DSF's total revenues for the current fiscal year came from restricted property taxes (\$1,756,828), intergovernmental grants and contributions (\$770,216), and interests on deposits (\$8,022). DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$2,199,356).

Capital projects fund (CPF) - The total fund balance of the CPF increased by \$1,979,131 during current fiscal year. CPF's total revenues for the current fiscal year came from intergovernmental grants and contributions amounting to \$2,251,142 and interest on deposits amounting \$118,326. CPF's total expenditures for the current fiscal year were mainly related to capital outlays, (\$30,750) and general administrating and operating costs (\$26,049).

Legislative joint resolutions fund (LJRF) - The LJRF had no movement during the current fiscal year ended June 30, 2018.

Diagnostic and treatment center fund (DTCF) - The total DTCF's revenues for the current fiscal year amounting to \$2,214,189, came from intergovernmental grants and contributions. DTCF's total expenditures for the current fiscal year were all related to health and sanitation amounting to \$2,492,443.

Other governmental special revenue funds (OGSRF) – The total fund balance of the OGRF increased by \$33,943 during current fiscal year. Substantially all of OGSRF's revenues for the current fiscal year came from intergovernmental grants and contributions (\$1,038,953). Total expenditures were mainly related to public housing and welfare (\$1,046,684).

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COMMONWEALTH OF PUERTO RICO
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June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$71,857,368 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$26,616,013 at June 30, 2018. The net capital assets decreased \$1,904,403 during the current fiscal year due to the current fiscal year's capital additions of \$30,750, partially offset by the depreciation and amortization expense of \$1,935,153.

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, 2018, the Municipality's total bonded debt amounted to \$22,733,110 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.

c) Government Development Bank for Puerto Rico (GDB)

As more fully described in note 3, GDB has traditionally served as interim lender to the Commonwealth of Puerto Rico and its public corporations and municipalities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also historically provided financing to the Commonwealth and its instrumentalities to finance their respective budget deficits, collateral requirements under swap agreements and to meet mandatory payments of obligations.

Loans to the Commonwealth and its instrumentalities constitute a significant portion of GDB's assets. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made by the Commonwealth and its instrumentalities, which currently face significant fiscal and financial challenges.

The Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations, among other factors. These factors have resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding loans with GDB, which delays, in turn, have limited GDB's ability to continue providing liquidity to the Commonwealth and its instrumentalities.

As a result of the reductions in liquidity experienced, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In April 2016, the Governor of the Commonwealth imposed on GDB certain emergency operational restrictions and declared a moratorium on debt service payments and to stay related creditor remedies through January 31, 2017, with a possible two-month extension at the Governor's discretion.

COMMONWEALTH OF PUERTO RICO
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For a variety of reasons, several years ago GDB came to find itself immersed in a fiscal and viability crisis. In April 2016, the Governor of the Commonwealth imposed on GDB certain emergency operational restrictions, including restrictions on the withdrawal and transfer of deposits from GDB, and declared a moratorium on debt service payments and to stay related creditor remedies through January 31, 2017, with a possible two-month extension at the Governor's discretion. On April 8, 2016, the Governor signed Executive Order No. 2016-10 declaring GDB to be in state of emergency pursuant to Act 21 of 2016, known as the "*Puerto Rico Emergency Moratorium and Financial Rehabilitation Act*", as amended, based on GDB's need for additional sources of liquidity.

In early 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") was created to assume the roles of the fiscal agent, financial advisor and disclosure agent for the Government. On May 15, 2017, AAFAF and GDB announced a *Restructuring Support Agreement* ("RSA") with certain of GDB's financial creditors. On June 19, 2017, AAFAF and GDB announced that parties representing over fifty percent (50%) of GDB's Participating Bond Claims, as defined in the RSA, had signed the RSA.

On August 24, 2017, Act No. 109, known as *GDB Restructuring Act (Ac No. 109)*, was enacted. to establish the legal framework for the transactions contemplated by, or in furtherance of, the Restructuring Support Agreement dated May 17, 2017 and certified by the Oversight Board as a Qualifying Modification under Section 601(g)(2)(A) of PROMESA, as the same may be amended from time to time in accordance with its terms.

On March 27, 2018, the GDB publicly released the Fourth Amendment (the "Fourth Amendment") to the RSA, dated May 15, 2017, by and among GDB, AAFAF, and the Supporting Bondholders party thereto. The Fourth Amendment was supported by GDB, AAFAF, and a portion of the creditors to the RSA.

Under the Fourth Amendment, the principal amount of any bond, note and/or loan of any municipality of Puerto Rico held by GDB shall be automatically reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB. Any remaining municipal deposits held at GDB shall be reduced on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan relative to the type of corresponding deposit. The remaining balances of the municipal loans shall be those certified by AAFAF, and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

On November 29, 2018, substantially all municipal deposits held at GDB were applied on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of corresponding deposit pursuant to the provisions of Article 501 of the GDB Restructuring Act of 2017, as amended. The remaining balances of the municipal bonds, notes and loans payable were certified by the Puerto Rico Fiscal Agency and Financial Advisory Authority and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

COMMONWEALTH OF PUERTO RICO
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d) Currently Known Facts

Failure to Implement Requirements of New Accounting Standard for Pensions

As disclosed in Note 14 to the basic financial statements, the Municipality was not able to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pension*, and (GASB 68). The Municipality's inability to implement the requirements of GASB 68 resulted from the unavailability of the required information that was expected to be provided by The Employee Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS), a pension trust fund of the Commonwealth, which is not under the Municipality's management and control. Therefore, as of the date of this report, it is not known when the required information shall be provided to enable the Municipality to implement the requirements GASB 68 and, therefore, the Municipality is not able to determine the possible impact on its basic financial statements. This situation resulted in the expression of a qualified opinion from our external auditors, on the governmental activities of the Municipality.

e) The Puerto Rico Oversight, Management and Economic Stability Act

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into federal law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations, including the establishment of an oversight board, the requirements of fiscal plans and budgets to the Commonwealth of Puerto Rico, the establishment of an automatic stay, and debt adjustments, among others.

On October 14, 2016, the Commonwealth of Puerto Rico submitted a fiscal plan for the review and approval of the Oversight Board which includes, among other things, the following aspects for financial and operational recovery:

- Minimization of Impact of Austerity on Economic Growth
- Improving Budgetary Controls and Financial Transparency
- Rationalization of Expenditures and Tax Policy to Promote Efficiency
- Enacting Structural Economic Measures and Investing in Growth
- Protection of Vulnerable Stakeholders
- Creation of a Sustainable Debt Level That Allows for Economic Growth
- Partner with the Federal Government to Generate Growth

Upon the initial review, in December 2016, the Oversight Board rejected the fiscal plan and requested the Commonwealth of Puerto Rico to review and modify the plan to ensure full compliance with all of the fourteen (14) fiscal plan requirements set forth by PROMESA.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Management's Discussion and Analysis (Unaudited)
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concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Las Piedras, Department of Finance.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Net Position
June 30, 2018

Assets		Governmental activities
Current assets:		
Cash in commercial banks		\$ 486,587
Accounts receivable, net of allowance for doubtful accounts		
Taxes receivable:		
Property taxes	\$ 925,352	
Municipal license taxes	76,707	
Construction exice taxes	12,106	
Intergovernmental grants and contributions	1,521,290	
Miscellaneous	8,535	
Total accounts receivable		2,543,990
Restricted assets:		
Cash in commercial banks	\$ 5,529,152	
Deposits with governmental bank	4,642,265	
Intergovernmental grants and contributions receivable	1,078,125	
Total restricted assets		11,249,542
Total current assets		14,280,119
Non-current assets:		
Capital assets, at cost:		
Depreciable capital assets	\$ 66,506,111	
Non-depreciable capital assets	5,351,257	
Total capital assets, at cost	71,857,368	
Less: accumulated depreciation and amortization	(26,616,013)	
Total capital assets, net		45,241,355
Other assets		63,621
Total non-current assets		45,304,976
Total assets		59,585,095
Deferred outflows of resources		
Employees' Retirement System Pensions		5,326,320
Total assets and deferred outflows of resources		\$ 64,911,415

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Net Position (concluded)
June 30, 2018

Liabilities and net position

**Governmental
activities**

Current liabilities (due within one year):

Accounts payable and accrued liabilities:

 Book overdraft \$ 289,569

 Trade payables and accrued liabilities 2,736,587

 Intergovernmental payables 4,877,577

 Total accounts payable and accrued liabilities

\$ 7,903,733

Current portion of long-term obligations:

 Bonds payable \$ 1,005,000

 Notes payable 29,076

 Compensated absences 988,986

 Total current portion of long-term obligations

2,023,062

 Total current liabilities

9,926,795

**Non-current liabilities, excluding current portion
(due in more than one year) :**

Bonds payable 20,840,000

Notes payable 859,034

Compensated absences 1,170,045

Claims and judgments 6,893,485

Net pension liability 34,733,451

 Total non-current liabilities 64,496,015

 Total liabilities 74,422,810

Deferred inflows of resources

5,467,646

Net position

Invested in capital assets, net of related debt 39,262,307

Restricted for:

 Debt service \$ 1,447,849

 Capital projects 2,432,667

 Other purposes 1,770,998

 Total restricted net position 5,651,514

Unrestricted (59,892,862)

 Total net position \$ (14,979,041)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Statement of Activities
Fiscal Year Ended June 30, 2018

Functions/programs	Expenses, including depreciation and amortization \$1,935,153	Program revenues			Net (expenses) and changes in net assets
		Charges for services	Program – specific operating grants and contributions	Program – specific capital grants and contributions	
Governmental activities:					
General government	\$ 18,034,078	95,616	-	-	\$ (17,938,462)
Urban and economic development	2,366,581	-	-	3,021,358	654,777
Health and sanitation	4,987,171	-	2,214,189	-	(2,772,982)
Public safety	685,235	-	-	-	(685,235)
Public housing and welfare	2,187,318	-	-	1,038,953	(1,148,365)
Culture, recreation and education	592,075	-	-	-	(592,075)
Interests on long-term obligations	1,256,176	-	-	-	(1,256,176)
Total governmental activities	\$ 30,108,634	95,616	2,214,189	4,060,311	(23,738,518)
General revenues:					
Taxes:					
Property taxes					\$ 5,532,688
Municipal license taxes					5,159,730
Construction excise taxes					493,875
Sales and use taxes					1,463,315
Total tax revenues					12,649,608
Intergovernmental grants and contributions, not restricted to specific programs					3,117,317
Interests on deposits					127,755
Miscellaneous					426,032
Total general revenues					16,320,712
Net decrease in net position					(7,417,806)
Net position at beginning of fiscal year					24,375,392
Prior-period adjustment and restatements					(31,936,627)
Net position at beginning of fiscal year, as restated					(7,561,235)
Net position at end of fiscal year					\$ (14,979,041)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Balance Sheet – Governmental Funds
June 30, 2018

Assets	Major governmental funds						Total governmental funds
	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Diagnostic and treatment center fund	Other governmental funds	
Cash in commercial banks	\$ 486,587	-	-	-	-	-	\$ 486,587
Accounts receivable, net of allowance for doubtful accounts:							
Taxes:							
Property taxes	925,352	-	-	-	-	-	925,352
Municipal license taxes	76,707	-	-	-	-	-	76,707
Construction excise taxes	12,106	-	-	-	-	-	12,106
Intergovernmental grants and contributions	1,521,290	-	-	-	-	-	1,521,290
Miscellaneous	8,535	-	-	-	-	-	8,535
Restricted assets:							
Cash in commercial banks	-	2,529,607	1,526,136	874,448	118,999	479,962	5,529,152
Deposits with governmental bank	9,671	2,427,489	-	2,187,224	-	17,881	4,642,265
Accrued interest on deposits	-	-	-	-	-	-	-
Due from other governmental funds	1,264,832	-	-	-	250,455	5,879	1,521,166
Intergovernmental grants and contributions receivable	-	-	-	-	731,105	347,020	1,078,125
Total assets	4,305,080	4,957,096	1,526,136	3,061,672	1,100,559	850,742	15,801,285
Liabilities							
Accounts payable and accrued liabilities:							
Book overdraft	289,569	-	-	-	-	-	289,569
Trade payables and accrued liabilities	1,864,615	9,684	-	608,823	250,455	3,010	2,736,587
Intergovernmental payables	3,339,452	-	-	-	-	-	3,339,452
Due and advances to other funds	230,013	-	-	-	731,105	560,048	1,521,166
Matured bonds due and payable	-	-	-	1,005,000	-	-	1,005,000
Total liabilities	5,723,649	9,684	-	1,613,823	981,560	563,058	8,891,774
Deferred inflows of resources	2,689,073	87,256	-	-	118,999	42,822	2,938,150
Fund balances (deficits)							
Assigned	2,705,099	-	-	-	-	-	2,705,099
Restricted	-	4,860,156	1,526,136	1,447,849	-	244,862	8,079,003
Unassigned	(6,812,741)	-	-	-	-	-	(6,812,741)
Total fund balances (deficits)	(4,107,642)	4,860,156	1,526,136	1,447,849	-	244,862	3,971,361
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 4,305,080	4,957,096	1,526,136	3,061,672	1,100,559	850,742	\$ 15,801,285

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
June 30, 2018

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

Total fund balances reported in the balance sheet-governmental funds	\$ 3,971,361
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation of \$26,616,013 at June 30, 2018, which is reported in statement of net position.	45,241,355
Deferred outflows of resources related to pensions are not considered current available financial resources, therefore, are not reported in the governmental funds financial statements.	5,326,320
Other assets recorded in the statement of net position are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds.	63,621
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2018:	
Bonds payable	(20,840,000)
Notes payable	(888,110)
Compensated absences	(2,159,031)
Claims and judgments	(6,893,485)
Intergovernmental payables	(1,538,125)
Deferred inflows or resources related to pensions	(2,529,496)
Net pension liability	(34,733,451)
Net position-governmental activities, as reported in the statement of net position	\$ (14,979,041)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds
Fiscal Year Ended June 30, 2018

	Major governmental funds						Total governmental funds
	General fund	Capital improvements bonds fund	Legislative	Debt service fund	Diagnostic and	Other governmental funds	
			joint resolutions fund		treatment center fund		
Revenues:							
Taxes:							
Property taxes	\$ 3,775,860	-	-	1,756,828	-	-	\$ 5,532,688
Municipal license taxes	5,159,730	-	-	-	-	-	5,159,730
Construction excise taxes	493,875	-	-	-	-	-	493,875
Sales and use taxes	1,463,315	-	-	-	-	-	1,463,315
Total tax revenues	10,892,780	-	-	1,756,828	-	-	12,649,608
Intergovernmental grants and contributions	3,169,817	2,251,142	-	770,216	2,214,189	1,038,953	9,444,317
Charges for services	95,616	-	-	-	-	-	95,616
Interests on deposits	455	118,326	-	8,022	-	952	127,755
Miscellaneous	426,032	-	-	-	-	-	426,032
Total revenues	14,584,700	2,369,468	-	2,535,066	2,214,189	1,039,905	22,743,328
Expenditures:							
Current:							
General government	11,402,124	26,049	-	-	-	-	11,428,173
Public housing and welfare	936,974	-	-	-	-	1,046,684	1,983,658
Health and sanitation	924,259	-	-	-	2,492,443	-	3,416,702
Urban and economic development	1,417,278	-	-	-	-	-	1,417,278
Public safety	577,929	-	-	-	-	-	577,929
Culture, recreation and education	284,948	-	-	-	-	-	284,948
Debt service:							
Principal	154,081	-	-	1,005,000	-	-	1,159,081
Interest	61,820	-	-	1,194,356	-	-	1,256,176
Capital outlays	-	30,750	-	-	-	-	30,750
Total expenditures	15,759,413	56,799	-	2,199,356	2,492,443	1,046,684	21,554,695
Revenues over (under) expenditures	(1,174,713)	2,312,669	-	335,710	(278,254)	(6,779)	1,188,633
Other financing sources (uses):							
Transfers-in from other governmental funds	1,547,910	6,322	-	-	1,232,463	47,952	2,834,647
Transfers-out to other governmental funds	(1,285,707)	(339,860)	-	(247,641)	(954,209)	(7,230)	(2,834,647)
Total other financing sources (uses), net	262,203	(333,538)	-	(247,641)	278,254	40,722	-
Net increase (decrease) in fund balances (deficits)	(912,510)	1,979,131	-	88,069	-	33,943	1,188,633
Fund balances (deficit), at beginning of fiscal year	(3,195,132)	2,881,025	1,526,136	1,359,780	-	210,919	2,782,728
Fund balance (deficit) at end of fiscal year	\$ (4,107,642)	4,860,156	1,526,136	1,447,849	-	244,862	\$ 3,971,361

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

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
(Deficits) – Governmental Funds to Statement of Activities
June 30, 2018

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

Total net increase in fund balances (deficits) reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 1,188,633
Add (Deduct):	
Net change in deferred inflows of resources that are measurable but not available at June 30, 2018.	(52,500)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the excess of depreciation expense over capital outlays.	(1,904,403)
Governmental funds report debt issue costs as expenditures. However, in the statement of activities, these costs are considered other assets and amortized over a period of time as amortization expense.	(2,060)
Repayment of principal of long-term obligations is reported as expenditures in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net position.	884,239
Net change in claims and judgments accrued liability	(5,938,749)
Net change in intergovernmental liabilities	(1,538,125)
Net change in compensated absences accrued liability	<u>(54,841)</u>
Net decrease in net position, as reported in the statement of activities	<u>\$ (7,417,806)</u>

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

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2018

1. Background Information and Summary of Significant Accounting Policies

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

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2018, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

The Employees Retirement System of the Commonwealth of Puerto Rico did not provide the Municipality the information needed to adopt GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (“GASB 68”) for the years ended June 30, 2015, 2016, and 2017. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB 68.

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

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

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2018, 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.

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

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

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

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

The adoption of GASB 55 and GASB 56 did not have retroactive cumulative effects affecting the accompanying financial statements as of July 1, 2016, and have not affected the financial positions and the results of operations reported as of and for the fiscal year ended June 30, 2017. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2016.

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

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

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

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

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

On July 1, 2017, the Municipality partially adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB No. 68). Accordingly, the Municipality retroactively recorded a prior-period adjustment of \$29,471,601 to the beginning balance of its governmental activities to record its share and allocation of the net pension liability and the related deferred inflows of resources and deferred outflows of resources pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico on November 2, 2018.

However, as discussed on Note 11, the Employees Retirement System of the Commonwealth of Puerto Rico did not provide the information needed by the Municipality to record its proportionate share and allocation of the net pension liability, deferred inflows of resources and deferred outflows of resources at June 30, 2018, and the related pension expense for the fiscal year then ended or the information needed for the required disclosures or required supplementary information as of and for the year ended June 30, 2018. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB No. 68 as of and for the fiscal year ended June 30, 2018.

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.

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

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

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

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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

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

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2018.

On July 1, 2015, the Municipality adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76). This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB No. 76 improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the

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GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature.

As a result of the implementation of GASB No. 76, the Municipality has applied financial reporting guidance with less variation, which improves the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

c) Government-wide Financial Statements

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

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

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

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

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

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

In addition, for the purposes of determining the outstanding debt attributed to capital assets, the following items are excluded from the calculation: (1) bond issuance costs, (2) interest payable, (3) accrued interest on deep discount debt and non-capital accrued liabilities (e.g. compensated absences,

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claims and judgments, etc.), and (5) debt used to finance capital acquisitions by parties outside the Municipality. Furthermore, the computation of net position invested in capital assets, net of related debt, excludes inter-fund loans and other financial assets.

- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

On July 1, 2005, the Municipality adopted the provisions of Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). This Statement requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. This Statement clarified that a legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. This Statement states that the legal enforceability of an enabling legislation should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration. Although the determination that a particular restriction is not legally enforceable may cause the Municipality to review the enforceability of other restrictions, it should not necessarily lead the Municipality to the same conclusion for all enabling legislation restrictions.

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

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

The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2018:

- (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.
 - (2) **Capital projects** – Represent net resources available to cover the cost of the acquisition, construction, and improvement of major and non-major capital assets.
 - (3) **Federal and state funded programs** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- **Unrestricted net position (deficit)** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital

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assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2018, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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

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

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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 citizens affairs

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

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

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

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

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

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revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

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

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

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

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

d) *Governmental Fund Financial Statements*

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

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

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).

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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. On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types also were also modified for clarity and consistency.

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

- **General fund** – The general fund is the Municipality’s main operating fund as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality’s governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2017, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

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

- **Capital projects fund** – The capital projects fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets. In addition, the capital projects fund is used to account for the routine purchases of minor capital assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) and reported in the governmental fund from which financial resources were used for the payment.
- **Legislative joint resolution fund** – The legislative joint resolutions fund is a major capital project fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico, which are principally used in the acquisition or construction of major capital facilities, other assets and permanent

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improvements. The most significant transactions of this fund are related to capital outlays and intergovernmental grants and contributions revenues.

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

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

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

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

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

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

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following types of similar internal funds have been combined into single funds in the accompanying fund financial statements:

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

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

e) Measurement Focus and Basis of Accounting and Financial Statements Presentation

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits) 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.

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

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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 inflows of resources.

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

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2018, 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) inflows of resources at June 30, 2018.

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

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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).

Interests on deposits are recorded when earned, since these revenues are considered both measurable and available at June 30, 2018.

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, 2018, which have been recorded as governmental fund liabilities at June 30, 2018, which is the date when resources are available in the debt service funds (generally, June 30).
- Notes payable, claims and judgments, and compensated absences are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (un-matured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.

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

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

f) Stewardship, Compliance and Accountability

Budgetary Control

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

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

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

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

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.

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

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

Budgetary Accounting

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

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

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

The accompanying budgetary comparison schedule – general fund, provides information about the general fund's original budgets, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2017. 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, 2017, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

At June 30, 2018, the Municipality has outstanding encumbrances in the general fund amounting to \$2,705,099.

g) Unrestricted and Restricted Deposits

The Municipality's deposits at June 30, 2018 are composed of: (1) cash on hand, (2) demand deposits in commercial banks, and (3) demand deposits in the Government Development Bank for Puerto Rico (GDB), governmental bank.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged

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as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Deposits in commercial banks and governmental bank in the debt service fund consist of cash related to property tax collections amounting to \$874,448 and \$2,187,224, respectively, which are restricted for the payment of the Municipality's debt service, as required by law.

Deposits with governmental bank in the capital projects fund, amounting to \$2,427,489 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 \$2,529,607 represents the balance of non-interest bearing account restricted for the purchase of minor capital assets such as furniture, office equipment, vehicles, and other minor capital assets or improvements.

Restricted cash in commercial banks in the legislative joint resolutions fund consists of unspent program-specific grants and contributions amounting to \$1,526,136 awarded by the Legislature of the Commonwealth of Puerto Rico that are mainly restricted for the acquisition, construction or improvements of major capital assets. Restricted cash in commercial banks for other governmental funds, amounting to \$479,962, represents the balance of non-interest bearing accounts restricted to finance the operations of various federal and state funded programs.

h) Unrestricted and Restricted Accounts Receivable

Receivables consist of all revenues earned but not collected at June 30, 2018. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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

i) Capital Assets

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

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

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at

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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.

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

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

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

j) Deferred Inflows of Resources

Deferred inflows of resources arise when the Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the deferred inflow of resources is removed and revenue is recognized.

k) Deferred outflows of resources

Deferred outflows of resources in government-wide financial statements arise only when the Municipality disburres financial resources related to pensions that are applicable to future years.

l) 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

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for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2018 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. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

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

m) Long-term Obligations

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2018 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2018). 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

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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.

n) Accounting for Pension Plans

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

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

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

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

Retirement and related benefits provided by the Employees Retirement System, and required contributions to the Employees Retirement System by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the Employees Retirement System increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2017 is 15.525%.

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

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

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

The June 30, 2013 actuarial valuations for the Employees Retirement System calculated accounting results for pension benefits under Governmental Accounting Standards Board No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" ("GASB 25"). The Employees Retirement System's actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of GASB Statement No. 67, "Financial Reporting for Pension Plans" ("GASB 67"), which replaced GASB 25. GASB 67 specifies certain significant changes for financial reporting purposes, including but not limited to (a) calculation of plan liabilities based on the "entry age normal" method (compared to the "projected unit credit" method used in the prior valuation), (b) calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments under certain assumptions, and (c) for purposes of valuing the plan's liabilities after the depletion date, use of a discount rate tied to a municipal bond index. GASB 67 also introduces certain new terminology, including: (i) Total Pension Liability, which is the actuarial accrued liability calculated in accordance with the new GASB 67 requirements, (ii) Fiduciary Net Position, which is the market value of plan assets, net of liabilities (in the case of the Employees Retirement System, Fiduciary Net Position is also equivalent to the previously reported actuarial value of assets), and (iii) Net Pension Liability, which is calculated as Total Pension Liability less Fiduciary Net Position, and is equivalent to the unfunded actuarial accrued liability.

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

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

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (“GASB 68”) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Employees Retirement System. GASB 68 will bring the effect of GASB 67 summarized above, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Employees Retirement System. The Commonwealth, as well as its component units and the municipalities, are considered “cost-sharing” employers of the Employees Retirement System; therefore, they must report their allocated share of the Commonwealth’s resulting net pension liability from GASB 67. The Commonwealth and the Employees Retirement System are still in the process of evaluating the impact of GASB 68 and have not provided the Municipality with the necessary information as of June 30, 2017 to adopt GASB 68 including its allocated share of the net pension liability mentioned above. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB 68.

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

o) Risk Financing

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 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

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

The Municipality obtains unemployment compensation, non-occupational disability, and drivers’ insurance coverage for its employees through various insurance programs administered by the Commonwealth’s Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because

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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, 2018. 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.

p) Fund Balances

On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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

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

- a. Restricted** - Represent net resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers. In the accompanying basic financial statements, restricted fund balances have been reported in the following funds and for the following purposes:
 - *Capital projects fund* – restricted fund balance which consists of financial resources to be used only for the acquisition, construction or improvement of major capital assets under contracts and other commitments, as approved and financed by the Government Development Bank for Puerto Rico, and the acquisition, construction or improvement of other minor capital assets.
 - *Legislative joint resolutions fund* – restricted fund balance consists of financial resources arising from grants and contributions received through resolutions of the Legislature of the Commonwealth of Puerto Rico to be used principally for the acquisition, construction or improvement of capital assets under contracts and other commitments.

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- *Debt service fund* – restricted fund balance consists of financial resources available only to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund, as required by Law.
 - *Other governmental funds* – restricted fund balance consists of financial resources arising from operating and capital grants and contributions from state and federal grantors that can be spent only for the specific purposes stipulated by the respective external resource providers, or through enabling legislation.
- b. Assigned* - Represent net resources recorded in the general fund, intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

At June 30, 2018 assigned fund balance in the general fund consists of fund balances reserved for encumbrances amounting to \$2,705,099.

- c. Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

The Municipality had no fund balances classified as *committed* at June 30, 2018. Those types of fund balances are generally related to financial resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances), which would only be changed by a similar law, ordinance or resolution.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2018.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources.

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Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2018 have not been affected for this change in accounting principle. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2017.

q) *Inter-fund Transactions*

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

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

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

r) *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.

s) *Accounting Standards Issued But Not Yet Adopted*

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

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- a. GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- b. GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- c. GASB Statement No. 87, *Leases*, was issued in June 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- d. GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- e. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued in June 2018. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- f. GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, was issued in August 2018. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

2. Cash and Cash Equivalents in Commercial Banks

Custodial credit risk for cash and cash equivalents is the risk that in the event of bank failure, the Municipality's deposits may not be recovered. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Government of Puerto Rico, but not in the Municipality's name. The Municipality's cash and cash equivalents consist principally of unrestricted and restricted demand deposits in various commercial banks.

Unrestricted deposits of \$486,587 in the general fund are available to meet general operating requirements of the Municipality, including the payment of short-term obligations of the general fund, most of them which are budgeted.

Restricted cash in the capital projects fund amounting to \$2,529,607 consists mainly of unspent bonds and notes proceeds that are restricted for the acquisition, construction or improvements of major capital assets financed with public debt.

Restricted cash in the legislative joint resolutions fund amounting \$1,526,136 consists of intergovernmental operating and capital grants contributions received from the Commonwealth of Puerto Rico.

Restricted cash in the debt service fund amounting \$874,448 consists of unspent property tax collections that are available for the debt service payments of bonds and certain general obligations notes.

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Restricted cash in the diagnostic and treatment center fund amounting \$118,999 consists of collections from the health insurance companies and citizens, for medical services provided in the Diagnostic and Treatment Center located in the Municipality of Las Piedras.

Restricted cash of other governmental funds amounting \$479,962 consist of intergovernmental operating and capital grants contributions received from the Commonwealth of Puerto Rico and the federal government of the United States of America that are available for the operations of several operating and capital grant programs.

3. Restricted Deposits with Governmental Bank

The Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth of Puerto Rico originally created to aid the Government of Puerto Rico on its fiscal duties and more efficiently carry out its responsibility to develop the economy of Puerto Rico. Over decades, GDB evolved and its role expanded to include, among other services, acting as fiscal agent, paying agent, financial advisor for the Commonwealth of Puerto Rico and its instrumentalities, public corporations and municipalities, and to grant interim and long-term financing to public entities and municipalities and private enterprises to promote the economic development of Puerto Rico. GDB became a financing backstop for fiscal losses of the Government and the municipalities of Puerto Rico.

GDB was also called upon to provide financial support during periods of financial distress, leveraging its strong credit rating, reputation, access to the capital markets and its constructive relationship with the investment community, to provide financial support to troubled public entities and assist them in regaining financial stability.

For a variety of reasons, several years ago GDB came to find itself immersed in a fiscal and viability crisis. In April 2016, the Governor of the Commonwealth imposed on GDB certain emergency operational restrictions, including restrictions on the withdrawal and transfer of deposits from GDB, and declared a moratorium on debt service payments and to stay related creditor remedies through January 31, 2017, with a possible two-month extension at the Governor's discretion. On April 8, 2016, the Governor signed Executive Order No. 2016-10 declaring GDB to be in state of emergency pursuant to Act 21 of 2016, known as the "*Puerto Rico Emergency Moratorium and Financial Rehabilitation Act*", as amended, based on GDB's need for additional sources of liquidity.

In early 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) was created to assume the roles of the fiscal agent, financial advisor and disclosure agent for the Government.

On May 15, 2017, AAFAF and GDB announced a *Restructuring Support Agreement* (RSA) with certain of GDB's financial creditors. On June 19, 2017, AAFAF and GDB announced that parties representing over fifty percent (50%) of GDB's Participating Bond Claims, as defined in the RSA, had signed the RSA.

On August 24, 2017, Act No. 109, known as *GDB Restructuring Act*, was enacted. to establish the legal framework for the transactions contemplated by, or in furtherance of, the Restructuring Support Agreement dated May 17, 2017 and certified by the Oversight Board as a Qualifying Modification under Section 601(g)(2)(A) of PROMESA, as the same may be amended from time to time in accordance with its terms.

On March 27, 2018, the GDB publically released the Fourth Amendment (the "Fourth Amendment") to the RSA, dated May 15, 2017, by and among GDB, AAFAF, and the Supporting Bondholders party thereto. The draft Fourth Amendment is said to be currently supported by the GDB, AAFAF, and a portion of the creditors to the RSA.

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Under the Fourth Amendment, the principal amount of any bond, note and/or loan of any municipality of Puerto Rico held by GDB shall be automatically reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB. Any remaining municipal deposits held at GDB shall be reduced on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan relative to the type of corresponding deposit. The remaining balances of the municipal loans shall be those certified by AAFAF, and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

GDB’s operational wind down was completed on March 23, 2018, with all fundamental operations having ceased or transferred to other entities (i.e. AAFAF, EDB, etc.) and workforce restructuring completed with minimal “at will” staffing needed to conclude legal and operational matters through fiscal year 2019.

Cash and cash equivalents, and deposits with governmental bank at June 30, 2018, are classified in the accompanying balance sheet – governmental funds as follows:

	Major governmental funds						Total
	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Diagnostic and treatment center fund	Other governmental funds	
Unrestricted:							
Cash equivalents	\$ 486,587						\$ 486,587
Restricted:							
Cash equivalents		2,529,607	1,526,136	874,448	118,999	479,962	5,529,152
Deposits with governmentak bank	9,671	2,427,489		2,187,224		17,881	4,642,265
Totals	\$ 496,258	4,957,096	1,526,136	3,061,672	118,999	497,843	\$ 10,658,004

Restricted deposits of \$9,671 in the general fund consist of unspent notes proceeds that were restricted for the acquisition of capital assets.

Restricted deposits in the debt service fund consist of unspent property tax collections amounting to \$2,187,224 that are available for the debt service payments of bonds and certain general obligations notes.

Restricted deposits in the capital projects fund of \$2,427,489 consist of unspent bonds and notes proceeds that are restricted for the acquisition, construction or improvements of major capital assets financed with public debt.

Restricted deposits of \$17,881 consist of intergovernmental capital and operating grants and contributions from the Commonwealth of Puerto Rico that are mainly restricted for general infrastructure projects.

4. 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, 2018, 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

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pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred inflows of resources in the GWFS and the GFFS. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$2,689,073 at June 30, 2018.

5. 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).

Personal property taxes is a derived tax using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date.

The total personal property tax rate in force at June 30, 2018 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Commonwealth, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2017 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Commonwealth, 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 Commonwealth pays 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.

Included within the total personal and real property tax rates, there is a portion of the tax rate in the amount of 3.50 percent that is restricted for the Municipality's debt service requirements on bonds and certain notes. Such amounts are recorded in the Municipality's debt service fund.

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity independent from the Municipality and other governmental entities in Puerto Rico that is responsible of administering the Puerto Rico Municipal Property Tax Law on behalf of the municipalities of Puerto Rico. CRIM has the responsibility of imposing and collecting property taxes on behalf of the Municipality

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CRIM is composed of a Board of Governors and a management team leader as Executive Director. The Board of Governors is composed of nine (9) mayors representing the seventy-eight (78) municipal governments of Puerto Rico and the President of the Government Development Bank for Puerto Rico and the Commissioner of Municipal Affairs as representatives of the GDB.

On November 2, 2015, the Government Development Bank for Puerto Rico (GDB), in its capacity as fiscal agent for the municipalities, established an irrevocable trust with CRIM in which property tax collections shall be deposited in the name and for the benefit of all the municipalities of Puerto Rico pursuant to Article 4 of Public Act No. 80 of August 30, 1991, as amended.

The initial transfer to the trust consisted of property taxes collected by CRIM on behalf of all municipalities through November 2, 2015 amounting to approximately \$445 million, of which \$290 million were deposited in GDB and \$155 million were deposited in a commercial bank. Both banking institutions are co-authorized to render the fiduciary services, which include, among other things, the custody, management and investing of such municipal funds. In addition, both banks are bounded to keep those financial resources separated from any other deposits for the sole benefit of the municipalities.

The funds held in trust shall be invested in U.S. Treasury Bills, U.S. Treasury Notes, and certificates of deposits and other interest-bearing account of qualifying authorized banks pursuant to the Trust Investment Policy approved on October 29, 2015.

At June 30, 2018, property taxes receivable recorded in the general fund amounted to \$925,352.

6. Sales and Use Taxes

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

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

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

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

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Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

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

Sales and use tax revenues recorded in the general fund amounted to \$1,463,315 for the fiscal year ended June 30, 2018.

7. Construction Excise Taxes

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

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

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

Construction excise tax revenues recorded in the general fund amounted to \$493,875 for the fiscal year ended June 30, 2018.

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8. Intergovernmental Receivables

Intergovernmental receivables recorded in the accompanying GWFS and GFFS are as follows at June 30, 2018:

	<u>Major governmental funds</u>			Total
	General fund	Diagnostic and treatment center fund	Other governmental funds	
<u>Intergovernmental receivables:</u>				
<i>Grants and contributions:</i>				
Puerto Rico Treasury Department - Employees' Christmas bonus cost reimbursement	\$ -	-	-	\$ -
Commonwealth of Puerto Rico - Contribution of the State Department of Health	-	731,105	26,204	757,309
Puerto Rico Electric Power Authority - Contributions in lieu of Municipal Taxes	1,521,290	-	-	1,521,290
Puerto Rico Department of Labor - Law 82	-	-	-	-
Labor Rights Administration - Cadets Consortium	-	-	36,802	36,802
U.S. Department of Housing and Urban Development, through the Puerto Rico Office of the Commissioner of Municipal Affairs - SBGP Block Grant	-	-	284,005	284,005
U.S. Department of Housing and Urban Development, through the Puerto Rico Office of the Commissioner of Municipal Affairs - HPRP	-	-	9	9
Total intergovernmental receivables	<u>\$ 1,521,290</u>	<u>731,105</u>	<u>347,020</u>	<u>\$ 2,599,415</u>

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COMMONWEALTH OF PUERTO RICO
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9. Inter-Fund Transactions

The composition of inter-fund balances at June 30, 2018 and for the fiscal year then ended is as follows:

	Due to:			
	General fund	Diagnostic and treatment center fund	Other governmental funds	Total governmental funds
Due from:				
<i>Major governmental funds:</i>				
General fund	\$ -	\$ 224,134	\$ 5,879	\$ 230,013
Diagnostic and treatment center fund	704,784	26,321	-	731,105
Other governmental funds	560,048	-	-	560,048
Total	<u>\$ 1,264,832</u>	<u>\$ 250,455</u>	<u>\$ 5,879</u>	<u>\$ 1,521,166</u>

	Transfers to:				
	General fund	Capital projects fund	Diagnostic and treatment center fund	Other governmental funds	Total governmental funds
Transfers from:					
<i>Major governmental funds:</i>					
General fund	\$ -	6,322	1,232,463	46,922	\$ 1,285,707
Capital projects fund	338,830	-	-	1,030	339,860
Debt service fund	247,641	-	-	-	247,641
Diagnostic and treatment center fund	954,209	-	-	-	954,209
Other governmental funds	7,230	-	-	-	7,230
Total	<u>\$ 1,547,910</u>	<u>6,322</u>	<u>1,232,463</u>	<u>47,952</u>	<u>\$ 2,834,647</u>

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10. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018:

	Balance at June 30,2017	Additions (Reclassifications)	Balance at June 30,2018
<u>COST BASIS:</u>			
Cost basis of capital assets, not subject to depreciation and amortization:			
Infrastructure land	\$ 5,350,257	-	\$ 5,350,257
Construction in progress	1,000	-	1,000
Total cost basis of capital assets, not subject to depreciation and amortization	<u>5,351,257</u>	-	<u>5,351,257</u>
Cost basis of capital assets, subject to depreciation and amortization:			
Buildings, structures and building improvements	15,522,020	30,750	15,552,770
Infrastructure	30,037,521	-	30,037,521
Land Improvements	13,103,518	-	13,103,518
Licensed vehicles	4,763,747	-	4,763,747
Furniture, fixtures, machinery and equipment	2,316,320	-	2,316,320
Machinery and equipment held under capital leases	732,235	-	732,235
Total cost basis of capital assets subject to depreciation and amortization	<u>66,475,361</u>	<u>30,750</u>	<u>66,506,111</u>
Total cost basis of capital assets	<u>\$ 71,826,618</u>	<u>30,750</u>	<u>\$ 71,857,368</u>
	Balance at June 30,2017	Depreciation and amortization expense	Balance at June 30,2018
<u>ACCUMULATED DEPRECIATION AND AMORTIZATION:</u>			
Buildings, structures and building improvements	\$ 4,524,825	1,935,153	\$ 6,459,978
Infrastructure	12,071,997	-	12,071,997
Land Improvements	3,735,600	-	3,735,600
Licensed vehicles	2,230,724	-	2,230,724
Furniture, fixtures, machinery and equipment	2,117,714	-	2,117,714
Total accumulated depreciation and amortization	<u>24,680,860</u>	<u>1,935,153</u>	<u>26,616,013</u>
CAPITAL ASSETS, NET	<u>\$ 47,145,758</u>	<u>(1,904,403)</u>	<u>\$ 45,241,355</u>

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Depreciation and amortization expense for the fiscal year ended June 30, 2018 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	322,526
Public safety		322,526
Public housing and welfare		322,526
Health and sanitation		322,525
Culture, recreation and recreation		322,525
Urban and economic development		322,525
Total depreciation and amortization expenses	\$	<u><u>1,935,153</u></u>

11. Intergovernmental Payables

Intergovernmental payables at year-end are as follows:

Puerto Rico Electric Power Authority	\$	1,600,033
Puerto Rico Aqueduct and Sewer Authority		863,642
Retirement System Administration		743,029
Municipality of Juncos		130,342
Puerto Rico General Service Administration		2,406
Total intergovernmental payables	\$	<u><u>3,339,452</u></u>

Intergovernmental payables to the Puerto Rico Electric Power Authority (PREPA) of \$1,600,033 consist mainly of unpaid energy consumption. Every fiscal year, PREPA shall distribute from its surplus a contribution in lieu of taxes (CILT) to all municipalities of Puerto Rico in exchange of full municipal tax exemption pursuant to the provisions of Act No. 57 of May 27, 2014, as amended.

The maximum amount or cap of the CILT has been established by computing the average energy consumption of municipalities, on an annual kilowatt-hour basis, for the three years of highest consumption since the change in the formula in 2004 up to 2014. Of this maximum amount or cap, the municipalities were required to reduce five percent (5%) annually during the fiscal years ended June 30, 2015 through 2017, until a reduction of at least fifteen percent (15%) of the maximum consumption amount or cap is achieved.

Any consumption in excess of the maximum amount or cap established as contribution by virtue of the CILT shall be billed to the municipality by PREPA for collection. PREPA also bills the Municipality for the energy consumption of all municipal revenue-generating properties, which are excluded from the annual CILT.

Intergovernmental payables to the Puerto Rico Aqueduct and Sewer Authority of \$863,642 consist of the unpaid water and sewer utility consumption.

Intergovernmental payable to Retirement System Administration of \$743,029 thousand consist of the unpaid required employer and employee contributions to the System.

Intergovernmental payable to Municipality of Juncos of \$130,342 thousand consist of unpaid waste disposal services.

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

At June 30, 2018, deferred inflows of resources and advance from other governmental entities recorded in the GWFS and the GFFS are as follows:

	Major governmental funds					Statement of net position
	General fund	Capital projects fund	Diagnostic and treatment center fund	Other governmental funds	Total governmental funds	
<i>Deferred inflows of resources:</i>						
Municipal license taxes	\$ 2,689,073	-	-	-	2,689,073	\$ 2,689,073
Employees' Retirement System Pension	-	-	-	-	-	2,529,496
<i>Advance from other governmental entities:</i>						
Intergovernmental grants and contributions	-	87,256	118,999	42,822	249,077	249,077
Total deferred inflows of resources and advance from other governmental entities	\$ 2,689,073	87,256	118,999	42,822	\$ 2,938,150	\$ 5,467,646

13. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2018 is as follows:

	Balance at beginning of fiscal year, as restated	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	\$ 23,060,000	\$ -	\$ (1,215,000)	\$ 21,845,000	\$ 1,005,000
Notes payable:					
Advanced property taxes	917,191	-	(29,081)	888,110	29,076
Compensated absences	2,104,190	1,043,827	(988,986)	2,159,031	988,986
Claims and judgements	954,736	5,938,749	-	6,893,485	-
Net pension liability	34,733,451	-	-	34,733,451	-
Total	\$ 61,769,568	\$ 6,982,576	\$ (2,233,067)	\$ 66,519,077	\$ 2,023,062

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

a) Debt Limitation

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

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which

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are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) Bonds Payable

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

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

As described in Note 5, 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 payable is composed as follows at June 30, 2018:

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	<u>Outstanding Amount</u>
1998-1999 serial bonds (face amount of \$ 3,040,000) due in annual principal installments ranging from \$45,00 to 245,000; plus interests due in semiannually installments at variable rates (5.01% at June 30, 2018) through July 1, 2023	\$ 1,250,000
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 (5.01% at June 30, 2018) through January 1, 2025	250,000
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 (3.00% at June 30, 2018) through January 1, 2027	455,000
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 (4.66% at June 30, 2018) through January 1, 2027	480,000
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 (4.66% at June 30, 2018) through July 1, 2028	635,000
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 (2.11% at June 30, 2018) through January 1, 2018	85,000
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 (2.11% at June 30, 2018) through July 1, 2030	655,000
2008-2009 series (original amount of \$ 2,245,000) due in annual principal installments ranging from \$30,000 to \$195,000; plus interests due in semiannually installments at variable rates (2.11% at June 30, 2018) through July, 1, 2032	1,830,000

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	<u>Outstanding Amount</u>
2009-2010 series (original amount of \$990,000) due in annual principal installments ranging from \$70,000 to \$135,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2019	\$ 260,000
2010-2011 series (original amount of \$1,575,000) due in annual principal installments ranging from \$20,000 to \$130,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2035	1,375,000
2010-2011 series (original amount of \$800,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2035	695,000
2010-2011 series (original amount of \$1,785,000) due in annual principal installments ranging from \$20,000 to \$150,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2036	1,560,000
2011-2012 series (original amount of \$9,610,000) due in annual principal installments ranging from \$140,000 to \$800,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2036	8,585,000
2011-2012 series (original amount of \$4,570,000) due in annual principal installments ranging from \$115,000 to \$430,000; plus interests due in annual installments at variable rates (6.00% at June 30, 2018) through July 1, 2030	<u>3,730,000</u>
	<u><u>\$ 21,845,000</u></u>

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

Principal	Interest	Total
\$ 1,005,000	630,618	\$ 1,635,618
1,100,000	613,876	1,713,876
1,055,000	588,763	1,643,763
1,189,000	663,544	1,852,544
6,091,000	3,399,198	9,490,198
6,366,000	3,552,667	9,918,667
4,104,000	2,290,315	6,394,315
935,000	424,132	1,359,132
\$ 21,845,000	12,163,113	\$ 34,008,113

At June 30, 2018, accrued interest payable on bonds amounted to \$630,618.

c) *Municipal Revenue Collection Center*

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

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (2.0 percent at June 30, 2016) 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 \$888,110 at June 30, 2018.

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14. Pension Plans

As of June 30, 2016, most recent audited financial statements available, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“Retirement System”) was severely underfunded with a net pension liability of approximately \$37,699 million and its fiduciary net position of approximately negative \$1,266 million.

On June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was enacted. PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through among other things: (i) the establishment of an Oversight Board (ii) a temporary stay of all creditor lawsuits which expired on May 1, 2017, (iii) two alternative methods to adjust unsustainable debt (a) a voluntary debt modification process which establishes an out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U. S. Bankruptcy Code. Title III of PROMESA establishes an in-court process for restructuring debts of Puerto Rico that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

On September 30, 2016, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed a petition for the Retirement System in the United States District Court for the District of Puerto Rico, commencing a Title III case for the Retirement System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth’s Title III cases.

On August 23, 2017, Act No. 106, known as the “*Law to Guarantee Payment to Our Pensioners*” (“Act No. 106”) was approved to establish a mechanism by which the general fund of the Commonwealth of Puerto Rico, through a “pay-as-you-go system”, would assume the pension obligations of the Retirement System, the Teachers’ Retirement System and Judiciary Retirement System.

Under the new pension system, the payments of the accumulated pensions will be disbursed starting July 1, 2017 from the funds deposited in a trust held under the control of the Secretary of the Treasury of the Commonwealth of Puerto Rico but separated from the assets of the Commonwealth of Puerto Rico. The trust account will include the net proceeds of the liquidations of the net assets of the three retirement systems, and a “Pay-Go” charge imposed to the covered sponsoring employers. The disbursement of the benefits of all the pensioners will be guaranteed by the general fund of the Commonwealth of Puerto Rico.

The following discussion provides information about ERS before its curtailment as a result of the facts discussed in the previous three paragraphs.

Substantially all full-time employees of the Municipality participate in the Employees’ Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (“ERS”). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended (“Act 447”) and a component unit of the Commonwealth.

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

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

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (“Act 116”), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2016 is 15.525%.

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

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

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

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

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Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided the Municipality with the required information to fully implement the requirements of GASB 68 as of June 30, 2018. ERS has only provided the Municipality with its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2017. Therefore, the accompanying governmental activities financial statements have been adjusted to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2017. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements as information has not been provided by ERS.

Also, contributions made between the measurement date of the net pension liability and the end of the Municipality's reporting period were recognized as deferred outflow of resources.

The combined contributions required for the Municipality and its participating employees to ERS and System 2000 amounted to \$752,998, \$952,462, \$864,162 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively.

As previously mentioned, on July 1, 2017, the Municipality partially adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB No. 68). Accordingly, the Municipality retroactively recorded a prior-period adjustment of \$31.9 million to the net position at the beginning of the fiscal year of its governmental activities to record its share and allocation of the net pension liability and the related deferred inflows of resources and deferred outflows of resources, amounting to \$34.7 million, \$2.5 million and \$5.3 million, respectively, pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico on November 2, 2018.

However, the Employees Retirement System of the Commonwealth of Puerto Rico (ERS) did not provide the information needed by the Municipality to record its proportionate share and allocation of the net pension liability, deferred inflows of resources and deferred outflows of resources at June 30, 2018, and the related pension expense for the fiscal year then ended. In addition, ERS did not provide the required disclosure information or information needed for inclusion in the required supplementary information. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB No. 68 as of and for the fiscal year ended June 30, 2018.

15. Commitments and Contingencies

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

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Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any. However, at June 30, 2017, the Municipality recorded a reserve of \$6,893,485 for claims and judgments in the statement of net assets.

The Municipality has reported, outstanding encumbrances amounting to \$2,705,099 in the general fund at June 30, 2018. 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.

16. Fund Balances

As of June 30 2018, fund balances are comprised of the following:

<u>Fund balances:</u>	General fund	Capital projects fund	Legislative joint resolutions fund	Debt service fund	Other governmental funds	Total
Assigned for:						
General government	\$ 2,705,099	-	-	-	-	\$ 2,705,099
Restricted:						
Federal and state funded programs	-	-	1,526,136	-	244,862	1,770,998
Debt service	-	-	-	1,447,849	-	1,447,849
Capital projects	-	4,860,156	-	-	-	4,860,156
Unassigned	(6,812,741)	-	-	-	-	(6,812,741)
Total fund balances	\$ (4,107,642)	4,860,156	1,526,136	1,447,849	244,862	\$ 3,971,361

17. Prior Period Adjustments

On July 1, 2017, the Municipality recorded the following prior-period adjustments and restatements:

- Adjustment of \$34,733,451 to record the net pension liability and related deferred inflows of resources and deferred outflows of resources, amounting to \$2,529,496 and \$5,326,320 million, respectively as of July 1, 2017 based on the most recent audit report of the Employee Retirement System as of June 30, 2018 issued after June 30, 2018.

18. Tax Abatements

Pursuant to the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the Municipality or its citizens.

Pursuant to various tax exemption laws, during the fiscal year ended June 30, 2018 the Government of the Commonwealth Puerto Rico granted several exemptions to businesses operating in the telecommunications industry, which forgone municipal taxes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2018

The Program provides for forty percent (40%) to one hundred percent (100%) tax exemption on property taxes, municipal license taxes and construction excise taxes. The tax exemptions referred to above are applied against the taxpayer's annual tax liabilities related to property taxes, municipal license taxes and construction excise taxes of the Municipality of Las Piedras amounting to approximately \$ 3,900,000.

19. Liquidity Considerations

a. Government Development Bank for Puerto Rico

During the fiscal year ended June 30, 2017 GDB faced significant insolvency problems, failed to meet its obligations with the municipalities of Puerto Rico, and was not able to obtain additional funding or other arrangements with its creditors.

As a consequence of this situation, during the current fiscal year GDB did not transfer to the general fund in a timely manner its excess restricted property tax deposits (CAE, by its Spanish acronym) for the fiscal year ended June 30, 2018, a financial resource of the Municipality's general. GDB's failure to meet its obligations materially affects the financial position, results of operations and cash flows of the general fund and the Municipality as a whole as of and for the fiscal year ended June 30, 2018.

b. Puerto Rico Electric Power Authority

The Municipality's contribution in lieu of taxes (CILT) received from PREPA was significantly reduced on certain municipal properties used on profit and non-profit activities that were excluded by PREPA from the annual CILT. This enacted legislation also adversely affected the financial position, results of operations and cash flows of the general fund and the Municipality as a whole as of and for the fiscal year ended June 30, 2018.

The Municipality is currently evaluating different alternatives to improve its financial condition, results of operations and cash flows. Those measures include, among other things, the implementation of further cost reduction initiatives, the maximization of revenue collections and the evaluation of any available financing opportunities.

20. Subsequent Events

The Municipality evaluated subsequent events through March 20, 2019, the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2018.

On October 23, 2018, the Commonwealth of Puerto Rico issued the *New Fiscal Plan for Puerto Rico*, as certified by the Financial Oversight and Management Board for Puerto Rico. This Plan outlines a number of general proposed structural reforms and fiscal measures that the management of the Commonwealth of Puerto Rico has said are designed to provide Puerto Rico with an improved economic trajectory, including a restored electricity grid, repaired infrastructure, and a more effective and efficient public sector. The New Fiscal Plan includes proposed reforms related to (1) human capital and welfare, (2) ease of doing business, (3) energy and power regulatory, (4) infrastructure and capital investment, (5) health care, (6) public pension, and (7) tax compliance and fees enhancement, among others. The New Fiscal Plan also provides for suggested fiscal measures and certain structural reforms that may have a direct and material effect on

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2018

the financial condition, results of operations and cash flows of the Municipality. The management of the Municipality is currently evaluating the impact, if any, of all of these fiscal policies to be implemented at the state government level as they are approved and announced publicly.

On November 29, 2018, substantially all municipal deposits held at GDB were applied on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of Las Piedras relative to the type of corresponding deposit pursuant to the provisions of Article 501 of the GDB Restructuring Act of 2017, as amended (Note 3). The remaining balances of the municipal bonds, notes and loans payable were certified by the Puerto Rico Fiscal Agency and Financial Advisory Authority and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances (Notes 10).

On December 6, 2018 Act No. 253 (Act No. 253) was enacted to temporarily modify the purpose of the contributions made by the Municipality of Las Piedras to the Puerto Rico Health Insurance Administration during the period comprised between July 1, 2018 to September 30, 2019. The proceeds from those contributions shall be used in the following manner: (1) fifty percent (50%) will be applied to the Municipality's unpaid contributions to the Employees' Retirement System (Note 13), and (2) fifty percent (50%) will be reimbursed to the Municipality in cash for general municipal operating purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
 Budgetary Comparison Schedule – General Fund (Unaudited)
 Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		Actual amounts (Budgetary basis) (See Note 1)	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
REVENUES AND TRANSFERS:				
Property taxes	\$ 3,661,332	\$ 3,661,332	\$ 3,874,592	\$ 213,260
Municipal license taxes	4,210,036	4,210,036	5,083,023	872,987
Sales and usage taxes	1,143,151	1,143,151	1,463,315	320,164
Construction excise taxes	573,336	573,336	493,875	(79,461)
Charges for services	111,684	111,684	95,616	(16,068)
Interests on deposits	-	-	118,781	118,781
Intergovernmental grants and contributions	3,806,364	3,806,364	359,471	(3,446,893)
Miscellaneous revenues	417,237	417,237	426,032	8,795
Total revenues	<u>13,923,140</u>	<u>13,923,140</u>	<u>11,914,705</u>	<u>(2,008,435)</u>
EXPENDITURES AND TRANSFERS:				
Current:				
General government	8,195,822	8,202,136	12,108,827	(3,906,691)
Public safety	614,080	610,280	578,674	31,606
Health and sanitation	1,672,044	1,666,844	1,073,423	593,421
Public Housing and welfare	505,815	497,928	942,057	(444,129)
Culture, recreation and education	382,451	355,749	298,270	57,479
Urban and economic development	2,460,928	2,517,303	1,899,575	617,728
Capital outlays	92,000	72,900	-	72,900
Debt service:				
Principal		-	154,081	(154,081)
Interest		-	61,820	(61,820)
Total expenditures	<u>13,923,140</u>	<u>13,923,140</u>	<u>17,116,727</u>	<u>(3,193,587)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(5,202,022)</u>	<u>(5,202,022)</u>

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 11,914,705
Differences - budgetary basis to GAAP:	
Transfers from other governmental funds are budgetary financial resources but other financial resources under GAAP	(118,326)
Changes assets and deferred inflows of resources:	
Net change in receivables and deferred inflows of resources	<u>2,788,321</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 14,584,700</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 17,116,727
Differences - budgetary basis to GAAP:	
Current year budgetary encumbrances recorded as expenditures for budgetary purposes	(2,705,099)
Prior year budgetary encumbrances	1,347,785
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 15,759,413</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

Notes to the Budgetary Comparison Schedule – General Fund (Unaudited)
Fiscal Year Ended June 30, 2018

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- a) ***Budgetary Control*** – The Municipality prepares its annual budget for all of its operations and activities. Such legally adopted budget is based on expected expenditures by the 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 the fiscal year commencing on the next 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 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 June 13.

The Municipal Legislature has 10 business days, but not later than 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 permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budget 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.

The Municipality's Department of Finance and the Office of Management and Budget have 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 and among funds. The Municipal Legislature may transfer amounts among programs within and among funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

Notes to the Budgetary Comparison Schedule – General Fund (Unaudited)
Fiscal Year Ended June 30, 2018

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the functions/program level (general government, public safety, urban affairs, culture and recreation, health and welfare, urban development, economic development, education, and capital outlays) within the general fund.

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

b) Budgetary Accounting

The Municipality's annual budget is 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, except in the case of municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as revenue in the following budget year. 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 to settle 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.

The accompanying supplemental budgetary comparison schedule - general fund provides information about the general fund's original budget, its amendments, and the actual results of operations of the general fund under the budgetary basis of accounting for the ensuing fiscal year.

At June 30, 2018, the Municipality has outstanding encumbrances in the general fund amounting to \$2,705,099.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Schedule of Expenditures of Federal Awards
June 30, 2018

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Section 8 – Housing Choice Voucher	14.871	RQ063	\$ 782,638
Pass-through Housing Department of the Municipality of San Juan - Housing Opportunities for People with AIDS	14.241	-	41,968
Pass-through of the State-Office of the Department of the Family – Emergency Solutions Grant Program	14.231	-	5,314
Pass-through of the State-Office for the socioeconomic and Community Development of Puerto Rico – Community Development Block Grant/State – Administer Small Cities	14.228	2017-006735	<u>142,105</u>
Total U.S. Department of Housing and Urban Development			<u>972,025</u>
U.S. Department of Homeland Security			
Disaster Grant - Public Assistance (Presidentially Declared Disasters	97.036	FEMA4339	<u>337,610</u>
Total U.S. Department of Homeland Security			<u>337,610</u>
Total Federal Financial Assistance			<u>\$ 1,309,635</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Notes to Schedule of Expenditures of Federal Awards
June 30, 2018

1. General

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Municipality of Las Piedras of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of Las Piedras reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality of Las Piedras, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Municipality of Las Piedras.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

The Municipality of Las Piedras has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Relationship to General Purpose Financial Statements

Expenditures of the federal awards as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, are included within the Major Governmental Funds and Nonmajor Governmental Funds. The reconciliation between the expenditures in the basic financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the Basic Financial Statements

Major Governmental Funds	\$ 20,508,011	
Nonmajor governmental funds	1,046,684	
	21,554,695	
Less: Non-federal expenditures	(20,582,670)	
Total federal expenditures	972,025	
Transfer out consider as federal expenditures in the Capital projects fund	337,610	
 Total expenditures in the Schedule of Federal Awards	 \$ 1,309,635	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Municipality of Las Piedras of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2018-001 and 2018-002.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Las Piedras of the Commonwealth of Puerto Rico 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 statements 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.

Municipality of Las Piedras of the Commonwealth of Puerto Rico Response to Findings

The Municipality of Las Piedras of the Commonwealth of Puerto Rico response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Toa Alta, Puerto Rico
March 20, 2019

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original report.

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**Independent Auditors' Report on compliance for each major program and on
Internal Control over compliance required by the Uniform Guidance**

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

Report Compliance on Compliance for Each Major Federal Program

We have audited the Municipality of Las Piedras of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Municipality of Las Piedras of the Commonwealth of Puerto Rico major federal programs for the year ended June 30, 2018. Municipality's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on each of the Municipality of Las Piedras of the Commonwealth of Puerto Rico major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality of Las Piedras of the Commonwealth of Puerto Rico complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-005. Our opinion on each major federal program is not modified with respect to this matter.

The Municipality's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Municipality of Las Piedras of the Commonwealth of Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 the Municipality's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be a material weakness.

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

Toa Alta, Puerto Rico
March 20, 2019

Stamp No. O2752871
was affixed to the
original report.

A large, stylized handwritten signature in black ink, possibly reading 'B. Williams', is written over the text. To the right of the signature, the initials 'CPA-PSC' are written in a similar cursive style.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Schedule of Findings and Questioned Costs
June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
Material weakness (es) identified?	<u> X </u> yes <u> </u> no
Significant deficiency (ies) identified not considered to be material weakness?	<u> X </u> yes <u> </u> none reported
Noncompliance material to financial statements noted?	<u> X </u> yes <u> </u> no

Federal Awards

Internal Control over major programs:	
Material weakness (es) identified?	<u> X </u> yes <u> </u> no
Significant deficiency (ies) identified not considered to be material weaknesses?	<u> </u> yes <u> X </u> none reported
Type of auditor's report issued on compliance For major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	<u> X </u> yes <u> </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish Between Type A and Type B programs:	<u> \$750,000 </u>
Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Schedule of Findings and Questioned Costs
June 30, 2018

Section II – FINANCIAL STATEMENT FINDINGS

The current year findings and questioned costs were discussed with the Municipality's management which generally concurred with our comments and recommendations. The Municipality of Las Piedras of the Commonwealth of Puerto Rico will respond to the following findings through the issuance of a separate letter addressed to the Cognizant Agency.

**2018-001 DEFICIENCIES IN THE MUNICIPALITY'S ACCOUNTING PROCEDURES
AND ACCOUNTING RECORDS**

CONDITION:

Although the Municipality generally follows in all material respects the accounting and administrative procedures prescribed by the Puerto Rico Office of Management and Budget and the Uniform Guidance established by 2 CFR 200, the Municipality of Finance does not consistently follow certain accounting procedures and does not keep updated certain detailed subsidiary accounting within its accounting system and supporting records needed to ensure accurate financial reporting for external users in conformity with Accounting Principles Generally Accepted in the United States of America for State and Local Governments (GAAP). In relation to this matter, the following specific conditions were noted during our audit that need to be addressed. The Municipality:

- Does not maintain periodic and updated subsidiary ledgers for receivables, payables, deferred inflows and deferred outflows of resources on a monthly basis within its accounting system. Accordingly, the respective balances of these financial statement items are accounted at the fiscal year-end as part of the preparation of the financial statements in conformity with GAAP.
- Does not account for the carrying balances long term debt in its accounting system on a timely basis nor it has a subsidiary ledger that provides a detail of all its long-term obligations under the accrual basis of accounting. The Municipality's accounting for long-term debt in its accounting system is limited to the recording of the debt service payments and the proceeds from the issuance of any new debt under the modified accrual basis of accounting, as applicable. The carrying balance of long term debt is accounted for at year-end and recorded as part of the year-end closing process in electronic worksheets. The long-term debt presented in the government-wide basic financial statements is assembled from numerous external documents and resources.
- Does not perform periodic intra-period closing of its accounting records to prepare financial reports in accordance with GAAP on a monthly basis for all of its operations. Current monthly procedures are carried on a modified budgetary basis and does not provide for an analysis of the overall financial position and results of operations of each of the Municipality's funds and accounts.
- Does not keep verifiable documentation of the analysis and evaluation of accounts balances and transactions, including the proper cut-off of revenues and expenditures, on a monthly basis to ensure that these are free from errors and irregularities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Schedule of Findings and Questioned Costs
June 30, 2018

- Does not update its capital assets subsidiary and related records, including the computation of depreciation and any impairments of damages caused by Hurricanes Irma and Maria.
- Does not maintain an adequate budgetary accounting by which fund revenues, expenditures and encumbrances are recorded in a complete and timely manner, nor are those figures reconciled in a timely manner with the annual budgetary liquidation report and bank account reconciliations.
- Does not reconcile the figures of governmental funds reported in the annual audited financial statements with the corresponding figures accounted for in the accounting system.

The aforementioned deficiencies in accounting procedures and records were partially mitigated as part of the preparation of the financial statements in accordance with GAAP at year-end through post-closing entries and audited adjustments recorded directly in the financial statements.

CRITERIA:

Article 8.010(b) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that the Municipality must maintain its fund accounting in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), the National Committee on Governmental Accounting (NCGA) and the Governmental Accounting, Auditing and Financial Reporting book (commonly known as Blue Book).

In addition, Article 8.010(c) of Law No. 81 states that uniform accounting system used by the Municipality must:

- (1) produce reliable reports and financial statements,
- (2) provide complete information about the results of operations of the Municipality, and
- (3) include the necessary internal controls to account all funds, capital assets and other assets of the Municipality.

Also, Article 7.001 (a) of the Autonomous Municipalities Law establishes that the Municipality shall close its accounting records at year end to allow for the accurate evaluation of the results of operations for the ensuing year.

Due to the conditions referred to above, the preparation of the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2018 was more difficult and less efficient than would have been in ordinary circumstances. A significant amount of adjusting entries had to be made to the financial data and reports processed through the accounting system in order to properly account for unrecorded transactions and to correct transactions recorded in the wrong accounting period. Since the accounts and other accounting records are not designed to provide all the information necessary to prepare the Municipality's basic financial statements, the Municipality had to obtain and process financial data from several outside sources. These conditions represent material weaknesses in the Municipality's internal controls over financial reporting.

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CAUSE AND EFFECT:

These conditions occurred because the Municipality's financial accounting and reporting structure is not designed to gather the necessary information efficiently and effectively to permit periodic analysis of transactions and balances and periodic reconciliation among trial balances and subsidiary ledgers. The failure to have an adequate accounting system does not allow the Municipality to have timely and accurate financial information for its decision-making process.

RECOMMENDATION:

We recommend the Municipality to continue its efforts to review and revise its current accounting and financial reporting structure. This includes, among others, the evaluation of the current accounting and financial reporting software to ensure it meets the necessary standards, establishment or revision of policies and procedures, establishment of periodic reconciliation and analysis processes and procedures, additional training of all personnel related to accounting and financial reporting responsibilities and establishing a financial reporting unit. This financial reporting unit should be responsible for overseeing the overall deployment of the project to ensure that goals are met effectively.

2018-002 DEFICIENCIES IN ACCOUNTING RECORDS OF CAPITAL ASSETS

The Municipality does not have an effective accounting and administrative system to account for the accurate recording of capital assets. There are no adequate internal controls and procedures to ensure that all capitalizable expenditures and property dispositions are recorded in the capital assets subsidiary ledger of the official accounting system. A significant portion of the real property, personal property and infrastructure acquired or constructed with federal and local funds is not currently recorded in the capital assets subsidiary ledger. Accordingly, the Municipality has not maintained complete and adequate records over capital assets.

The Municipality has not performed periodical physical inventories of its capital assets (real property, personal property and infrastructure). As part of the audit, we noted that the Municipality has not organized and performed a physical inventory as of June 30, 2018. However after fiscal year end an attempt of physical inventory was made, but at report date the physical inventory was not finish, neither reconcile with property register. Accordingly, the capital assets recorded in the accompanying statement of net assets do not include several real properties and infrastructure assets, which should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), as amended.

The following additional conditions were noted over capital assets:

- The Municipality's official capital asset sub-ledger has not been reviewed on a regular basis for purposes of identifying and removing those items that have been damaged or taken out of service or provide no future benefit. In relation to this, the official capital asset records were not updated during the current year to reflect any damages or impairments caused by Hurricanes Maria and Irma. As a result, the capital assets sub-ledger may be misstated for this reason and may not accurately reflect the productive capital assets owned by the Municipality.

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- The Municipality does not have formal accounting and control procedures and policies to ensure compliance with GASB 34.
- The subsidiary ledger is not periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal programs.

CRITERIA:

Article 9.002 of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that all municipalities must prepare and maintain an updated subsidiary ledger (record) of all real properties.

In addition, Chapter VII, Section 23, of the *Regulation for Municipal Administration*, requires that each Municipality must maintain an adequate control of capital assets through annual physical inventories. In addition, any differences between physical inventory amounts and subsidiary records must be investigated and adjusted. Considering that according to accounting records of the Municipality, the capital assets represent the most significant assets of the Municipality, there is a significant risk of unauthorized use or disposition of capital assets because there are no adequate internal controls in place to ensure accountability of capital assets by department or federal program.

Chapter VII, Sections 3, 4, 14, 15 and 21 of the *Regulation for Municipal Administration* establish the following guidelines regarding property management:

- Section 3 establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.
- Section 4 establishes that the Municipal Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.
- Section 14(1) establishes that all municipal property shall be numbered and identified as to ownership by the Municipal Property Administrator.
- Section 15(1) establishes that the Municipal Property Administrator is responsible for accurately maintaining the central property records.
- Section 21(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

CAUSE AND EFFECT:

These instances of non-compliance occurred because the Property Division of the Municipality has not enforced the requirement to perform a capital assets inventory and to ensure the proper accountability of capital assets during the fiscal year ended June 30, 2018. Accordingly, the Municipality's internal controls in place over capital assets are not designed to effectively account for capital assets, since it does not allow

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for the reconciliation of detailed property records with the general ledger. These inadequate property internal controls may expose the Municipality to questioned or disallowed costs by the federal government for lost or stolen property. This condition represents a material weakness in the Municipality's internal controls over financial reporting.

Furthermore, this situation represents a significant risk of loss of capital assets because there is a lack of accountability for acquired capital assets. Any federally funded capital assets lost would need to be repaid to the federal government with municipal funds.

RECOMMENDATION:

A physical inventory of the Municipality's capital assets should be taken as soon as possible and subsequently on annual basis. Physical inventory amounts should be reconciled with the capital assets recorded in the subsidiary ledgers. Furthermore, the Mayor may issue an executive order to require compliance with this requirement. For these purposes, the Property Division of the Municipality must require from each Municipal Department that acquires or manage capital assets to submit a report including a full description of the asset, location, use, source of funds used to acquire the asset, responsible personnel, cost and any other pertinent data required by state and local regulations. This information should be reconciled with the monthly disbursements (capital outlays) made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Municipal Property Administrator and the Finance Director, and should be carried out by persons other than the users and through public announcements or bids.

We also recommend that the subsidiary ledger of capital assets be updated on a monthly basis for the write-off of non-operational, fully depreciated, or impaired items. Having such a procedure in place will ensure that the Municipality has an accurate record of its capital assets and will ensure that gains and losses on disposals are recorded in the proper accounting period.

We also recommend that the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal programs.

To provide greater control over the recording of capital asset additions and retirements, we also recommend the Municipality to maximize the use of the recently acquired software package to automate the recording of capital assets along with automatically computing depreciation expense for financial reporting purposes. The use of such software package would improve the overall efficiency within the accounting function and allow for departmental reporting of depreciation expense, including federal programs.

2018-003 UNAUTHORIZED USE OF NEXT FISCAL YEAR'S MUNICIPAL LICENSE REVENUE

Statement of Condition

Municipal license tax revenues of the fiscal year 2018-2019, which were collected in advance from taxpayers between January 1 and June 30, 2018 (known in Spanish as "Patente en Suspense"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2018. Such unearned municipal license tax revenues amounted to \$2,689,073

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and were related to the Volume of Business Declaration Return of the fiscal year 2018-2019 which were filed by taxpayers between January and June 2018.

Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2018-2019, could not be used to pay obligations of the fiscal year 2018-2019 and were not authorized by a municipal ordinance or resolution.

Criteria

Article 8.004(b) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.

Cause and Effect

The foregoing condition is primarily due to the following reasons:

- During prior fiscal years, the general fund's expenditures have exceeded its revenues consistently, which have lead the Municipality to also consistently consume in each fiscal year, the unearned municipal license revenues collected in advance for the next fiscal year.
- The Municipal Accounting System (AS) does not provide for the gathering and recording of accurate financial information and preparation of accurate financial reports on a timely basis. Therefore, since current financial information is not readily available, management is not able to make effective and efficient decisions concerning the use of resources.
- The Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage.
- Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.
- The Municipality is appropriating expenditures assuming that budgeted revenues have been actually collected.
- The budgeting system does not reflect actual revenues, therefore cannot prevent the obligation of expenditures for which current resources will not be available.

The continued occurrence of this situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities. The aforementioned conditions represent a material weakness in the Municipality's internal controls over financial reporting.

Questioned Costs: None

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Independent Auditors' Recommendation

We recommend the Municipality to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.

We also recommend that annual budgets must be 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. This process must ensure that the operational budget of the general fund is adjusted for uncollected budgeted revenues.

2018-004 DEFICIENCY IN THE PRE-INTERVENTION ACTIVITIES

Statement of Condition

As part of our audit procedures and search for the unrecorded liabilities, for the fiscal year ended June 30, 2018, we examined 88 disbursements amounting to \$ 2,770,179. The following exception was noted in the items examined:

- For two (2) disbursements amounting to \$27,266 related to the procurement of certain items needed as part of the recovery procedures carried out shortly after the emergency state caused by Hurricane Maria, the Municipality did not document the pre-intervention function before the respective checks were issued as required by the administrative procedures prescribed by the Puerto Rico Office of Management and Budget. The Municipality made these two disbursements without completing all sections of the corresponding disbursement vouchers.

- **Criteria**

Section 7 of Chapter IV of the *Regulation for the Municipal Administration for the Municipalities of Puerto Rico* establishes that the pre-auditing unit or person in charge of pre-auditing disbursement documents shall keep a record of the authorized signatures of the Municipality. He or she shall ascertain that the officers certifying the disbursement documents are so authorized. He or she shall verify the correctness of the documents in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as pre-audited and shall be sent for the approval of the Director of Finance. In addition, the payment vouchers, all canceled checks and any other document that support a payment should be filed by the Director of Finance to be audited by the Puerto Rico Comptroller's Office or any other regulator, as required by law.

Cause and Effect

These conditions occurred mainly because the Municipality did not follow the administrative procedures over disbursements prescribed by the Puerto Rico Office of Management and Budget on a consistent basis.

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Independent Auditors' Recommendation

The Municipality should enforce strict compliance with the procedures prescribed by the *Regulation for the Municipal Administration for the Municipalities of Puerto Rico* during the process of disbursing municipal funds.

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Section III - Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
Section 8 Voucher CFDA No. 14.871	2018-005 FINANCIAL REPORTING	

Statement of Condition:

Our review of the monthly Voucher Management System (VMS) Reports submitted to House and Urban Development offices, disclosed that they were submitted after the required submission date, as detailed below.

NONE

<u>Month</u>	<u>Due Date</u>	<u>Date Submitted</u>	<u>Past Due Days</u>
May 2018	June 22, 2018	July 18, 2018	26 days

Also, the on our review of the Financial Assessment Sub-system (FASS-PH), the Municipality has not submitted the GAAP- based unaudited financial information electronically to HUD.

Criteria:

According to HUD Financial Management Center, Electronic submission of form HUD-52681-B data is a monthly requirement. This notice announces the customary dates for submitting Housing Choice Voucher Data electronically through the Voucher Management System. The collection deadline for monthly submission is the 22nd of each month for submission of the prior month's data.

According to HUD notice PIH-2008-9 "Financial Reporting Requirements for the Housing Choice Voucher Program Submitted through the Financial Assessment Subsystem for Public Housing and the Voucher Management System", the PHA must submit an unaudited Financial Data Schedule no later than 2 months after the PHA's fiscal year ends.

Cause and Effect:

This condition occurred because the Project Administrator has not adopted adequate internal controls and procedures designed to ensure the timely submission of program reports and the lack of adequate training and supervision of the municipal employees in charge of the preparation of the aforementioned reports.

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
	<p>This condition, if not corrected, may increase the risk of avoidable instances of material non-compliances with the laws and regulations applicable to the Program.</p> <p>Recommendation:</p> <p>The Project Administrators should improve existing procedures to ensure the timely submission of the financial reports in order to comply with Federal regulation. Also, the Project Administrator should consider implementing a reporting calendar to maintain all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the Municipality in complying with the federal regulation.</p>	
	Total questioned costs	<u>\$ -</u>

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 Summary schedule of prior years audit findings
 Fiscal Year 2016-2017
 June 30, 2018

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2017. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2017-2018).
- NR - Not resolved yet. Finding repeated in fiscal year 2017-2018.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
2017-001	Deficiencies in the Uniform Accounting System and other Accounting Records	NR
2017-002	Deposit of cash receipts in bank accounts	NR

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 Summary schedule of prior years audit findings
 Fiscal Year 2016-2017
 June 30, 2018

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with the Uniform Guidance for the Fiscal Year ended June 30, 2017. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2017-2018).
- NR - Not resolved yet. Finding repeated in fiscal year 2017-2018.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
2017-003	Eligibility	FR
2017-004	Financial Reporting	NRNR

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 Summary schedule of prior years audit findings
 Fiscal Year 2015-2016
 June 30, 2018

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2016. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2017-2018).
- NR - Not resolved yet. Finding repeated in fiscal year 2017-2018.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
2016-01	Deficiencies in the Uniform Accounting System and other Accounting Records	NR

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 Summary schedule of prior years audit findings
 Fiscal Year 2015-2016
 June 30, 2018

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2016. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2017-2018).
- NR - Not resolved yet. Finding repeated in fiscal year 2017-2018.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
2016-002	Special Test and Provisions – Housing Assistance Payments	FR
2016-003	Special Test and Provisions – Operating Transfers and Administrative Fees	FR
2016-004	Financial Reporting	NR

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Corrective Action Plan – Financial Statement and Federal Awards Findings
Fiscal Year Ended June 30, 2018

Finding Control Number: 18-01

Deficiencies in the Municipality's Accounting Procedures and Accounting Records

Response by Department of Finance and Budget – Finding Control Number 18-01

We concur with this finding. On January 2019, the Municipality started the process of implementing a new accounting system and started the transition process from the previous to the new system acquired in January 2019. As part of the implementation process, the deficiencies referred to in the finding will be corrected as new policies and procedures will be adopted in conformity with the capabilities of the new system and requirements of federal and local regulations.

Anticipated completion date:	The implementation is expected to be completed by June 30, 2019
Contact pers-on:	Ms. Omayra Agosto Santiago, Director of Finance Telephone: (787) 733-2160, ext. 440 Email: recaudacionesmlp@gmail.com

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Corrective Action Plan – Financial Statement and Federal Awards Findings
Fiscal Year Ended June 30, 2018

Finding Control Number: 18-02

Deficiencies in Accounting Records of Capital Assets

Response by Department of Finance and Budget – Finding Control Number 18-02

We concur with this finding. During the fiscal year ending June 30, 2019, the Municipality will complete a physical inventory of its capital assets and will reconcile its subsidiary records with the physical inspection. New policies and procedures will be implemented, including the periodic reconciliation of subsidiary records to physical inspections, the consideration of possible impairments pursuant to GASB 42 as amended, and all statutory local and federal requirements.

On January 2019, the Municipality started the process of implementing a new accounting system and started the transition process from the previous to the new system acquired in January 2019. The new system will have a module for fixed assets accounting and administration, which we believe may assist greatly in correcting to some extent the deficiencies referred to in the finding.

Anticipated completion date:	The implementation is expected to be completed by June 30, 2019
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Contact person:	Ms. Omayra Agosto Santiago, Director of Finance Telephone: (787) 733-2160, ext. 440 Email: recaudacionesmlp@gmail.com
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
Corrective Action Plan – Financial Statement and Federal Awards Findings
Fiscal Year Ended June 30, 2018

Finding Control Number: 18-03

Unauthorized Use of Next Fiscal Year’s Municipal License Revenue

Response by Department of Finance and Budget – Finding Control Number 18-03

We concur with this finding. The use of the next fiscal year’s municipal license revenue was mainly due to: (1) the reductions in property tax revenues and intergovernmental grants and contributions from the Puerto Rico Health Department resulting from the Fiscal Recovery Plan of the Commonwealth of Puerto Rico under PROMESA Act, and (2) the effects of Hurricanes Irma and María, which both hit and devastated Puerto Rico in September 2017. The immediate and long-term recovery efforts of both hurricanes required unforeseen cash resources to assist the people of Las Piedras. During the fiscal years 2018-2019 and 2019-2020, the Municipality will adopt specific cost reduction initiatives to avoid spending municipal license revenues in advance. In addition, the Municipality is currently evaluating alternatives to maximize its revenue base.

Anticipated completion date:	The implementation is expected to be completed by June 30, 2020.
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Contact person:	Ms. Omayra Agosto Santiago, Director of Finance Telephone: (787) 733-2160, ext. 440 Email: recaudacionesmlp@gmail.com
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MUNICIPALITY OF LAS PIEDRAS
Corrective Action Plan – Financial Statement and Federal Awards Findings
Fiscal Year Ended June 30, 2018

Finding Control Number: 18-04

Deficiency in Pre-Intervention Activities

Response by Department of Finance and Budget – Finding Control Number 18-04

We concur with this finding. However, the two instances referred to in the finding are considered by management to be immaterial isolated cases not representative of the population of disbursements. This conclusion can be supported by the fact that the conditions referred to in the finding occurred in only 2% of the sample tested (2 cases out of 88 cases tested) by the independent auditors and their aggregate dollar value amounting to \$27,277 represents less than 1% of the total value of the sample tested.

As part of the implementation of the new accounting system referred to in Findings above, the Municipality will adopt new policies and procedures ensuring strict compliance with the procedures prescribed by the *Regulation for the Municipal Administration for the Municipalities of Puerto Rico* during the process of disbursing municipal funds.

Anticipated completion date:	The implementation is expected to be completed by December 31, 2019.
Contact person:	Ms. Omayra Agosto Santiago, Director of Finance Telephone: (787) 733-2160, ext. 440 Email: recaudacionesmlp@gmail.com

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Corrective Action Plan – Financial Statement and Federal Awards Findings
Fiscal Year Ended June 30, 2018

Response by Department of Federal Programs – Finding Control Number 18-05:

Financial Reporting
Section 8 Housing Choice Voucher Program - CFDA 14.871

We concur with this finding. However, the condition referred to in the finding represents an immaterial isolated case of one (1) out of twelve (12) monthly reports examined. The Director of Federal Programs has instructed the personnel in his office about the continuing requirements set forth by federal regulations regarding the financial reporting of the Section 8 Housing Choice Voucher Program, including reminders of statutory deadlines applicable to the VMS system.

Anticipated completion date:	June 30, 2019
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Contact person:	Mr. Edjoel Cosme, Director of Federal Programs Telephone: (787) 733-2160 Email: federaleslp@gmail.com
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