



**PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2020
(With Independent Auditors' Report)



PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Fiscal Agency and Financial Advisory Authority

We have audited the accompanying financial statements of the Puerto Rico Fiscal Agency and Financial Advisory Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Puerto Rico Fiscal Agency and Financial Advisory Authority's basic financial statements as listed in the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Puerto Rico Fiscal Agency and Financial Advisory Authority as of June 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

As discussed in Note 3 to the basic financial statements, the Authority's main source of revenue consists of legislative appropriations from the Commonwealth of Puerto Rico. As a result, the Authority's operations are dependent on the Commonwealth of Puerto Rico's ability to continue providing funding to the Puerto Rico Fiscal Agency and Financial Advisory Authority through legislative appropriations. The Commonwealth of Puerto Rico is in the midst of a profound fiscal crisis and is in the process of restructuring its liabilities under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 9, 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, which 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.

San Juan, Puerto Rico
January 18, 2022.

Stamp No. E477686 was affixed
to the original of this report.

A handwritten signature in blue ink, appearing to read "RSM Luis Rios".

**PUERTO RICO FISCAL AGENCY AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the year ended June 30, 2020**

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Authority) for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities as well as fiduciary activities, and (c) identify changes in the Authority's financial position and identify individual issues or concerns. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Authority's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in its entirety.

FINANCIAL HIGHLIGHTS

- The Authority's Total Assets were approximately \$111.3 million as of June 30, 2020, an increase of \$50.9 million or 84% as compared to prior year. The total assets were composed of approximately \$108.7 million of cash, \$2 million of accounts receivable, \$56 thousand of prepaid expenses and \$542 thousand of capital assets.
- The Authority's Total Liabilities were approximately \$30.8 million as of June 30, 2020, an increase of \$9.5 million or 44% as compared to prior year. The total liabilities were composed of approximately \$28.8 million of accounts payable and accrued liabilities, \$796 thousand of compensated absences and \$1.2 million of termination benefits.
- The Authority's Net Position was approximately \$80.5 million as of June 30, 2020, an increase of approximately of \$41.4 million or 106% as compared to prior year.
- The Commonwealth of Puerto Rico's (the Commonwealth) appropriations to the Authority amounted to approximately \$106 million as of June 30, 2020, an increase of \$35.8 million or 50% as compared to prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the Authority's basic financial statements for the fiscal year ended June 30, 2020. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements provide readers a broad view of the Authority's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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The government-wide financial statements include two statements:

- **Statement of Net Position** - This statement presents all of the government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- **Statement of Activities** - This statement presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The government-wide financial statements can be found immediately following this MD&A.

Governmental Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. 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 Authority uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Authority's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements differ from the perspective and basis of accounting used to prepare the government-wide financial statements.

Governmental Funds - Most of the basic services provided by the Authority are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Authority's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Authority. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By comparing the two, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

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Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Authority in a trustee capacity, or as agent for individuals, private organizations, and other governmental units. The Authority is a trustee, or fiduciary, for the benefit of former employees of GDB receiving payment under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The fiduciary activities of the Authority are reported in a separate statement of fiduciary net position and of changes in fiduciary net position. The Authority exclude these activities from the Authority government-wide financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the basic financial statements can be found immediately following the Statement of Changes in Fiduciary Net Position- ERO Trust Fund.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS (GOVERNMENT-WIDE FINANCIAL STATEMENTS)

The following is an analysis of the financial position and changes in the financial position of the Authority's Governmental Activities for fiscal year 2020.

Net Position

Condensed financial information from the statements of net position as of June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percentage
ASSETS:				
Cash	\$ 108,647	\$ 57,690	\$ 50,957	88%
Account receivable, net of allowance	2,008	1,849	159	9%
Prepaid expenses	56	319	(263)	(82%)
Capital assets, net	542	567	(25)	(4%)
Total assets	111,253	60,425	50,828	84%
LIABILITIES:				
Other liabilities	29,301	19,396	9,905	51%
Long term liabilities	1,451	1,897	(446)	(24%)
Total liabilities	30,752	21,293	9,459	44%
NET POSITION	\$ 80,501	\$ 39,132	\$ 41,369	106%

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the year ended June 30, 2020**

Governmental entities are required by U.S. Generally Accepted Accounting Principles (U.S. GAAP), as prescribed by the Governmental Accounting Standard Board ("GASB"), to report on their net position. The statement of net position presents the value of all of the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Authority as of June 30, 2020, amounted to approximately \$111.3 million and \$31.1 million, respectively, for a net position of approximately \$80.1 million.

Total assets increased by approximately \$50.8 million, from \$60.4 million in fiscal year 2019 to \$111.3 million in fiscal year 2020. Increase in total assets is due to an increase in cash amounting to \$50.8 million which was mainly related to the results of the operations.

Total liabilities increased by approximately \$9.4 million, from \$21.3 million in fiscal year 2019 to \$30.7 million in fiscal year 2020. The increase mainly resulted from an increase in accounts payable and accrued liabilities amounting to approximately \$9.8 million related to various legal and professional services contracts for the restructuring of Puerto Rico's debt, including Title III and Title VI procedures, among others.

Statements of Activities and Results of Operations

Condensed financial information of the statements of activities for the years ended June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percentage
REVENUES	\$ 107,785	\$ 71,943	\$ 35,842	50%
EXPENSES	(66,416)	(45,727)	(20,689)	45%
CHANGE IN NET POSITION	41,369	26,216	15,153	58%
NET POSITION-BEGINNING	39,132	12,916	26,216	203%
NET POSITION-ENDING	<u>\$ 80,501</u>	<u>\$ 39,132</u>	<u>\$ 41,369</u>	<u>106%</u>

The Governmental Activities change in net position increased by approximately \$14.8 million, from \$26.2 million in fiscal year 2019 to \$41 million in fiscal year 2020. The net increase in change in net position was mainly due to: (1) an increase in the Commonwealth's appropriations of approximately \$35.8 million, (2) a decrease in charges for services and other revenues of approximately \$200 thousand, (3) a decrease in salaries and fringe benefits of approximately \$300 thousand, a decrease in office and administrative expense of approximately \$900 thousand, a decrease in occupancy and equipment costs of approximately \$200 thousand, and (4) and increases in legal and professional fees of approximately \$20.1 million and other expenses of approximately \$2 million.

The Authority's most significant revenues correspond to Contributions from Commonwealth. Contributions from Commonwealth increased by approximately \$35.8 million, from approximately \$70.2 million in fiscal year 2019 to approximately \$106 million in fiscal year 2020.

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Legal and professional expenses increased by approximately \$20.1 million, from approximately \$45.7 million in fiscal year 2019 to approximately \$66.4 million in fiscal year 2020. The increase is mainly related to services received for the restructuring of Commonwealth of Puerto Rico debt and title III legal cases.

CURRENTLY KNOWN FACTS

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Authority's financial position and results of operations.

The Early Retirement Obligation Trust (ERO)

The Qualifying Modification and the GDB Restructuring Act approved by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) Title VI Court authorized GDB to carry out the transactions related to the Early Retirement Obligation Trust (ERO). On August 6, 2019, GDB, as the settlor, and the Authority, as the trustee, created the deed for the constitution of the ERO. The GDB Restructuring Act authorized the GDB to establish an irrevocable trust for the benefit of former employees of GDB receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The GDB Restructuring Act provided that such trust will constitute a governmental instrumentality of the Commonwealth.

The Authority entered a contract with a financial institution to delegate various of its trustee responsibilities in the ERO. As of June 30, 2020, the ERO had total assets of approximately \$14.4 million and is making payment to around 40 active participants (only from Act 211 and Act 70 remaining participants) or aggregated monthly payments of approximately \$125,000 to former employees of GDB as the major portion of the employees have already transitioned to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS). Termination of the trust is expected by year 2030 when the last participant will become part of the ERS.

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Financial Oversight and Management Board for Puerto Rico to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

Management has not yet identified the extent of the impact, if any, that the Coronavirus pandemic may have had (or will have in the future) on the Authority's operations and to what extent revenue sources have been adversely depleted.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the year ended June 30, 2020

Coronavirus Relief Fund

On May 15, 2020, the Governor of Puerto Rico issued Administrative Bulletin OE-2020-040 (the Bulletin), under which the Commonwealth formally adopted the Strategic Disbursement Plan of the funds assigned to Puerto Rico through the Coronavirus Relief Fund ("CRF"), established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Among other things, the Bulletin created a steering committee composed of the Department of Treasury, Office of Management and Budget and the Authority in order to provide technical assistance and oversight for funds received under the CARES Act.

The CARES Act contains multiple sources of aid for citizens, businesses, as well as for state and territorial governments. As noted above, among the measures included in the CARES Act is the creation of the CRF, which was funded by an initial allocation of \$150 billion. These funds must be distributed by the Department of the Federal Treasury to the fifty states, Washington DC, local governments, territories and governments of Native American tribes, according to certain parameters.

After making distributions to U.S. territories based on the estimates of the Federal Census for the year 2019, the U.S. Treasury Department determined that the Commonwealth of Puerto Rico (GPR) would receive \$2.2 billion of the \$3 billion set aside for the territories under the CRF.

On April 20, 2020, the U.S. Treasury Department transferred the \$2.2 billion to the GPR.

The strategic disbursement plan addresses both government needs (mainly associated with attending to the public health emergency and continuing government operations) and those of the private sector, which has been severely affected by interruption of operations.

During fiscal year 2021, the Puerto Rico Office of Management and Budget assigned to the Authority the amount of \$9 million to implement the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by GPR. Also, OMB assigned \$6.1 million to the Authority to cover administrative expenses and compliance requirements related the American Rescue Plan.

On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 (the American Rescue Plan), which provided an additional \$1.9 trillion stimulus relief for the COVID-19 pandemic in the United States, including the territories. The American Rescue Plan built upon the measures in the CARES Act and Appropriations Act, including by providing for, among other things, (i) \$1,400 direct payments to individuals making up to \$75,000 per year and \$2,800 for couples making up to \$150,000 per year (which phase out at \$80,000 and \$160,000 respectively), plus an additional \$1,400 for each child and/or adult dependent; (ii) an extension of expanded unemployment benefits with a \$300 weekly supplement through September 6, 2021; (iii) various tax benefits; (iv) grants to small businesses; (v) education and housing assistance funding; (vi) additional COVID-19 related funding; and (vii) transportation-related funding. For the first time ever, the American Rescue Plan permanently expanded the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to Puerto Rico and the U.S. territories. The U.S. Joint Committee on Taxation estimated that the EITC reform likely will result in nearly \$8.1 billion in federal payments to all territories over the next decade (of which Puerto Rico would receive the largest portion), and the CTC reform likely will result in more than \$4.5 billion in payments to Puerto Rico families through 2026.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the year ended June 30, 2020**

Improvements to Educational Institutions

As a result of Hurricanes Irma and Maria and the seismic activity that has affected Puerto Rico, approximately 684 public schools have been structurally damaged since January 2020. The structural damages to these schools have rendered them completely unsuited for use due to danger of collapse. Therefore, structural and other safety improvements are necessary before these schools can reopen.

On June 7, 2021, the Coronavirus Relief Fund Disbursement Oversight Committee (the "Committee") assigned \$195.6 million from the Coronavirus State Fiscal Rescue Fund (CSFRF) to the Authority in order to make the corresponding payments to the Puerto Rico Infrastructure Financing Authority (PRIFA) in connection with the improvements to be made to schools (the Project).

On June 9, 2021, a Memorandum of Understanding (MOU) was entered between the Puerto Rico Department of Education (DOE), the Puerto Rico Public Buildings Authority (PBA), PRIFA and the Authority to make the necessary improvements to 684 schools identified by DOE and PBA.

On June 17, 2021, the Committee assigned \$81.2 million (in addition to the \$195.6 million already assigned) to the Authority to fund PRIFA's management of the Project.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. This financial report seeks to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Executive Director, Puerto Rico Fiscal Agency and Financial Advisory Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO FISCAL AGENCY AND
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STATEMENT OF NET POSITION
 June 30, 2020

ASSETS	
Cash	\$ 108,646,582
Accounts receivable, net of allowance	2,007,906
Prepaid expenses	56,542
Capital assets, net	542,171
	<hr/>
Total assets	111,253,201
	<hr/>
LIABILITIES	
Liabilities payable within one year	
Accounts payable and accrued liabilities	28,763,897
Compensated absences	297,745
Termination benefits	238,830
	<hr/>
Total liabilities payable within one year	29,300,472
	<hr/>
Liabilities payable after one year	
Compensated absences	498,615
Termination benefits	952,626
	<hr/>
Total liabilities payable after one year	1,451,241
	<hr/>
Total liabilities	30,751,713
	<hr/>
NET POSITION	
Net investment in capital assets	542,171
Unrestricted	79,959,317
	<hr/>
Total net position	\$ 80,501,488
	<hr/> <hr/>

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

PUERTO RICO FISCAL AGENCY AND
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STATEMENT OF ACTIVITIES
 For the year ended June 30, 2020

Functions/Programs	Expenses	Charges for services	Program revenues contributions	Net revenues and changes in net position
GOVERNMENTAL ACTIVITIES				
Economic Development	\$ 66,415,367	\$ 834,422	\$ 105,990,000	\$ 40,409,055
Total governmental activities	<u>\$ 66,415,367</u>	<u>\$ 834,422</u>	<u>\$ 105,990,000</u>	40,409,055
GENERAL REVENUES				
Interest income				452,301
Other income				508,426
Total general revenues				<u>960,727</u>
CHANGE IN NET POSITION				41,369,782
NET POSITION - Beginning of year				<u>39,131,706</u>
NET POSITION - End of year				<u>\$ 80,501,488</u>

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



PUERTO RICO FISCAL AGENCY AND
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RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO THE
STATEMENT OF NET POSITION
June 30, 2020

Fund balance of governmental fund	\$ 81,890,591
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental fund because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund	542,171
Prepaid expenses that are not reported in governmental fund and are reported in the statement of net position	56,542
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund	(796,360)
Termination benefits are not due and payable in the current period and, therefore, are not reported in the governmental fund	<u>(1,191,456)</u>
Net position of governmental activities	<u><u>\$ 80,501,488</u></u>

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



PUERTO RICO FISCAL AGENCY AND
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BALANCE SHEET – GOVERNMENTAL FUND
June 30, 2020

	<u>General Fund</u>
ASSETS	
Cash	\$ 108,646,582
Accounts receivable, net of allowance	<u>2,007,906</u>
Total assets	<u>\$ 110,654,488</u>
LIABILITIES AND FUND BALANCE	
Accounts payable and accrued liabilities	<u>28,763,897</u>
Total liabilities	28,763,897
Fund balance unassigned	<u>81,890,591</u>
Total liabilities and fund balance	<u>\$ 110,654,488</u>

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



PUERTO RICO FISCAL AGENCY AND
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCE - GOVERNMENTAL FUND
For the year ended June 30, 2020

	<u>General Fund</u>
REVENUES	
Contributions from Commonwealth of Puerto Rico	\$ 105,990,000
Fiscal agency and administrative fees	834,422
Interest income	452,301
Other income	508,426
	<hr/>
Total revenues	107,785,149
EXPENDITURES	
Economic Development	66,117,675
	<hr/>
Total expenditures	66,117,675
	<hr/>
NET CHANGE IN FUND BALANCE	41,667,474
FUND BALANCE - Beginning of year	40,223,117
	<hr/>
FUND BALANCE - End of year	<u>\$ 81,890,591</u>

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



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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

Net change in fund balance - Governmental fund		\$ 41,667,474
Amount reported for governmental activities in the statement of activities are different because:		
Some expenses not reported in the statement of activities require the use of current financial resources and, therefore, are reported as expenditures in governmental fund		(11,612)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays	\$ 157,665	
Less depreciation expense	<u>(181,557)</u>	
Subtotal		(23,892)
Generally, prepaid expenses are recorded as expenditures in the governmental fund when paid rather than capitalized as an asset. However, this asset is amortized in the statement of net position		<u>(262,188)</u>
Change in net position of governmental activities		<u><u>\$ 41,369,782</u></u>

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



PUERTO RICO FISCAL AGENCY AND
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STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2020

ASSETS

Cash and cash equivalents	\$	43,312
Accrued interest and dividends		3,590
Investments at fair value		<u>14,365,583</u>
Total assets	\$	<u><u>14,412,485</u></u>

LIABILITIES

Liabilities payable within one year		
Accounts payable	\$	5,990
Termination benefits		1,846,076
Liabilities payable after one year		
Termination benefits		<u>8,076,252</u>
Total liabilities		<u><u>9,928,318</u></u>

NET POSITION

\$ 4,484,167

The accompanying notes are an integral part of this financial statement.



PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - ERO TRUST FUND
June 30, 2020

ADDITIONS:

Contributions from Government Development Bank	\$ 15,027,269
Total contributions	<u>15,027,269</u>
Investment income:	
Net change in fair value of investments	896,383
Interest and dividends	<u>34,383</u>
Net investment income	<u>930,766</u>
Total additions	<u>15,958,035</u>

DEDUCTIONS:

Benefits retirees	11,453,862
Trust fees	<u>20,006</u>
Total deductions	<u>11,473,868</u>
Net increase in net position	4,484,167
NET POSITION - Beginning of year	<u>-</u>
NET POSITION - End of year	<u>\$ 4,484,167</u>

The accompanying notes are an integral part of this financial statement.

1. REPORTING ENTITY

Puerto Rico Fiscal Agency and Financial Advisory Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth). The Authority was originally created by Act No. 21 of April 6, 2016, which was superseded by Act No. 2 of January 19, 2017. The Authority began operations on July 18, 2016. The Authority's responsibilities include, among other things: (i) overseeing compliance with the certified budget and fiscal plan approved by the Oversight Board pursuant to Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA); (ii) revising matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Government of Puerto Rico (the Government); (iii) entering into agreements with creditors and/or renegotiating or restructuring the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivisions.

The Early Retirement Obligation Trust (ERO)

The ERO was created by Act No. 109 of August 24, 2017 as amended, best known as Government Development Bank ("GDB") Restructuring Act and the execution of the GDB Qualifying Modification on November 29, 2018, but was not until August 6, 2019 that the deed for the constitution of the ERO was created.

The GDB Restructuring Act authorized GDB to establish an irrevocable trust for the benefit of former employees of GDB receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The Trust Deed named the Authority as the Trustee of the ERO.

The Authority entered into a contract with a financial institution to delegate various of its trustee responsibilities in the ERO. As of June 30, 2020, the ERO had total assets of approximately \$14.4 million and is making payments to around 40 active participants for aggregated monthly payments of approximately \$125,000 to former employees of GDB as the major portion of the employees have already transitioned to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS). Termination of the trust is expected by year 2030 when the last participant will become part of the ERS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Authority are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standard Board (GASB).

The accompanying basic financial statements present the financial position and the results of operations of the Authority as a whole.

Following is a description of the Authority's most significant accounting policies:

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the activities of the Authority. Governmental activities are financed mainly through contributions from the Commonwealth. The statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

- *Net Investment in Capital Assets* - This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly 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 included in this component of net position.
- *Restricted Net Position* - This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. The Authority does not allocate general government (indirect) expenses to other functions. Program revenues include contributions received from the Commonwealth and charges for services made to other governmental entities. Program revenues also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues are presented as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Fund Financial Statements

The Authority reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. 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

Governmental funds focus on the sources and uses of funds and provide information on near term inflows, outflows, and balances of available resources. The Authority reports the following governmental fund:

General Fund - The General Fund is the primary operating fund of the Authority. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. The General Fund includes transactions for services such as professional and legal services paid by the Authority in connection with the restructuring of the debts of the Commonwealth and its instrumentalities.

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which the Authority is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* - Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* - Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority.
- *Assigned* - includes fund balance amounts that are constrained by the Authority and are intended to be used for specific purposes that are neither considered restricted nor committed.
- *Unassigned* - is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Authority has only an unassigned fund balance.

The Authority does not have a formal minimum fund balance policy.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Authority in a trustee capacity, or as agent for individuals, private organizations, and other governmental units. The Authority is the trustee, for the benefit of former employees of GDB receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The fiduciary activities of the Authority are reported in a separate statement of fiduciary net position and of changes in fiduciary net position. The Authority exclude these activities from the Authority's government-wide financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Other revenues are considered to be measurable and available only when cash is received.

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. However, compensated absences are recorded as expenditures when matured. General capital asset acquisitions are reported as expenditures in governmental funds.

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

A summary reconciliation of the difference between total fund balance as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balance as reflected in the governmental funds statement of revenues, expenditures, and change in fund balance and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of statement of revenues, expenditures, and change in fund balance of governmental funds to the statement of activities.

Fiduciary Funds Financial Statements

Fiduciary funds are used to account for assets held by the Authority in a trustee capacity as an agent for individuals. The fiduciary funds financial statements are reported using the accrual basis of accounting. The Authority's fiduciary fund is the Early Retirement Obligation Fund.

Cash and Cash Equivalents

Fiduciary Funds - Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

Investments

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.



PUERTO RICO FISCAL AGENCY AND
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Fiduciary Funds- Investments mainly include U.S. government and agencies' obligations. Investments are carried at fair value. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organization.

Accounts Receivable

Accounts receivable are stated net of estimated allowance for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Write-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of \$500 or more at the date of acquisition and have an expected useful life of three or more years. Contributed assets are recorded at estimated fair value at the time received. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Estimated useful lives are as follows:

<u>Capital assets</u>	<u>Years</u>
Information systems	3-5 years
Office furniture and equipment	5 years
Vehicles	5 years

The Authority follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No.34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others. The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the fiscal year ended June 30, 2020.

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and a maximum accumulation of 90 days. Act 26-2017 was enacted to modify the existent legal and judicial framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act 26-2017 also altered the liquidation terms. After the enactment of Act 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide financial statements has been calculated using the vesting method, in which leave amount for an employee who currently is eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax).

Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Risk Management

To minimize the risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen's compensation insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of Treasury of the Commonwealth. Insurance coverage is updated annually to account for changes in operating risk.

Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Accounting Pronouncements Issued but Not Yet Effective

The following new accounting standards have been issued but are not yet effective:

- **GASB Statement No. 84, *Fiduciary Activities*.** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2018, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.
- **GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after December 15, 2019. The requirements of the Statement are effective for reporting periods after December 15, 2019, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.
- **GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2019, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

- **GASB Statement No. 91, *Conduit Debt Obligations*.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2020, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.

- **GASB Statement No. 92, *Omnibus 2020*.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after June 15, 2020, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

This statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended
- Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

The requirements of the Statement are effective for reporting periods after June 15, 2020, as amended by GASB Statement No. 95 which postponed by one year the effective date of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS
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- **GASB Statement No. 94, *Public Private and Public-Public Partnership and Availability Payment Arrangement*.** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the requirements of a service concession arrangement (SCA), which is defined as: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.** The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

NOTES TO BASIC FINANCIAL STATEMENTS
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The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

- **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.** This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 97, *Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*.** The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other than postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The following requirements of this Statement are effective immediately: (1) exemption of primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limitation on the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS
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The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

- **GASB Statement No. 98, The Annual Comprehensive Financial Report**- This Statement establishes the term *annual comprehensive financial report* and its acronym ACFR. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the Authority's basic financial statements.

3. UNCERTAINTIES AND LIQUIDITY RISK

The Authority's main source of revenue consists of legislative appropriations from the Commonwealth. As a result, the Authority's operations are dependent on the Commonwealth's ability to continue providing funding to the Authority through legislative appropriations. The Commonwealth is in the midst of a profound fiscal crisis and is in the process of restructuring its liabilities under Title III of PROMESA.

4. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that, in the event of a financial institution's failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico be fully collateralized for the amount deposited in excess of federal depository insurance.

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The table presented below discloses the level of custodial credit risk assumed by the Authority as of June 30, 2020. As of June 30, 2020, none of the Authority's depository balance is uninsured and uncollateralized as follows (in thousands):

GOVERNMENTAL ACTIVITIES

Cash of the Governmental Activities as of June 30, 2020 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Cash	\$ 108,647	\$ 110,370	\$ -

FIDUCIARY FUND

Cash and cash equivalents of the Fiduciary Fund as of June 30, 2020 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Bank balance</u>
Cash and cash equivalents	\$ 43	\$ 43

Cash and cash equivalents consist of deposit with a commercial bank and short-term investments.

5. INVESTMENTS

FIDUCIARY FUND

As of June 30, 2020, the fair value of the ERO Trust's Fund investments, based on the hierarchy of inputs, is determined as follows (in thousands):

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government securities	\$ 14,366	\$ -	\$ -	\$ 14,366
Total investment	\$ 14,366	\$ -	\$ -	\$ 14,366

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The following table summarizes the type and maturities of investments held by the ERO trust funds at June 30, 2020 (in thousands):

Investment type	Maturity (in years)			Total
	Within one year	After one to five years	After five to ten years	
U.S. government securities	\$ 1,443	\$ 8,303	\$ 4,620	\$ 14,366

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Trust's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings (Fitch), depending on the type and maturity of the investment and the counterparty to the transaction.

As of June 30, 2020, the credit ratings of the investment securities are Aaa.

6. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

As of June 30, 2020, the Authority's accounts receivable, net of allowance, is composed of the following (in thousands):

Description	Amount
University of Puerto Rico	\$ 503
Puerto Rico Sales Tax Financing Corporation	729
Puerto Rico Public-Private Partnership Authority	49
Municipalities	496
The Children's Trust	5
Government Development Bank for Puerto Rico	26
Municipal Finance Corporation	14
Banco Popular de Puerto Rico	5
Governor Office	5
Puerto Rico Health Department	4
Puerto Rico Infrastructure Financing Authority	195
Total accounts receivable	2,031
Less: allowance for uncollectible account	(23)
Accounts receivable, net of allowance	\$ 2,008



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7. CAPITAL ASSETS

Capital assets activity during the year ended June 30, 2020, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets:				
Furniture and equipment	\$ 528	\$ 120	\$ -	\$ 648
Vehicle	83	-	-	83
Information systems	123	38	-	161
Total capital assets	<u>734</u>	<u>158</u>	<u>-</u>	<u>892</u>
Less accumulated depreciation and amortization for:				
Furniture and equipment	(111)	(119)	-	(230)
Vehicle	(26)	(17)	-	(43)
Information systems	(31)	(46)	-	(77)
Total accumulated depreciation and amortization	<u>(168)</u>	<u>(182)</u>	<u>-</u>	<u>(350)</u>
Total capital assets - net	<u>\$ 566</u>	<u>\$ (24)</u>	<u>\$ -</u>	<u>\$ 542</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of June 30, 2020, the Authority's accounts payable and accrued liabilities are composed of the following (in thousands):

<u>Description</u>	<u>Amount</u>
Debt restructuring and Title III bankruptcy cases	\$ 26,021
Other services	1,300
Accrued expenses	1,443
	<u>\$ 28,764</u>

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9. COMPENSATED ABSENCES

The activity for compensated absences as of June 30, 2020, is as follows (in thousands):

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	\$ 614	\$ 602	\$ (420)	\$ 796	\$ 297

10. RETIREMENT BENEFITS SYSTEMS

PayGo Pension Reform

The Defined Benefit Pension Plan (the Plan) for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System or ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the Plan was administered by the System. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities new implementation procedures for adopting, effective July 1, 2017, the new PayGo system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act No. 106-2017. The Act created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately \$2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Future benefits will not be paid by the System.

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Act No. 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106-2017, ERS's board of trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing ERS, the Judiciary Retirement System (JRS), and the Teachers Retirement System (TRS).

Act No. 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new System members hired on and after July 1, 2017, have been enrolled in a new defined contributions program selected by the Retirement Board. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new defined contributions program, effective as of June 22, 2020. ERS's active members of the defined contributions program retained their benefits as stated under Act 91 of March 29, 2003.

Act No. 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act No. 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

11. TERMINATION BENEFITS

GOVERNMENTAL ACTIVITIES

During the fiscal year ended June 30, 2017, the Authority extended to its employees a new voluntary early retirement program. This program was approved by the Authority's Board of Directors based on the provisions of Act No. 211, which was enacted on December 8, 2015. Act No. 211 provides that eligible employee may retire from employment with the Authority in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participation in ERS who have not reached 61 years of age.

Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as of December 31, 2015, and until the participating member attains 61 years of age, the age at which the employee will become part of ERS. The Authority is responsible for the payment of the employer contribution to Social Security and Medicare, based on 60% of the average compensation as of December 31, 2015. The Authority is also responsible for the payment of the related employee and employer contributions to ERS based on 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years until he or she reaches 61 years of age.

As of June 30, 2020, the total liability related to these early termination benefits was approximately \$1.2 million. This liability is measured at the discounted present value of expected future benefit payments using a discount rate of 1.05%.



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The activity of the termination benefits as of June 30, 2020, is as follows (in thousand):

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Termination benefits	\$ 1,362	\$ 74	\$ (245)	\$ 1,191	\$ 239

FIDUCIARY FUND

As discussed in Note 1, pursuant to the GDB Restructuring Act, a trust was created to secure to manage and pay the benefits of former GDB employees related to early termination programs. On August 6, 2019, the ERO trust was created to managed different early termination programs that were approved by GDB board of directors on fiscal years 1994, 2000, 2007 and 2011 to GDB employees.

The activity of the termination benefits as of June 30, 2020, is as follows (in thousand):

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Termination benefits	\$ -	\$ 11,454	\$ (1,532)	\$ 9,922	\$ 1,846

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Authority leases office space in what is known as “Minillas” from Public Building Authority. Principally, office space is leased under an operating lease agreement that expired on July 1, 2018, and is currently on a month-to-month basis.

Rent charged to operations in fiscal year 2020 amounted to approximately \$388 thousand.

Contingencies

GOVERNMENTAL ACTIVITIES

Legal contingencies were evaluated through January 18, 2022, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the basic financial statements for fiscal year 2020. Management, with the advice of external counsel, have evaluated all legal claims and conclude that an accrual for monetary damages is not necessary for these litigation contingencies.

13. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 18, 2022, to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. The subsequent events disclosed below are principally those related to the Authority's operations.

Economic Stabilization Measures

On March 27, 2020, then President Trump signed into law the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act), commonly known as "Phase Three" of coronavirus economic relief. The CARES Act provides a stimulus to individuals, businesses, and hospitals in response to the economic distress caused by the COVID-19 pandemic; creates a \$349 billion loan program for small businesses, including 501(c)(3) non-profits and physician practices; allocates \$500 billion for assistance to businesses, states, and municipalities; expands telehealth services in Medicare, including services unrelated to COVID-19 treatments; expands eligibility for unemployment insurance and provides people with an additional \$600 per week on top of the unemployment amount determined by each state; expands the Defense Production Act, allowing for a period of two years when the government may correct any shortfall in resources without regard to the current expenditure limit of \$50 million; provides the U.S. Secretary of the Treasury with the authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosens a variety of regulations prior legislation imposed through the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Economic Stabilization Act of 2008, and others; and authorizes supplemental appropriations to help the government respond to COVID-19 pandemic emergency.

On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 (the American Rescue Plan), which provided an additional \$1.9 trillion stimulus relief for the COVID-19 pandemic in the United States, including the territories. The American Rescue Plan built upon the measures in the CARES Act and Appropriations Act, including by providing for, among other things, (i) \$1,400 direct payments to individuals making up to \$75,000 per year and \$2,800 for couples making up to \$150,000 per year (which phase out at \$80,000 and \$160,000 respectively), plus an additional \$1,400 for each child and/or adult dependent; (ii) an extension of expanded unemployment benefits with a \$300 weekly supplement through September 6, 2021; (iii) various tax benefits; (iv) grants to small businesses; (v) education and housing assistance funding; (vi) additional COVID-19 related funding; and (vii) transportation-related funding. For the first time ever, the American Rescue Plan permanently expanded the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to Puerto Rico and the U.S. territories. The U.S. Joint Committee on Taxation estimated that the EITC reform likely will result in nearly \$8.1 billion in federal payments to all territories over the next decade (of which Puerto Rico would receive the largest portion), and the CTC reform likely will result in more than \$4.5 billion in payments to Puerto Rico families through 2026.

Coronavirus Relief Fund

On May 15, 2020, the Governor of Puerto Rico issued Administrative Bulletin OE-2020-040 (the Bulletin), under which the Commonwealth formally adopted the Strategic Disbursement Plan of the funds assigned to Puerto Rico through the Coronavirus Relief Fund (CRF) established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Among other things creates a steering committee composed of the Department of Treasury, Office of Management and Budget and the Authority in order to provide technical assistance and oversight to funds received related to Cares Act.

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The CARES Act contains multiple sources of aid for citizens, businesses, as well as for state and territorial governments. As noted above, among the measures included in the CARES Act is the creation of the CRF, which was funded by an initial allocation of \$150 billion. These funds must be distributed by the Department of the Federal Treasury to the fifty states, Washington DC, local governments, territories and governments of Native American tribes, according to certain parameters.

After making distributions to U.S. territories based on the estimates of the Federal Census for the year 2019, the U.S. Treasury Department determined that the Government of Puerto Rico would receive \$2.2 billion of the \$3 billion set aside for the territories under the CRF which were transferred by the U.S. Treasury Department to the Government of Puerto Rico on April 20, 2020.

The strategic disbursement plan addresses both government needs (mainly associated with attending to the public health emergency and continuing government operations) and those of the private sector, which has been severely affected by interruption of operations.

During fiscal year 2021, the Puerto Rico Office of Management and Budget assigned to the Authority the amount of \$9 million to implement the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by Government of Puerto Rico. Also, OMB assigned \$6.1 million to the Authority to cover administrative expenses and compliance requirements related the American Rescue Plan.

On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 (the American Rescue Plan), which provided an additional \$1.9 trillion stimulus relief for the COVID-19 pandemic in the United States, including the territories. The American Rescue Plan built upon the measures in the CARES Act and Appropriations Act, including by providing for, among other things, (i) \$1,400 direct payments to individuals making up to \$75,000 per year and \$2,800 for couples making up to \$150,000 per year (which phase out at \$80,000 and \$160,000 respectively), plus an additional \$1,400 for each child and/or adult dependent; (ii) an extension of expanded unemployment benefits with a \$300 weekly supplement through September 6, 2021; (iii) various tax benefits; (iv) grants to small businesses; (v) education and housing assistance funding; (vi) additional COVID-19 related funding; and (vii) transportation-related funding. For the first time ever, the American Rescue Plan permanently expanded the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to Puerto Rico and the U.S. territories. The U.S. Joint Committee on Taxation estimated that the EITC reform likely will result in nearly \$8.1 billion in federal payments to all territories over the next decade (of which Puerto Rico would receive the largest portion), and the CTC reform likely will result in more than \$4.5 billion in payments to Puerto Rico families through 2026.

Contribution to Commonwealth of Puerto Rico

On March 18, 2021, the Fiscal Oversight Management Board approved and the Authority paid, a contribution to the Commonwealth amounting to \$17 million for Commonwealth Title III expenses.

Improvements to Educational Institutions - Memorandum of Understanding between the Authority and the Puerto Rico Infrastructure Financing Authority

As a result of Hurricanes Irma and Maria and the seismic activity that has affected Puerto Rico, approximately 684 public schools have been structurally damaged since January 2020. The structural damages to these schools have rendered them completely unsuited for use due to danger of collapse. Therefore, structural and other safety improvements are necessary before these schools can reopen.



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On June 7, 2021, the Coronavirus Relief Fund Disbursement Oversight Committee (the Committee) assigned \$195.6 million from the Coronavirus State Fiscal Rescue Fund (CSFRF) to the Authority in order to make the corresponding payments to the Puerto Rico Infrastructure Financing Authority (PRIFA) in connection with the improvements to be made to schools (“the Project”).

On June 9, 2021, a Memorandum of Understanding (MOU) was entered between the Puerto Rico Department of Education (DOE), the Puerto Rico Public Buildings Authority (PBA), PRIFA and the Authority to make the necessary improvements to 684 schools identified by DOE and PBA.

On June 17, 2021, the Committee assigned \$81.2 million (in addition to the \$195.6 million already assigned) to the Authority to fund PRIFA’s management of the Project.