PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2020

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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VALDES, GARCIA, MARIN & MARTINEZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To Honorable Secretary of the Department
of Transportation and Public Works

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Puerto Rico Integrated Transit Authority* (PRITA) (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 basic financial statements, which collectively comprise PRITA'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 misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 controls. 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 that we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to in the first paragraph of the preceding page present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of PRITA as of June 30, 2020 and the respective changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that PRITA will continue as a going concern. As discussed in Note 3 to the basic financial statements, PRITA is highly dependent on the Commonwealth of Puerto Rico's (the Commonwealth) contributions to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about PRITA's ability to continue as a going concern. The basic 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.

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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Valdés, Garcia, Marin & Martinez, LLP

San Juan, Puerto Rico
March 22, 2022

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affixed to the original

Management's Discussion and Analysis

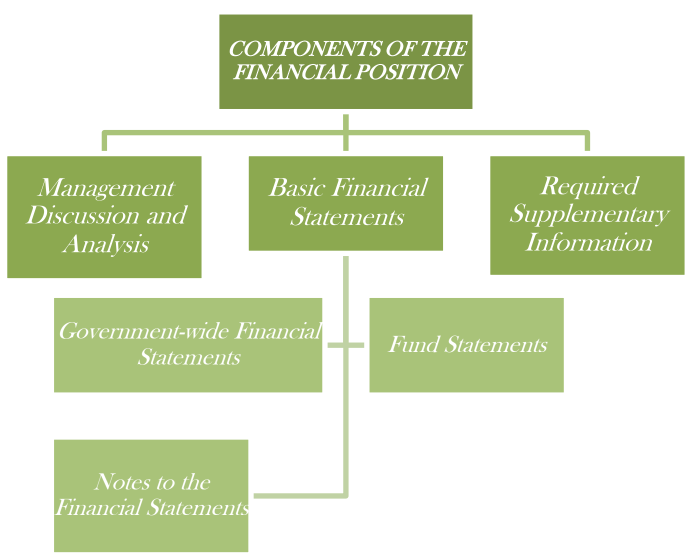
This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Integrated Transit Authority (PRITA) for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to PRITA's basic financial statements, which have the following components: (1) government-wide financial statements (2) governmental 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, and (b) provide an overview of PRITA's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the PRITA's financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

- The assets of PRITA exceeded its liabilities at the close of the fiscal year 2020 by $9,271,237 million.
- Total revenues, including interests, decreased by $ 393,147 or 6% when compared to fiscal year 2019. Total expenses, excluding contributions to other entities, decreased by $875,234 or 86% when compared with fiscal year 2019. Contributions to other governmental entities decreased $6,033,208 or 100% when compared to fiscal year 2019.
- The net position increased by $4,262,787, with respect to prior year.
- The investment in capital assets as of June 30, 2020 was $203,139, net of depreciation.
- Total liabilities increased by $ 17,001,238 million or 607% when compared to 2019.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to PRITA's basic financial statements. This report includes the management's discussion and analysis, the basic financial statements, and the notes that explain in more detail the information contained in the financial statements.



Government-Wide Financial Statements

The government-wide statements report information about PRITA as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the s*tatement of net position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in PRITA's net position are an indicator of whether its financial health is improving or deteriorating. The second statement – the *statement of activities* – presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

Fund Financial Statements

The fund financial statements provide more detailed information about PRITA's general fund which is the primary operating fund. In this fund, PRITA records all funds received from the Commonwealth that are not restricted by law or contractual agreement. Unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance PRITA's operations.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

Financial Analysis

The following is an analysis of the financial position and changes in the financial position of PRITA's activities for the fiscal year ended June 30, 2020:

Net Position

Condensed financial information of the statement of net position as of June 30, 2020 and 2019, is as follows:

	2020	2019	In Dollars	Percent
Assets				
Current assets	$28,868,053	$7,656,474	$ 21,211,579	277%
Capital assets, net	203,139	150,693	52,446	35%
Total assets	$ 29,071,192	$ 7,807,167	$ 21,264,025	272%
Liabilities				
Current liabilities	$ 19,765,375	$ 2,777,299	$ 16,988,076	612%
Noncurrent liabilities	34,580	21,418	13,162	61%
Total liabilities	19,799,955	2,798,717	17,001,238	607%
Net Position:				
Net investment in capital assets	203,139	150,693	52,446	35%
Unrestated	9,068,098	4,857,757	4,210,341	87%
	9,271,237	5,008,450	4,262,787	85%
Total liabilities and net position	$ 29,071,192	$ 7,807,167	$ 21,264,025	272%

Current assets increased by $21,211,579 million or 277% due mainly to cash inflows received near year-end. Net capital assets increased by $52,446, mainly due to new asset acquisitions.

Current liabilities increased by $16,998,076 or 612%, mostly due to increases in due to other government entities.

Non-current liabilities that consist of compensated absences increased by approximately $13 thousand.

Changes in net position

Condensed financial information of the statement of activities of the governmental activities for the years ended June 30, 2020 and 2019, is as follows:

Functions/Programs	**2020**	**2019**	**Amount**	**%**
Governmental activities:				
Administrative services	$ 6,090,918	$ 6,361,200	$ (270,282)	-4%
Total revenues	$ 6,090,918	$ 6,361,200	$ (270,282)	-4%

	Expenses		**Increase / (Decrease)**	
Functions/Programs	**2020**	**2019**	**Amount**	**%**
Governmental activities:				
Administrative services	$ 1,889,865	$ 1,014,631	$ 875,234	86%
Total expenses	$ 1,889,865	$ 1,014,631	$ 875,234	86%
General revenues:				
Interest	61,734	184,599	(122,865)	-67%
Contributions to other governmental entities	-	(6,033,208)	(6,033,208)	-100%
	61,734	(5,848,609)	5,910,343	
Change in Net Position	4,262,787	(502,040)	4,764,827	949%
Beginning Net Position, as restated	5,008,450	5,510,490	(502,040)	-9%
Ending Net Position	$ 9,271,237	$ 5,008,450	$ 4,262,787	85%

PRITA reported a positive change in the net position of approximately $4.3 million, an increase of 949%, with respect to prior year's change in net position.

Total revenues consist of contributions from the Commonwealth of approximately $6.0 million.

Capital Assets

At the end of the fiscal year, PRITA has invested $203 thousand, net of depreciation, in capital assets, including furniture, fixtures, computers and software.

Long-Term Debt

At the end of the fiscal year, PRITA reported approximately $35 thousand in long-term debt which consist of compensated absences.

Current Known Facts

The Puerto Rico Integrated Transit Authority (PRITA) serves the San Juan Urbanized Area through heavy rail and bus public transportation. PRITA was created on August 3, 2014 by the Department of Public Works and Transportation (DTOP) to serve as an entity to manage and integrate the different transit modes on the Island. Under the authority of DTOP, PRITA receives federal and state funding for its operation and capital needs.

Much of DTOP's transportation operations management was channeled through the Puerto Rico Highways and Transportation Authority (PRHTA), and DTOP sought to create a separate entity to specifically handle public transportation. PRITA assumed responsibility over the Urban Train (UT) upon its creation in 2014 and was intended to merge the Puerto Rico Metropolitan Bus Authority (PRMBA) and the Puerto Rico Maritime Transportation Authority (PRMTA) under its authority. As of today, full transfer of responsibility from PRHTA and the transit agencies to

PRITA has not been fully completed due to the lack of available resources, mostly due to the Commonwealth's fiscal deficit. Despite this, there has been some progress in the integration as several bus routes previously managed by PRMBA were handed over to PRITA for management in 2015.

PRITA's services include the UT heavy rail service, and the *Metrobus*, *Metro Urbano* and *UT Connection* bus lines. PRITA does not directly operate these services, but rather contracts third-party operators, currently Alternate Concepts, Inc. for UT, and First Transit for the bus services.

The *Metrobus*, *Metro Urbano* and *UT Connection* bus lines operations have been contracted with a private operator, First Transit, since 2008 while the management of those lines was still under PRMBA's responsibility. Since then, the contract has been extended and amended several times to continue providing good service.

Organizational Structure

DTOP holds authority over PRITA and PRHTA and intends to transfer the public transit responsibilities from PRHTA to PRITA. However, due to the Commonwealth's fiscal deficit, the acquisition of additional resources to enable that shift has been difficult. Many of PRITA's departments are staffed by existing PRHTA employees or are outsourced to private contractors to fill in critical roles until new resources can be hired. In most cases, the PRHTA employees working in PRITA's organization fulfill the same role at PRHTA before the creation of PRITA, and now report through PRITA's organizational structure instead of PRHTA.

Opportunities For Improvement

PRITA was able to uncover several opportunities for improvement within its current operations and planning processes. The following is a summary of currently ongoing or planned initiatives, as well the commitment to continue improving the service offered to its riders, to remain safe and reliable, provide a good customer service and experience, while keeping its assets in an SGR (State of Good Repair).

Further Development of Transit Asset Management Plans

PRITA, as an agency, understands that it continues to develop, plan, and implement technical and structural improvements for its assets and the agency overall.

A best practice, Transit Asset Management Plan (TAMP), is based on the following elements:

1. Appropriate asset data to support a mature decision process for prioritizing asset interventions;

2. Analysis tools in place to exploit this data;

3. An integrated longer-term planning process, ideally of at least ten years, to provide a consistent approach to investment against the agency objectives, themselves ideally quantified, 'SMART' targets;

4. Subject Matter Expert-based asset class and system strategies to support this integrated planning process;

5. A systematic move towards risk-based decision making against agency targets, which would include both risk-based replacement and risk-based maintenance, making use of established techniques from other transit agencies globally; and

6. An articulated 'Asset Management System' that defines the elements of processes and procedures, roles, and responsibilities for good Transit Asset Management.

This goal is best approached through a coordinated improvement plan over some years, making good use of lessons learned elsewhere.

PRITA aims to develop a TAMP improvement plan for the next three years:

1. Put in place TAMP awareness training for its key asset decisions makers,

2. Maintain its asset inventory through the spreadsheets developed for this TAMP and making good use of the standardized templates for NTD reporting;

3. Further developing a pragmatic Useful Life Benchmark "ULB" approach for its assets;

4. From this work, developing early asset class strategies to address any asset class that is at or exceeds its class ULB; and

5. Plan to improve the integrated planning process towards a mature AMP process.

Asset Information

Due to the nature of PRITA's contract with First Transit, the agency has only limited access to information surrounding asset operations and maintenance. Current contractual agreements require only minimal information to be shared from First Transit with PRITA, the asset owner. First Transit remains the proprietary owner of key asset information. This inhibits PRITA's capabilities for in-depth asset condition monitoring and long-term planning. It prohibits PRITA from forming a complete picture of fleet condition and asset operation needs. Currently, the agency is alleviating this by conducting spot-checks and requesting monthly operations summaries through detailed and evidenced invoicing.

PRITA will seek amendments to the current and future contracts with First Transit or any other third-party provider to have full and unrestricted access to relevant information.

Operations Oversight

As mentioned above, PRITA has limited oversight of bus fleet operations and can only react within the boundaries of the agreement with First Transit. At the same time, PRITA holds the sole responsibility to provide safe and reliable services to its customers.

Ultimately, PRITA needs to increase the amount of oversight and control it has over bus operations and maintenance. This could be realized by more flexible provisions in the third-party agreements, with First Transit or any other provider, allowing PRITA to modify its services, routes, and bus dispatching.

PRITA will engage an external consultant to survey and forecast future ridership demand. Included in this study will be an investigation into re-integrating some PRITA routes with its sister-agency, PRMBA.

Ridership Data and Demand Forecasting

ATI will intensify its efforts to effectively project future ridership and overall demand. This will enable the agency to enhance its long-term planning capabilities and investment needs.

Information Available to Customers

Through new technologies implemented in PRITA's buses, the agency will be able to share more relevant information with its customers. Data on bus location and arrivals shall be made available through third-party mobile apps and online-services. Sharing more information with customers will also shape an image of a more reliable service, understanding current operating conditions will demonstrate dependability for riders.

Increased availability of information will enhance the overall experience for customers and subsequently attract more riders.

Skilled Workforce

Puerto Rico's wider economy sectors, not only transit providers like PRITA, are experiencing a dramatic shortage of skilled workforce. This is due to the increasing migration from the Island to mainland U.S., following the 2017 hurricanes, and other natural disasters.

PRITA is finding increasingly difficult to recruit and retain staff for its administrative and planning activities. This is heightened by the fiscal crisis within the entire Commonwealth of Puerto Rico. Government spending has subsequently been restricted.

At the same time, PRHTA remarks a surplus of available federal funding for transit providers. This untapped resource seems to exist because agencies, like PRITA do not have enough staff to create funding requests through PRHTA, which require substantial planning and evidence documentation of the investment needs.

As a short-term solution, PRITA is relying on external consultants to assist with planning tasks and preparing investment strategies. However, this poses a significant risk because it causes a lack of knowledge retention at the agency when those consultants leave.

PRITA will collaborate with PRHTA and its sister-agencies to submit federal funding requests to ensure that funding budgets remain adequate and transit services in Puerto Rico can provide safe and reliable services in the future.

Contacting PRITA's Financial Management:

This financial report is designed to provide our customers and other interested parties with a general overview of PRITA's finances and to demonstrate PRITA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Integrated Transit Authority, Finance Department, P.O. Box 195349, San Juan, Puerto Rico, 00919.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
ASSETS	
Cash	$ 22,680,497
Due from Commonwealth	6,187,556
Capital assets, net of accumulated depreciation and amortization	203,139
Total assets	$ 29,071,192
LIABILITIES	
Accounts payable and other accrued liabilities	$ 147,278
Due to other governmental entities	19,566,227
Liabilities due within one year:	
Compensated absences	51,870
Liabilities due after one year:	
Compensated absences	34,580
Total liabilities	19,799,955
NET POSITION	
Net investment in capital assets	203,139
Unrestricted	9,068,098
Total net position	$ 9,271,237

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions\Programs	Expenses	Program Revenues Operating Contributions	Net (expenses) revenue and changes in net position
Governmental Activities:			
Administrative services	$ 1,889,865	$ 6,090,918	$ 4,201,053
Total	$ 1,889,865	$ 6,090,918	4,201,053
	General revenues:		
	Interest		61,734
	Change in net position		4,262,787
	Net position, beginning of year		5,008,450
	Net position, end of year		$ 9,271,237

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET-GOVERNMENTAL FUND
JUNE 30, 2020

	General Fund
ASSETS	
Cash	$ 22,680,497
Due from Commonwealth	6,187,556
Total assets	$ 28,868,053
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and other accrued liabilities	$ 147,278
Due to other governmental entities	19,566,227
Total liabilities	19,713,505
Fund balance:	
Unassigned	9,154,548
Total liabilities and fund balance	$ 28,868,053

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total Fund Balance-Governmental Fund	$9,154,548
Amounts reported for governmental activities in the Statement of Net Position are different than the amounts reported in the Balance Sheet-Governmental Fund because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet-Governmental Fund	203,139
Compensated absences not liquidated immediately with current financial resources are not reported in the Balance Sheet-Governmental Fund	(86,450)
Net Position of Governmental Activities	$9,271,237

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund
REVENUE:	
Contributions from Commonwealth	$ 6,090,918
Interest	61,734
Total revenue	6,152,652
EXPENDITURES:	
Salary and employee benefits	839,005
Professional services	182,344
Capital outlays	103,127
Repairs and maintenance	13,864
Transportation subcontract	554,379
Other general and administrative	216,688
Total expenditures	1,909,407
Net change in fund balance	4,243,245
Fund balance - beginning of year	4,911,303
Fund balance - end of year	$ 9,154,548

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net Change in Fund Balance-Governmental Fund		$4,243,245
Amounts reported for governmental activities in the Statement of Activities and changes in net position are different because:		
Governmental funds report capital outlays as expenditures while in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.		
In current period these amounts are:		
Capital outlays	103,127	
Less: Depreciation and amortization expense	(50,681)	
		52,446
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are reported as expenditures in governmental funds:		
Compensated absences (net change)		(32,904)
Change in Net Position of Governmental Activities		$4,262,787

See the accompanying notes to the basic financial statements.

1. REPORTING ENTITY

Puerto Rico Integrated Transit Authority (PRITA) is a corporation created in 2014 by Act No. 123, as amended, for the purpose of implementing a uniform public policy on collective, road and maritime transportation, and the integration of the operations, assets, rights, obligations, and funds of the Puerto Rico Highways and Transportation Authority's (PRHTA), Urban Train, Puerto Rico Metropolitan Bus Authority (PRMBA) and Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA). PRITA is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), and accordingly is included in the basic financial statements of the Commonwealth.

PRITA commenced operations in February 2015 and is in the process of obtaining the required approvals from local and federal agencies to integrate and perform the merger of the Urban Train, PRMBA and PRMIMTA into PRITA.

PRITA is governed by a nine-member board comprising the Secretary of the Department of Transportation and Public Works of the Commonwealth, who serves as a Chairman, the Executive Director of PRHTA, the President of the Puerto Rico Planning Board, the Director of the Puerto Rico Office of Management and Budget, the Executive Director of Puerto Rico Fiscal Agency and Financial Advisory Authority, two additional members from the private sector appointed by the Governor of Puerto Rico with the advice and consent of the Senate and two other members representing entities within the Metropolitan Planning Organization, who are selected through the vote from its own Board of Directors. The Board delegates to an Executive Director certain powers and duties as it may deem appropriate. The Executive Director is responsible for the enforcement of the Board policies and for the general supervision of the operational and administrative activities of PRITA.

The Commonwealth generally provides financial support to PRITA through legislative appropriations and PRITA will transfer the necessary funds to PRTHA, PRMBA and PRMIMTA, when they engage in the construction, operations and maintenances of the Mass Rail and Maritime Transportation Facilities described in Act 123-2014, as amended.

<u>Component Unit</u>

A component unit is a legally separate entity for which PRITA is financially accountable, or the nature or significance of their relationship with PRITA is such, that their exclusion would cause PRITA's basic financial statements to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefit to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements to be misleading or incomplete. U.S. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of PRITA's balances and transactions or discrete presentation of the component unit's financial data in columns separate from PRITA's balances and transactions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of PRITA conform to U.S. generally accepted accounting principles (GAAP), as applicable to governmental entities.

a. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

<u>Management's Discussion and Analysis</u>

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

<u>Basic Financial Statements</u>

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are mainly supported by Commonwealth's contributions.

<u>Government-Wide Financial Statements</u>

The government-wide financial statements (the statement of net position and the statement of activities) 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.

The statement of net position presents PRITA's assets, deferred outflows resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are directly attributable to the acquisition, construction, or improvement of those assets.

- Restricted net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources.

- Unrestricted net position consists of net position which do not meet the definition of the preceding category. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is PRITA'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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes contributions.

Fund Financial Statements

PRITA reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of the fund are accounted within a set of self-balancing accounts. Funds are segregated according to their intended purpose and are used to aid management in demonstrating compliance with legal, financial, and contractual provisions. The governmental fund statements include a balance sheet and a statement of revenue, expenditures, and changes in fund balance.

Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the PRITA's official's criteria if the fund is particularly important to financial statement users. PRITA reports the following major governmental fund:

General Fund - The general fund is PRITA's primary operating fund. It accounts for all financial resources not accounted for in other funds. All funds received from the Commonwealth that are not restricted by law or contractual agreement are recorded in this fund.

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. For this purpose, PRITA considers revenue to be available if it is collected within 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under the accrual basis of accounting. A modification to the accrual basis of accounting includes employee's vested annual vacation that is recorded as expenditure when matured. The unmatured amount of accumulated annual vacation as of June 30, 2020 is reported only in the government-wide financial statements.

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

A summary reconciliation of the difference between net change in fund balance as reflected in the governmental fund statement of revenue, expenditures, and changes 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 the statement of revenue, expenditures, and changes in fund balance of governmental fund to the statement of activities.

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 PRITA 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 highest level of decision-making authority, which in the case of PRITA are the Executive Director and the Board of Directors.

- Assigned - Amounts that are constrained by PRITA and are intended to be used for specific purposes that are neither considered restricted nor committed.

<u>Notes to the Financial Statements</u>

Notes to the financial statements provide information that is essential to users' understanding of the basic financial statements.

b. *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

c. *Concentration of Credit Risk* - PRITA maintains cash on deposit with high-rated financial institutions. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth.

d. *Accounts Receivable* – Accounts receivable are stated net of estimated allowance for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

e. *Capital Assets* – Capital assets are stated at cost, net of accumulated depreciation. Capital asset is defined by PRITA as assets with an initial cost of $500 or more and an estimated useful life of more than one year. Depreciation and amortization is computed on the straight-line method at rates considered adequate to allocate the cost of the various types of property over their estimated useful lives which range between two and ten years.

   Expenditures for maintenance and repair costs that do not improve or extend the life of the respective assets are charged to operations as incurred. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized.

f. *Encumbrances* - Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by governmental funds during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30, are recognized as expenditures. For GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year.

g. *Compensated Absences* - Employees accumulate vacation at a rate of 1.25 days per month up to an annual amount of 15 days. Vacation time is fully vested by the employee from the first day of work up to a maximum of 60 days. Employees accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. After the enactment of Act 26-2017, only compensation of accrued vacation leave, 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 not liquidated upon employment termination.

h. *Contributions* - PRITA receives operating grants from the Commonwealth. These grants, which are subject to annual appropriations, are used to finance PRITA's operations.

i. *Accounting for Pension Costs* - PRITA accounts for pension costs under the provisions of 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 No. 67 and 68,* that requires employers to report a total pension liability and related pension accounts. For purposes of measuring the total pension liability, deferred outflows and inflows of resources related to pension, and pension expense, the balances have been determined on the same basis as reported by the Plan. As of June 30, 2020, PRITA does not have retired employees and there is no total pension liability to report.

j. *Adoption of New Accounting Pronouncement*

- The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in May 2020 effective immediately. The objective of this Statement is to provide temporary relief to governments due to the COVID-19 pandemic. This statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

k. *Accounting Pronouncements Issued but Not Yet Effective*

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statements 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 reporting periods beginning after June 15, 2021, as revised by GASB Statement No.95.

- 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, 2020, as revised by GASB Statement No. 95. Earlier application is encouraged.

- GASB Statement No. 90*, Majority Equity Interests.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statements information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as revised by GASB Statement No. 95. Earlier application is encouraged.

- 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, as revised by GASB Statement No.95 Earlier application is encouraged.

- *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 *Statements 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 *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, 2021, as revised by GASB Statement No. 95. Earlier application is encouraged.

- *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 Statement 53, as amended.
  - Providing an exception to the lease modifications guidance in Statement 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, 2021, as revised by GASB Statement No. 95. 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.

- *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 definition of a service concession arrangement (SCA), (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. 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 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 requirements of this Statement that (1) exempt 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) limit 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, are effective immediately.

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 performed 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.

- *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. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

Management is evaluating the impact that these statements will have, if any, on PRITA's basic financial statements.

3. GOING CONCERN AND UNCERTAINTIES

As disclosed in Note 1 to the basic financial statements, PRITA's principal source of revenue is from contributions from the Commonwealth. The Commonwealth is facing a fiscal, economic and liquidity crisis, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension related obligations, and substantial doubt exists about its ability to continue as a going concern. On May 3, 2017, the Financial Oversight and Management Board (the Oversight Board), at the request of the Governor commenced a Tittle III case for the Commonwealth by filing a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico.

Considering that PRITA is financially dependent from the Commonwealth, due to the limitations of the Commonwealth to meet its obligations on a timely manner, it is management's opinion that the financial difficulties being experienced by the Commonwealth may affect PRITA's ability to continue as a going concern.

PRITA's management began conversations with state and federal authorities to obtain the necessary resources to convert PRITA in a federal fund grantee and increase revenues. Once PRITA can receive federal funds, the management of PRITA will continue the process of obtaining the required approvals from local and federal agencies to integrate and complete the merger of the Urban Train, PRMBA and PRMIMTA into PRITA.

4. CASH AND CASH EQUIVALENTS

PRITA's cash and cash equivalents as of June 30, 2020 consists of the following:

	Books balance	Depository bank balance	Amount uninsured and uncollateralized
Cash deposited in commercial bank	$ 22,680,497	$ 22,725,538	$ -

5. DEPOSITS CLAIM RECEIVABLE

On November 29, 2018, the Government Development Bank (the GDB) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the GDB Qualifying Modification). In addition, pursuant to Act No. 109-2017, also known as the *Governmental Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act), claims on account of deposits held by the Commonwealth and other public entities, including PRITA, were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed among the Commonwealth and its agents, instrumentalities, and affiliates, (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, including PRITA, received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Entity may have had against GDB. The assets of the PET consist of, among other items, a claim filed in the amount of $580 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

PRITA held deposits at GDB of $9,505,694. A custodial credit risk loss on these deposits was recorded in prior years for the full balance. As of June 30, 2020, the deposits balance and the custodial credit risk allowance were reclassified to deposits claim receivable from the PET and into an allowance for doubtful accounts, respectively, with a carrying amount of zero. As a result of the GDB Qualifying Modification, PRITA's recovery on this claim will depend upon the recovery ultimately received by the PET on account of its assets.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2020 consists of the following:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Governmental Activities:				
Furniture and fixtures	$ 193,518	$ -	$ -	$ 193,518
Computer equipment and software	223,351	1,775	-	225,126
Motor Vehicles	-	101,352	-	101,352
	416,869	103,127	-	519,996
Less accumulated depreciation and amortization	(266,176)	(50,681)	-	(316,857)
Total capital assets, net	$ 150,693	$ 52,446	$ -	$ 203,139

7. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2020 consist of the following:

Suppliers	$ 67,378
Payroll taxes and withholdings	79,900
Total	$ 147,278

8. DUE TO OTHER GOVERNMENTAL ENTITIES

Amount due to other governmental entities as of June 30, 2020 consists of contributions pending to be transferred to the following entities:

PRMIMTA	$18,508,097
PRMBA	1,058,130
Total	$ 19,566,227

9. RETIREMENT PLAN

Before July 1, 2017, PRITA was a participating employer in the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS covered employees of certain public corporation not having their own retirement systems (including PRITA), employees of the Fire and Police Departments of Puerto Rico, all regular full-time public employees working for the executive and legislative branches of the Commonwealth, and the municipalities of Puerto Rico.

On August 23, 2017, the Governor signed into law Act No. 106-2017, known as the "Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees", that approved a substantial pension reform for all of the Commonwealth's retirement systems. This reform modified most of the Retirement System's activities, eliminated the employer contribution, created legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then gets reimbursed for those payments by the applicable employers.

Act 106-217 also created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on these accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Pension benefits transferred

Before July 1, 2017, the ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (the System 2000 Program), and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities were covered by the ERS. Effective July 1, 2017, the ERS stopped making pension payments to retirees. However, all government employers are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in the ERS' prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

Plan description prior to July 1, 2017

Prior to July 1, 2013, the system operated under the following benefits structures:

- *Act No. 447 of May 15, 1951* (Act No. 447), effective on January 1, 1952 for members hired up to March 31, 1990 (contributory, defined benefit program),

- *Act No. 1 of February 16, 1990* (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program),

- *Act No. 305 of September 24, 1999* (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000 up to June 3, 2013 (the System 2000 Program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and System 2000 program, and were rehired on or after July 1, 2013 became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 2, 2013.

Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by the ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

Benefits provided before July 1, 2017

The following summary of the ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in accordance with the applicable laws and regulations.

(i) Service Retirements

(a) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions, attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1,1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(b) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(ii) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

Retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by the Plan. The annuity, for which a plan member was eligible, was limited to a minimum of $500 per month and a maximum of 75% of the average compensation.

Refer to the stand-alone financial statements of the Plan for further information on additional benefits.

10. CONTINGENCIES

PRITA is a party to various legal claims resulting from its operations. As a result of consultation with its in-house legal counsel, management believes that the ultimate outcome of any pending litigation will not have a significant impact to the accompanying financial statements.

11.SUBSEQUENT EVENTS

The Authority has evaluated all transactions occurring subsequent to the statement of financial position as of June 30, 2020 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through March 22, 2022, the date the accompanying financial statements were available to be issued. The following event was noted:

a. On January 2, 2021, the Governor of the Commonwealth, issued Administrative Bulletin No. OE-2021-003 - *Executive Order to Issue Fiscal Responsibility and Expense Control Measures, and to repeal Administrative Bulletin No. OE-2017-001*. The executive order declares a fiscal emergency state in the government of Puerto Rico and requires to all governmental agencies the implementation of the necessary measures to reduce operational expenses, without adversely affecting those services necessary to protect the citizens' health, security and wellness. The control measures cover hiring of personnel, reduction in operational expenses, use of credit cards, travel expenses, use of cellular phones and other technological services, reduction in contract amounts, among other areas.

b. During fiscal year 2021-2022, PRITA commenced a transition process with PRMIMTA in which its operations have been converted into a program under PRITA's umbrella. As part of this transitional phase, PRMIMTA will transfer all its funds and assets to PRITA as established in Act No. 123 of 2014, PRITA's organic law.