PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2019

(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Puerto Rico Land Authority (a component unit of the Commonwealth of Puerto Rico and from now on the Authority), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 basic 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 basic 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 basic financial statements.

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

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<u>Basis for Qualified Opinion - Capital Assets Impaired</u>

The Authority suffered damages to offices, warehouses, other structures and equipment, related to hurricanes Irma and Maria events, estimated at approximately $28.8 millions. The Authority, as of basic financial statements date, is in the process of tracing the individual property and equipment items to a physical inspection damages detail, prepared by the Federal Emergency Management Agency (FEMA), to their capital assets details in order to dispose-off or adjust cost and accumulated depreciation related balances.

Given the effects of this natural disaster in the Authority, the Governmental Accounting Standards Board (GASB) Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries", requires the recognition of capital asset impairments as soon as they occur. Losses from permanent impairments should be recognized in the Statement of Revenues, Expenses and Changes in Net Position in accordance with paragraphs 41-46, 55, 56, 101 and 102 of GASB No. 34. The restoration or replacement of the impaired capital asset should be reported as a separate transaction from the impairment loss and insurance recovery. Therefore, capital assets are overstated and the amount of loss from impairment and restoration or replacement of the impaired capital assets amounts is not available as of basic financial statements date.

<u>Qualified Opinion</u>

In our opinion, except for the effects of the matter described above in the "Basis for Qualified Opinion - Capital Assets Impaired" paragraph, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2019 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

<u>Emphasis - of - Matter</u>

Restatement of Prior Year Basic Financial Statements

As discussed in Note 18, the 2018 basic financial statements has been restated to correct net position related to the farm workers' christmas bonus of December 2017, which was recorded on July 1, 2018 and adjust balance due to Puerto Rico Aqueduct and Sewer Authority based on balance confirmated. Our opinion is not modified with respect to these matters.

Newly Adopted Standards

As discussed in Note 1(W) to the basic financial statements, the Authority adopted new guidance of GASB Statement No. 73 "Accounting and Financial Reporting for Pension and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68" and GASB Statement No. 95 "Postponement of the Effective Dates of Certain Authoritative Guidance". Our opinion is not modified with respect to these matters.

<u>Emphasis - of - Matter (Continued)</u>

Uncertainty about Ability to Continue as a Going Concern - Commonwealth of Puerto Rico

The Authority is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). The accompanying basic financial statements of the Authority have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and several component units recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the ability to continue as a going concern. The basic financial statements of the Authority do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

2010 Agriculture Department Reorganization Plan Number 4

As more explained on Note 17 (D) to the basic financial statements, Article 36 of the "Reorganization Plan number 4", discussed on Note 1 to the financial statements, amended laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as “Technological Innovation and Agricultural Promotion” (“Fondo de Innovacion”), to be transferred to the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). According to the Reorganization Plan, this fund can be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico. However, the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines through the GDB, and management of incentives already given to farmers. The Comptrollers Office of Puerto Rico (COPR) made recommendations to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations. The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements.

<u>Other Matters</u>

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the management’s discussion and analysis, on pages 5 through 13, the schedule of proportionate share of the total pension liability and the schedule of proportionate share of the total other postemployment benefits liability, on pages 91 and 92 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

<u>Other Matters (Continued)</u>

Required Supplementary Information (Continued)

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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Authority, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and related notes, as required by as required by "Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards", on pages 93 through 94 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

October 5, 2021

Stamp **#E463166** of the
College of CPA's of
Puerto Rico is affixed
to the original.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2019

This section of the Puerto Rico Land Authority ("the Authority") annual financial report, management discussion and analysis, presents our discussion of the Authority's financial performance and overview of financial activities during the fiscal year ended June 30, 2019. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Authority's total assets increased approximately $2.1 million, $151 million in 2018, to $153.2 million in 2019, or 1%. Total Assets and Deferred Outflow of Resources decreased approximately $4.7 million, from $164.3 million in 2018 to $159.7 million in 2019,

- Total liabilities decreased approximately $18.7 million, from $154.2 million in 2018 to $135.5 million in 2018, or 14%.

- Investment in capital assets and net capital assets amounted to $93.9 million in 2018 and $94.9 million in 2019, for an increase of approximately $1.0 million. The increase is mostly related to additions of $1,630,931 less current depreciation expense of $570,502,

- Total operating revenues increased approximately $1.2 million, from $8.5 million in 2018 to $9.7 million in 2019, or 12%. Total operating expenses amounted to $27,561,430 in 2018 and $18,279,287 in 2019, for a decrease of approximately $9.3 million. Total operating expenses for 2018 includes an increase in bad debts expenses of $13,089,324, not present in 2019,

- Total net non - operating revenues and expenses increased by approximately $26.6 million, $(1.4) million in 2018 to $25.2 million in 2019, or 1.06%. During 2019, there was a non - revolving credit line with the Government Development Bank of Puerto Rico (GDB) which was partially offset by $23 million,

- Non - operating revenues "debt offset - GDB" increased by approximately $23 million in 2019 due to a non-revolving line with GDB which was partially offset for $23 million, and

- Non - operating revenues "sales of land and exchange transactions related to land" increased by approximately $966,599, from $586,305 in 2018 to $1.6 million in 2019, a increase of approximately 62%, and

- Change in Net position amounted to $(20.6) million in 2018 and $16.6 million in 2019, for a increase of $37.2 million or 2.24%.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

New Significant Accounting Standards Implemented

During fiscal year 2017-2018, six new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Authority:

1-GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", for OPEB. Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", establishes new accounting and financial reporting requirements for OPEB plans.

2-GASB Statement No. 81, "Irrevocable Split-Interest Agreements". This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

3-GASB Statement No. 82, "Pension Issues - an Amendment of GASB Statements No 67, No. 68 and No. 73". This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

4-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.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

5-GASB Statement No. 85, "Omnibus 2017". The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

6-GASB Statement No. 86, "Certain Debt Extinguishment Issues". The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

During fiscal year 2018-2019, two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Authority:

1-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 Statement 67 and 68". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

2-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.

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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements

This annual financial report consists of: the management's discussion and analysis (or MDA representing this section, which is required supplementary information) and:

- **Basic Financial Statements**: The Authority is a self-supporting entity and follows the enterprise fund reporting, accordingly, the basic financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and the operations of the Authority. These statements are presented in a manner similar to a private business.

- **Notes to the Basic Financial Statements**: which provides more detailed information that is essential to a user's full understanding of the data provided in the statements.

- **Required Supplementary Information - Employee's Retirement System:** the annual financial report includes two required supplementary schedules after the notes to the basic financial statements, the Schedule of Proportionate Share of total Pension Liability and Schedule of Changes in Total Pension Liability, as the result of the implementation of GASB 73.

- **Required Supplementary Information - Postemployment Benefits Other Than Pensions (OPEB):** the annual financial report includes two new required supplementary schedules after the notes to the basic financial statements, the Schedule of Proportionate Share of the Other Postemployment Benefits Liability and Schedule of Changes in Total Other Postemployment Benefits Liability, as the result of the implementation of GASB 75.

Statement of Net Position

The change in net position serves, over time, as an useful indicator of the Authority's financial position. As of June 30, 2019, the Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by $19,438,131.

The largest portion of the Authority's net position represented its net investment in capital assets, of $94,944,600 and $93,893,002 for the years ended June 30, 2019 and 2018 respectively.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Statement of Cash Flows

The statement of cash flows presents the sources and uses of cash flows divided in four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

The Authority's reporting structure includes the financial information of the Authority and a blended component unit - "Fondo Innovacion para el Desarrollo de la Agricultura" ("FIDA").

FINANCIAL ANALYSIS OF THE AUTHORITY

The following summarizes changes in the net position as of June 30, 2019 and 2018:

	2019	2018	$ Changes	% Changes
Assets				
Current assets	$ 31,980,286	$ 30,887,553	$ 1,092,733	0.03 %
Non- Current Assets	121,231,312	120,186,250	1,045,062	0.01 %
Total Assets	153,211,598	151,073,803	2,137,795	0.01
Deferred Outflow of Resources	6,514,665	13,284,448	(6,769,783)	(1.04)%
Total Assets and Deferred Outflow of Resources	$ 159,726,263	$ 164,358,251	$ (4,631,988)	(0.03)%
Liabilities				
Current Liabilities	$ 36,699,449	$ 29,767,246	$ 6,932,203	0.19 %
Total Pension Liability	55,300,127	58,641,397	(3,341,270)	(0.06)%
Termination Benefits	2,827,241	3,433,297	(606,056)	(0.21)%
Other Non - Current Liabilities	40,632,170	62,344,595	(21,712,425)	(0.53)%
Total Liabilities	135,458,987	154,186,535	(18,727,548)	(0.14)%
Deferred Inflows of Resources	$ 4,642,604	$ 7,348,654	$ (2,706,050)	(0.58)%

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

	2019	2018	$ Changes	% Changes
Net Position				
Net Investment in Capital Assets	$ 94,944,600	$ 93,893,002	$ 1,051,598	0.01 %
Unrestricted (Deficit)	(75,319,928)	(91,069,940)	15,750,012	(0.21)%
Total Net Position	19,624,672	2,823,062	16,801,610	0.86 %
Total Liabilities, Deferred Inflows of Resources and Net Position	$159,726,263	$164,358,251	$ (4,631,988)	(0.03)%

Current Assets

Major components of current assets are as follows:

	2019	2018	$ Changes	% Changes
Cash and Equivalents	$ 18,793,798	$ 17,883,006	$ 910,792	0.05 %
Rent and Other Receivables	13,115,151	12,975,306	139,845	0.01 %
Others	71,337	29,241	42,096	0.59 %
Totals	$ 31,980,286	$ 30,887,553	$ 1,092,733	0.03 %

Other Major Components:

Capital Assets

Capital assets consists principally of land held for sale or for rent. During the year ended June 30, 2019, the Authority sold and exchange various land lots, generating a net gain on sales of $1,552,904. During 2018, net gain on sales was $586,305.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Non - Current Assets

The largest amount, which represents the amount that will not be collected during next fiscal year, consists mostly of the long - term portion of notes receivables and investments in private agricultural businesses. FIDA is authorized by law to provide credit lines to private and governmental entities, and to invest in private entities which are dedicated to agricultural activities in Puerto Rico. At fiscal year end, management evaluates the investments and valuation allowances.

Current Liabilities

Major components of current liabilities are as follows:

	2019	2018	$ Changes	% Changes
Accounts Payable, Accruals and Other Liabilities	$ 34,692,782	$ 27,990,660	$ 6,702,122	0.19 %
Termination Benefits	812,103	747,419	64,684	0.08 %
Advances for Farming Development	1,194,564	1,029,167	165,397	0.14 %
Totals	$ 36,699,449	$ 29,767,246	$ 6,932,203	0.19 %

Other Major Components:

Non - Current Liabilities as June 30, 2019 consisted of long - tem financing related to the real estate program, through the Puerto Rico Public Financing Corporation (PFC), a component unit of the Commonwealth. The financing is repaid through appropriations made by the Commonwealth. In addition, FIDA had a non - revolving credit line with the Government Development Bank of Puerto Rico (GDB) with an outstanding balance for principal and accrued interests of $5.2 millions. On November 29, 2018, through a Qualifying Modification under Title VI of PROMESA, an offset of this credit facility for $22,971,172 was made.

Also included is the total pension liability related to the employee's retirement system, which as of June 30, 2019 amounted to $58,454,814, and decreased by $186,583. In addition, for the fiscal year ended June 30, 2019, the voluntary pre-retirement liability amounted to $3,639,344, and decreased by $627,145, or .17%. The Authority accrued $1,590,950 and $5,437,494, related to other postemployment benefits other than pension liability and pay-as-you-go liability, respectively.

Total liabilities decreased by $18,540,932, or .14 as explained above due to FIDA non-revolving credit line offset of $23 million.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Operating Activities: The Authority entered into lease agreements on the land and properties it owns, with government and private entities. The agreements vary in prices offered and terms, depending on the intended public use and benefits to the Commonwealth of Puerto Rico's residents. The Authority also acquires and sells, to other government agencies and instrumentalities or private entities, land and property that have been determined to be used or developed for public interests. Operating expenses consists principally of payroll and related expenses, pension and pre-retirement expenses, program for the production of farming products and infrastructure and contracted services.

The following table summarizes the results of operations between fiscal years ended June 30, 2018 and 2019:

	2019	2018	$ Changes	% Changes
Operating Revenues	$ 9,709,341	$ 8,527,311	$ 1,182,030	0.12 %
Operating Expenses	18,279,287	27,561,430	(9,282,143)	(0.51)%
Operating Loss	(8,569,946)	(19,034,119)	10,464,173	(1.22)%
Non - Operating Revenues (Expenses)				
Sales of Land and Exchange Transaction - Land	1,552,904	586,305	966,599	0.62 %
Federal Awards	810,007	647,371	162,636	0.20 %
Debt Offset - GDB	22,971,172	-	22,971,172	1.00 %
Impairment Loss	-	(811,147)	811,147	- %
Loss on Investments	-	(1,714,495)	1,714,495	- %
Interest Expense	(145,691)	(136,549)	(9,142)	0.06 %
Non - Operating (Expense) / Revenues, Net	25,188,392	(1,428,515)	26,616,907	1.06 %
Change in Net Position	16,618,446	(20,462,634)	37,081,080	2.23 %
Net Position as of Beginning of Year, as Restated	3,006,226	23,468,860	(20,462,634)	(6.81)%
Net Position as of End of Year	$ 19,624,672	$ 3,006,226	$ 16,618,446	0.85 %

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2019

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Total operating revenues increased by $1.2 millions, mainly due to the increase in the interest income charge to loans, royalty income and equipment donated. Total operating expenses decreased by $9.4 million. Total operating expenses for 2018 includes an increase in bad debts expenses of $13,089,324, when compared to 2019.

Also, total non - operating revenues increased by approximately $25.2 million, or 1.06%, mainly due to a GDB non-revolving credit line which was partially offset by $23 millions in 2019 and sales of land, which were approximately $1.6 million in 2019.

CAPITAL ASSETS

The Authority acquires and or develops land and structures with agricultural potential for future development by farmers. Also, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals. The following table summarizes the capital assets of the Authority as of June 30, 2019 and 2018:

	2019	2018	$ Changes	% Changes
Capital Assets Not Being Depreciated:				
Land	$ 87,510,181	$ 87,516,401	$ (6,220)	- %
Construction in Progress	628,466	628,466	-	- %
Total Capital Assets Not Being Depreciated	88,138,647	88,144,867	(6,220)	- %
Capital Assets Being Depreciated	29,876,166	28,271,347	1,604,819	0.05 %
Less: Accumulated Depreciation	(23,070,213)	(22,523,212)	(547,001)	0.02 %
Total Capital Assets, Net	$ 94,944,600	$ 93,893,002	$ 1,051,598	0.01 %

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report has the purpose of informing the Commonwealth of Puerto Rico residents and taxpayers, and our clients with a general financial overview of the Authority's finances and to comply with the Authority's accountability of the assets, funds and appropriations it holds and receives. If you have any questions about this report or need additional information, contact, Finance Director, at Puerto Rico Land Authority, 1311 Fernandez Juncos Avenue, 19 1/2, San Juan, Puerto Rico.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2019

	Puerto Rico Land Authority	FIDA	Eliminations	Totals
Assets				
Current Assets:				
Cash	$ 5,343,693	$ 13,450,105	$ -	$ 18,793,798
Accounts Receivable:				
Rent Receivable and Others, Net	4,581,739	-	-	4,581,739
Land Sales Receivable	3,700,000	-	-	3,700,000
Internal Balance Due From - FIDA	-	1,742,121	(1,742,121)	-
Due From Sugar Corporation of Puerto Rico	4,833,412	-	-	4,833,412
Total Accounts Receivable	13,115,151	1,742,121	(1,742,121)	13,115,151
Other Assets	41,021	30,316	-	71,337
Total Current Assets	18,499,865	15,222,542	-	31,980,286
Non-Current Assets:				
Restricted Cash	912,212	-	-	912,212
Notes Receivable, Net	1,315,369	20,113,263	-	21,428,632
Investment in Privately - Held Entities, Net	-	3,945,868	-	3,945,868
Capital Assets, Net	93,637,096	1,307,504	-	94,944,600
Total Non - Current Assets	95,864,677	25,366,635	-	121,231,312
Deferred Outflows of Resources:				
Pension Related	6,381,126	-	-	6,381,126
Other Postemployment Benefits Related	133,539	-	-	133,539
Total Deferred Outflows of Resources	6,514,665	-	-	6,514,665
Total Assets and Deferred Outflows of Resources	$ 120,879,207	$ 40,589,177	$ (1,742,121)	$ 159,726,263

See accompanying notes which are an integral part of the Basic Financial Statements.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position - (Continued)

June 30, 2019

	Puerto Rico Land Authority	FIDA	Eliminations	Totals
Liabilities				
Current liabilities:				
Accounts Payable and Accrued Liabilities	$ 4,206,074	$ 1,522,666	$ -	$ 5,728,740
Due to Governmental Entities	24,345,450	289,718	-	24,635,168
Accrued Compensated Absences	469,888	120,797	-	590,685
Interests Payable	-	451,361	-	451,361
Total Pension Liability	3,154,687	-	-	3,154,687
Other Post Employment Benefit Liability	132,141	-	-	132,141
Termination Benefits Payable	728,740	83,363	-	812,103
Advances for Farming Development	1,194,564	-	-	1,194,564
Internal Balance Due To - Puerto Rico Land Authority	1,742,121	-	(1,742,121)	-
Total Current Liabilities	35,973,665	2,467,905	(1,742,121)	36,699,449
Non - Current liabilities:				
Notes Payable	17,786,797	-	-	17,786,797
Credit Line	-	4,702,861	-	4,702,861
Total Pension Liability	55,300,127	-	-	55,300,127
Other Post Employment Benefit Liability	1,458,809	-	-	1,458,809
Termination Benefits Payable	2,562,772	264,469	-	2,827,241
Deposits on Rent	2,543,061	-	-	2,543,061
Accrued Legal Claims	4,421,078	-	-	4,421,078
Deposits on Sales of Land	7,938,398	-	-	7,938,398
Unearned Revenue	-	1,087,791	-	1,087,791
Accrued Compensated Absences	551,608	141,767	-	693,375
Total Non - Current Liabilities	92,562,650	6,196,888	-	98,759,538
Total Liabilities	128,536,315	8,664,793	(1,742,121)	135,458,987
Deferred Inflows of Resources:				
Pension Related	4,642,604	-	-	4,642,604
Total Deferred Inflow of Resources	4,642,604	-	-	4,642,604
Net Position:				
Net Investment in Capital Assets	93,637,096	1,307,504	-	94,944,600
Unrestricted	(105,936,808)	30,616,880	-	(75,319,928)
Total Net Position	(12,299,712)	31,924,384	-	19,624,672
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 120,879,207	$ 40,589,177	$ (1,742,121)	$ 159,726,263

See accompanying notes which are an integral part of the Basic Financial Statements.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2019

	Puerto Rico Land Authority	FIDA	Totals
Operating Revenues:			
Rental Income	$ 6,832,824	$ -	$ 6,832,824
Services to Farmers	463,296	-	463,296
Royalty Income	327,307	-	327,307
Machinery and Equipments Donated	739,751	-	739,751
Interest Income	162,635	903,957	1,066,592
Other	213,312	66,259	279,571
Total Operating Revenues	8,739,125	970,216	9,709,341
Operating Expenses:			
Program for the Production of of Farming Products	-	417,350	417,350
Research Fund - Act # 26-2008	-	133,468	133,468
Specialty Crops	-	810,007	810,007
Infrastructure Program	-	609,715	609,715
Payroll and Personnel Costs	4,719,072	813,318	5,532,390
Pension Expense	7,104,986	-	7,104,986
Other Postemployment Benefits Expense (Credit)	(68,410)	-	(68,410)
Repairs and Maintenance	77,154	18,292	95,446
Farm Workers Christmas Bonus	-	336,003	336,003
Utilities	301,854	-	301,854
Supplies and Materials	1,725	-	1,725
Contracted Services	148,244	662,815	811,059
Insurance	42,502	33,507	76,009
Travel, Representation and Meals	82,669	-	82,669
Fuel	69,327	-	69,327
Depreciation	480,174	90,328	570,502
Bad Debt Expense	838,037	-	838,037
Other - General and Administrative	346,432	210,718	557,150
Total Operating Expenses	14,143,766	4,135,521	18,279,287
Operating Income (Loss) Before Non - Operating Revenues (Expenses)	(5,404,641)	(3,165,305)	(8,569,946)

See accompanying notes which are an integral part of the Basic Financial Statements.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position - (Continued)

For the Fiscal Year Ended June 30, 2019

	Puerto Rico Land Authority	FIDA	Totals
Non - Operating Revenues (Expenses):			
Sales of Land	$ 1,552,904	$ -	$ 1,552,904
Debt Offset - GDB	-	22,971,172	22,971,172
Federal Awards	-	810,007	810,007
Interest Expense	(145,691)	-	(145,691)
Total Non - Operating Revenues/ (Expenses), Net	1,407,213	23,781,179	25,188,392
Change in Net Position	(3,997,428)	20,615,874	16,618,446
Beginning Net Position, as Previously Reported	(8,485,448)	12,610,410	4,124,962
Prior Period Adjustments	183,164	(1,301,900)	(1,118,736)
Net Position, Beginning of Year, as Restated	(8,302,284)	11,308,510	3,006,226
Net Position at End of Year	$ (12,299,712)	$ 31,924,384	$ 19,624,672

See accompanying notes which are an integral part of the Basic Financial Statements.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2019

	Puerto Rico Land Authority	FIDA	Totals
Cash Flows From Operating Activities:			
Collection of Rent	$ 5,902,759	$ -	$ 5,902,759
Collection of Services to Farmers	463,296	-	463,296
Collection of Royalties	327,307	-	327,307
Collection of Interests	162,635	903,957	1,066,592
Miscellaneous Collections	213,312	66,259	279,571
Payments to Employees, Related Payroll Costs and Others	(4,904,781)	(880,439)	(5,785,220)
Payment for Goods and Services on Operating Activities	(742,227)	(4,192,765)	(4,934,992)
Net Cash Provided (Used) in Operating Activities	1,422,301	(4,102,988)	(2,680,687)
Cash Flows for Capital and Related Financing Activities:			
Capital Expenditures Acquisition	(882,349)	-	(882,349)
Proceeds From Sales of Land	1,552,904	-	1,552,904
New Issuance of Notes Payable	735,448	-	735,448
Net Cash Provided by Capital and Related Financing Activities	1,406,003	-	1,406,003
Cash Flows for Non-Capital Financing Activities:			
Collection from Deposits on Sales and Rent of Land	95,219	-	(95,219)
Collections from Farming Development	-	31,134	31,134
Collection on Advances To Farming Development	165,397	-	165,397
Federal Awards Contributions	-	810,007	810,007
Interest Paid	(145,691)	-	(145,691)
Advances/(Repayments) to Other Related	(216,903)	169,011	(47,892)
Net Cash (Used in) Provided by Non-Capital Financing Activities	(101,978)	1,010,152	908,174
Cash Flows From Investing Activities:			
Collection of Principal on Notes Receivables	850,880	-	850,880
Net Cash Provided by Investing Activities	850,880	-	850,880
Net Change in Cash and Cash and Equivalents	3,577,206	(3,092,836)	484,370
Cash and Cash and Equivalents Beginning of Year	2,678,699	16,542,941	19,221,640
Cash and Cash and Equivalents at End of Year	$ 6,255,905	$ 13,450,105	$ 19,706,010
Reconciliation of Cash and Cash Equivalents with the Statement of Net Position:			
Unrestricted Cash and Deposit Certificates	$ 5,343,693	$ 13,450,105	$ 18,793,798
Restricted Cash	912,212	-	912,212
Total Cash and Cash Equivalents	$ 6,255,905	$ 13,450,105	$ 19,706,010

See accompanying notes which are an integral part of the Basic Financial Statements

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2019

	Puerto Rico Land Authority	FIDA	Totals
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:			
Operating Loss	$ (5,404,641)	$ (3,165,305)	$ (8,569,946)
Non Cash Revenue included in Net Operating Loss:			
Machinery and Equipments Donated	(739,751)	-	(739,751)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation	480,174	90,328	570,502
Bad Debt	838,037	-	838,037
Increase in Rent Receivable	(930,065)	-	(930,065)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	978,590	(907,373)	71,217
Increase in Other Assets	(28,656)	(13,440)	(42,096)
Increase in Due to Governmental Entities	3,111,649	-	3,111,649
Decrease in Total Pension Liability	(186,583)	-	(186,583)
Decrease in Deferred Inflow	(2,706,050)	(40,077)	(2,746,127)
Decrease in Deferred Outflow	6,769,783	-	6,769,783
Decrease in Accrued Compensated Absences	(742,344)	(67,121)	(809,465)
Decrease in Accrued Legal Claims	(17,842)	-	(17,842)
Net Cash Provided (Used) by Operating Activities	$ 1,422,301	$ (4,102,988)	$ (2,680,687)

See accompanying notes which are an integral part of the Basic Financial Statements.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) ORGANIZATION AND ACTIVITIES

The Puerto Rico Land Authority (from now on the Authority), is a public corporation and a component unit of the Commonwealth of Puerto Rico. The Authority was created by Act No. 26 approved on April 12, 1941, as amended, to carry out the provisions of the Land Law of Puerto Rico. By provision of Reorganization Plan No. 1 of May 4, 1994, the Land Authority became a programmatic and operational component of the Department of Agriculture (from now on DA).

On July 26, 2010, the Governor of Puerto Rico approved the “Reorganization Plan Number 4”, also known as “Plan for the 2010 DA Reorganization”. This Law provided for the reorganization of such Department and its programmatic and operational components, and was presented as part of Law Number 182 of December 17, 2009, known as “Reorganization and Modernization Law of the Executive Branch of Puerto Rico”. The purpose of this law was to provide DA and its components more administrative and legal flexibility in order to implement and carry out its responsibilities and obligations.

Through this plan, the Corporation for Rural Development and the Administration for Services and Agricultural Development (also known as ASDA) were eliminated. The tasks of this two entities were transferred to a new entity, the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). Also, the program for family farms was transferred to the Authority and the ownership of the land lots from the Corporation for Rural Development.

From the Reorganization Plan, DA is now composed of the following entities:

- The DA,
- The Authority and its affiliates,
- The Corporation for Agricultural Insurance (“Corporación de Seguros Agrícolas”), and
- ADEA.

The basic financial statements of the Authority are included as a component unit of the Commonwealth of Puerto Rico and substantially conform to the standards and practices established by the Governmental Accounting Standards Board (from now on GASB).

The Authority was created for the following purposes:

- Acquiring land with agricultural potential through purchase, transfer, exchange, bequest and donation or by the exercise of power of forceful expropriation,
- Selling land that has no agricultural use,
- Maintaining land with agricultural potential under lease,
- Leasing heavy agricultural machinery and equipment,
- Conducting all types of transactions related to land purchase, sale and leasing applications,
- Making appraisals of land to be sold,
- Preparing plans and control of land for sale and rent, and
- Negotiate the collection of rent from farmers through Legal and Finance Offices.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) ORGANIZATION AND ACTIVITIES (CONTINUED)

The Authority operates one program, the Real Estate Program, which leases land owned by the Authority and held for agricultural purposes, principally to farmers, including farming services when requested by farmers. Moreover, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals.

Also, the Authority manages infrastructure projects on behalf of the DA. Legislative funds were appropriated to create and improve drainage systems, water and sewer systems, bridges, roads, lakes, lighting systems and others. The basic financial statements do not reflect the effects of transactions related to managing such infrastructure projects and funds.

(B) FINANCIAL REPORTING ENTITY

The financial reporting entity included in this report consists of the basic financial statements of the Authority (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

GASB Accounting Standards Codification Section 2100, "Defining the Financial Reporting Entity", describes the criteria for determining which organizations, functions, and activities should be considered part of the Authority for financial reporting purposes. Following GASB Sections 2100 and 2600 "Reporting Entity and Component Unit Presentation and Disclosure", there are two methods of presentation of the component unit in the basic financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Authority's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Authority's balances and transactions.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) FINANCIAL REPORTING ENTITY (CONTINUED)

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

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

GASB Statement 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

Based on the above criteria, the basic financial statements of the Authority include the balances of one of its component units, the “Fondo de Innovacion para el Desarrollo Agrícola de Puerto Rico” (from now on “FIDA”). The primary purpose is to promote private investment in the general farming industry, by approving loans, warranties, direct and indirect investments, and other credit financing facilities, with favorable repayment conditions and interests rates to the agricultural industries. The Authority created FIDA during fiscal year 2001-2002 under the name "Integral Fund for the Agriculture Development of Puerto Rico". On December 16, 2010, the Authority's Board of Directors approved to change the name. All significant interfund transactions were eliminated.

Based also on the above criteria, the Sugar Corporation of Puerto Rico is not a component unit of the Authority and in accordance with Act. No. 189 named "Law of the Transfer of Assets and Liabilities for Negotiations of the Sugar Corporation and the Puerto Rico Land Authority", of September 5, 1996, is in the process of liquidation.

BASIS OF BASIC FINANCIAL STATEMENTS PRESENTATION

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to governmental entities. The Authority follows GASB pronouncements under the hierarchy established by GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", in the preparation of its financial statements.

(C) METHOD OF ACCOUNTING FOR PROPRIETARY FUNDS AND BASIC FINANCIAL STATEMENTS PRESENTATION

The Authority reports its financial position and results of operations as an enterprise fund. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business - type activities, which are financed mainly by fees and charges to users of the services provided by the funds operations. Proprietary funds distinguish operating revenues and expenses from non - operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non - operating revenues and expenses.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF BASIC FINANCIAL STATEMENTS PRESENTATION (CONTINUED)

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", the Authority recognized deferred outflows of resources in the basic financial statements. These items are a consumption of net position by the Authority that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Authority has items that are reportable on the Statement of Net Position that are relates to outflows/inflows from changes in the Total Pension Liability (Note 14), items that relates to outflows/inflows from changes in the Other Postemplyment Benefits Liability (OPEB - Note 15) and items that relates to deferred inflows of resources from deposits on sales of land transactions (Note 9) as of basic financial statements date.

Note 13 provides details on deferred outflows of resources and deferred inflows of resources.

REQUIRED SUPPLEMENTARY INFORMATION - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Authority's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide information that is essential to a user's full understanding of the data provided in the basic financial statements

REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYEES RETIREMENT SYSTEM

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 Statement 67 and 68", revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Authority to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Total Pension Liability and Schedule of Changes in Total Pension Liability.

REQUIRED SUPPLEMENTARY INFORMATION - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The Authority provides postemployment benefits other than pension for its retired employees (the "OPEB Program"). In accordance with GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension"s, that replaces GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", changes similar to those implemented on GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68, "Accounting and Financial Reporting for Pensions" should be made. The Statement requires supplementary information that include the Schedule of Proportionate Share of the Total OPEB Liability and Schedule of Changes in Total OPEB Liability.

(D) USE OF ESTIMATES

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

(E) CASH AND CASH EQUIVALENTS

Cash includes demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (from now on GDB), and cash equivalents in commercial banks, on hand and short-term investments with maturities of three months or less.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding that the basic financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to US GAAP.

(F) INVESTMENTS IN AGRICULTURAL BUSINESSES

Investments in private entities are reported at cost, since these are not intended to obtain profit, but rather to promote agricultural and related businesses. During the year ended June 30, 2019, the Authority evaluated its investments in agricultural businesses for impairment and determined that no impairment of investment had ocurred.

(G) INTERFUND BALANCES

Interfund receivables and payables balances, between the Authority and its component unit FIDA have been eliminated from the statement of net position.

(H) RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for uncollectible notes and other receivables is an amount that the Authority believes will be adequate to absorb possible losses on existing receivables that are identified as to be remote collectibles and others that may become collectible based on collection analysis and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

(I) CAPITAL ASSETS AND DEPRECIATION POLICY

The Authority defines capital assets as assets with an individual cost of more than $100 and a useful life of three (3) years or more. Assets to be depreciated were assigned a residual value of 10% of original cost. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) CAPITAL ASSETS AND DEPRECIATION POLICY (CONTINUED)

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Estimated Useful Lives
Building and Improvements	20 - 40
Infrastructure	10 - 20
Industrial Equipment, Machinery and Equipment and Others	5 - 20
Furniture and Fixtures, Vehicles	3 - 7

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any is credited or changed to operations.

(J) ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG - LIVED ASSETS

The Authority follows GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2019, the Authority evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in the Authority’s basic financial statements.

(K) LAND AND PROPERTIES COST

When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date in which land was acquired, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land.

(L) ACCOUNTING FOR PENSION COSTS

For the year ended June 30, 2019, the Authority implemented the requirements of the Governmental Accounting Standards Board (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".

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) ACCOUNTING FOR PENSION COSTS (CONTINUED)

This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68 for pension plans and pensions that are within their respective scopes.

Act No. 3 enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based on the fiscal crisis of the Commonwealth, was enacted the Act No. 106 of 2107 to establish a New Define Contribution Plan and create the pay-as-you-go (PayGo) scheme for payment of pensioners of the ERS and the other two retirement systems. 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, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73. See also Note 14.

(M) POSTEMPLOYMENT BENEFITS OTHER THAT PENSIONS (OPEB)

Other postemployment benefits (“OPEB”) expense is recognized and disclosed using the accrual basis of accounting. The Authority recognizes the total OPEB liability since the Authority’s OPEB program is funded on a pay-as-you-go basis, and not by an OPEB trust. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. The Authority accounted for postemployment benefits other than pensions (OPEB) under the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". See also Note 15.

(N) TERMINATION BENEFITS

The Authority accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, "Accounting for Termination Benefits". This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Authority 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. See also Note 20.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) COMPENSATED ABSENCES

Law No. 8 of February 4, 2017 for the "Authority and Transformation of Human Resources in the Government of Puerto Rico" (Law No. 8-2017) and Law 26 of April 29, 2017 issued for compliance with Act No. 26-2017, named "Law for Compliance with Fiscal Plan" establishes new parameters for the accrual of vacations and sick leave. Every government employee shall be entitled to accrue one and one-fourth (1¼) day of vacation leave for every month of service, for a total of 15 days per year. The employees shall begin to accrue the vacation leave upon completion of a three (3)-month period and said leave shall be retroactive to the employment commencement date. Furloughed or part-time employees shall accrue vacation leave proportionately to the number of hours regularly worked. The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year. Vacation leave is granted to employees in order to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which it was accrued. Every agency or public instrumentality is required to devise a vacation plan for every calendar year, in collaboration with supervisors and employees, establishing the period during which employees shall enjoy their vacation time in the manner that is more compatible with the needs for service. Said plan shall be completed no later than on December 31st of every year, so that it takes effect on January 1st of the following year.

The Authority accrued a liability for compensated absences, which meet the following criteria: (1) the Authority's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, "Compensated Absences", the Authority has accrued a liability for compensated absences, which has been earned but not taken by the Authority’s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective as of June 30, 2019. All vacation pay is accrued when incurred. The current portion is the amount estimated to be used in the following year.

In addition, employees accumulate sick leave at a rate of 18 days per year, with a maxuimum permissible accumulation of 90 days at the end of any natural year.

As of June 30, 2019, the Authority accrual for compensated absences amounts to $1,284,060 which represents the Authority’s commitment to fund such compensated absences for future operations. Of this amount, the Authority estimates that approximately $590,685 are due during the next fiscal year.

(P) ACCRUAL FOR LEGAL CLAIMS

The estimated amount of the liability for legal claim is recorded, on the accompanying statement of net position, based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consulted with legal counsel to determine whether an unfavorable outcome is probable. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) NET POSITION CLASSIFICATION

Net position represent the difference between assets and liabilities and are presented in three components as follows:

- **Net Investment in Capital Assets** - consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position invested in capital assets, net of related debt, is composed of the following:

Capital Assets, Net of Accumulated Depreciation	$ 94,944,600
Outstanding Balance on Related Debt	-
Total Invested in Capital Assets, Net of Related Debt	$ 94,944,600

- **Restricted Net Position** - consist of net position with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government; (2) law through constitutional provisions or enabling legislation. As of June 30, 2019 there is no restrictions imposed, and therefore, no restricted net position has been presented, and

- **Unrestricted Net Position** - consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

(R) OPERATING REVENUES AND EXPENSES

The Authority distinguishes between operating and non - operating revenues and expenses in its statement of revenues, expenses and changes in net position. The principal revenues of the Authority are charges for land rental and services to farmers. The Authority also recognizes as operating revenues interest income generated on loans granted by FIDA. Operating expenses for the Authority include the costs of developing farming products, payroll and fringe benefits, and other administrative expenses such as utilities, repairs, contracted services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non - operating revenues and expenses.

The Authority receives contributions from the Commonwealth. These contributions, which are subject to annual appropriations, are used to partially finance the operations of the Real Estate Program. Amounts received are recorded as a non - operating revenue in the period stated in the grant.

(S) REVENUE RECOGNITION

The following represents the Authority's policy for revenue recognition:

- All leases are deemed operating leases, therefore rental income is recognized as operating revenue over the term of the lease. Advance lease payments are recorded as deferred revenue and recognized as rental revenue when earned over the lease period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) REVENUE RECOGNITION (CONTINUED)

- Rental income is composed of the lease canon and estimated property tax, using The Municipal Revenues Collection Center (from now on CRIM) tax rate, and multiplied by the number of lots leased.

- For services provided to farmers, revenue is recognized at the time the service was rendered.

- For land and property sales, revenues are recognized when title is conveyed to buyers. Funds received from infrastructure program and federal assistance are recognized when disbursement of the funds are made.

- Income from coffee and sugar taxes is recognized when the Commonwealth of Puerto Rico notifies FIDA. Coffee taxes imposed and collected by Federal U.S. Agencies are deposited at the Commonwealth, commingled with sugar taxes collections. Pending bills and undeclared taxes are not recorded in FIDA books. For the fiscal year ended June 30, 2019, such income ceased and was not received.

(T) PROPERTY TAXES

On September 9, 2010, the Superior Court in San Juan, Court of First Instance, decided that the Authority should paid to CRIM $12,117,630 for property taxes accrued as of June 30, 2010. Total outstanding debt as of June 30, 2019 is $11,704,721, net of credits, and is applied to “bonafide farmers” (Law number 225) against their accounts receivable (See Note 12). This amount is reported as part of due to governmental entities as of June 30, 2019.

(U) RISK MANAGEMENT

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, automobile, crime, inland marine, commercial property and garage, as well as medical and workmen’s insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(V) NON-EXCHANGE TRANSACTIONS

GASB Statement No. 33, “Accounting and Financial Reporting for Non-exchange Transactions”, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS

A. Implementation of GASB Statements

The provisions of the following GASB Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

For the year ended June 30, 2019, the Authority implemented GASB No. 73 since the plan benefits provided are not funded by a pension trust or equivalent arrangement:

- **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 Statement 67 and 68"**. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, and

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The provisions of the following Governmental Accounting Standards Board (GASB) Statement are effective immediately:

- **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, and
- Implementation guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases, and
- 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

B. Future Adoption of Governmental Accounting Standards Board (GASB) Statements - Postponed One Year

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The Authority is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year.

- **GASB Statement No. 83, "Certain Asset Retirement Obligations".** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government's minority shares of AROs.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **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.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements".** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specifies in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debts.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resources flows.

The requirements of this Statement are effective for reporting periods beginning after June15, 2018 (FY 2018-2019). Earlier application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **GASB Statement No. 89, "Accounting for Interest Cost Incurred Before the end of a Construction"**. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

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 (FY 2020-2021). Earlier application is encouraged. The requirement of this Statement should be applied prospectively.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **GASB Statement No. 90, "Majority Equity Interest - An Amendment of GASB Statements No. 14 and No. 61".** 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 statement information for certain component 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. A majority equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows or resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY 2019-2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **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 (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) 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.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer. (2) a third-party obligor, and (3) a debt holder or a debt trustee.

- The issuer and the third-party obligor are not within the same financial reporting entity.

- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntarily commitment.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

cover and coincide with debt service payments. During those arrangement, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, not should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflows of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FY 2021-2022). Early application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **GASB Statement No. 92, "Omnibus 2020**". The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in 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 requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. As per GASB Statement No. 95 the effective date is postponed by additional 18 months.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

- 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 are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- 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 are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

- **GASB Statement No. 93, "Replacement of Interbank Offered Rates**". Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (LIBOR) - 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.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, Leases, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an LIBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an LIBOR 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, and

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an LIBOR 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.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

C. Future Adoption of Governmental Accounting Standards Board (GASB) Statements - Postponed by Eighteen Months

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The Authority is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by eighteen months.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

- **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 receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option. A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short - Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives), the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee’s right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease. A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020-2021). Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional eighteen months.

D. Future Adoption of Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2020. The Authority is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

- **GASB Statement No. 94, "Public-Private and Public - Public Partnerships and Availability Payment Arrangements**". The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, 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), which the Board defines in this Statement as a PPP in which (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). As defined in this Statement, 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.

PPPS

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

APAS

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

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

Statement No. 95 the effective date is postponed by additional one year.

- **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. A SBITA is defined as a contract that conveys control of he right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government of SBITA vendor will *not* exercise that option).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

Under this Statement, a government generally should recognize a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in a subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the state in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or no subscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract if 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting period thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstance that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

- **GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - and 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.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should 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.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. a67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

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 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.

The Authority has not yet determined the effect these statements will have on the basic financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Authority is restricted, by law, to deposit funds only in institutions approved by the Puerto Rico Treasury Department (from now on PRTD), and such deposits are required to be maintained in separate accounts in the Authority's name.

Under the laws and regulations of the Government, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (from now on FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the PRTD, but not in the Authority's name.

Credit Risk

This is the risk that an issuer or other counterpart to an investment will not fulfills its obligations. As of June 30, 2019, the Authority has invested only in cash in commercial banks approximately $13.3 millions which are insured by the FDIC, generally up to a maximum of $250,000. As mentioned before, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. Also, all securities pledged as collateral are held by the Secretary of the PRTD of the Commonwealth. Funds deposited with the Economic Development Bank for Puerto Rico (from now on “EDB”), a component unit of the Commonwealth, are not covered by this Commonwealth requirement. Therefore, the Authority's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Authority's deposits is considered low as of June 30, 2019.

Deposits placed with government banks include certificates of deposits, issued by EDB, amounting to approximately $2.1 millions. These deposits are unsecured and uncollaterized. However, no losses related to defaults by EDB on deposit transactions have been incurred by the Authority through June 30, 2019.

Impairment Loss on Deposits with Governmental Development Bank of Puerto Rico (GDB)

The Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Pursuant to enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Due to the conditions and events described above, substantial doubt exists as to the GDB's ability to continue as a going concern.

On October 18, 2016, the Secretary of the Treasury Department (from now on "the Department") of the Commonwealth issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary recommended to all component units and other entities with deposits at GDB to evaluate the possibility of recognizing an impairment loss. The Authority recorded an impairment loss on all bank accounts and certificates of deposit with the GDB on 2016, and in 2018 recorded an additional impairment of $811,147 for the remaining of the FIDA accounts with GDB. The Authority does not has any cash balances as of June 30, 2019 with GDB. See also Note 21 (a) on subsequent events, regarding the Restructuring Support Agreement (the RSA) entered between the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and GDB, with a significant portion of the GDB's creditors, and the financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification").

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2019, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interests at prevailing market rates. Therefore, as of June 30, 2019, the interest risk associated with the Authority's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Authority, the Authority is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Authority's deposits is considered low as of June 30, 2019.

NOTE 3 - RESTRICTED CASH - PUERTO RICO LAND AUTHORITY

The Authority has restricted $912,212 of escrow accounts related to deposits of land sales.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 4 - INVESTMENTS IN PRIVATELY - HELD ENTITIES

FIDA

FIDA is authorized by law to invest in private entities which are dedicated to agricultural activities in Puerto Rico. The activity of such investments during the year ended June 30, 2019 is summarized below:

Balance, July 1, 2018	$ 3,945,868
Change in Investments	810,007
Balance, June 30, 2019	$ 4,755,875

The investments are in convertible preferred stock. Under the terms of the investment contracts FIDA will receive the investment par value plus any accrued and unpaid dividends plus a premium depending on the year the stocks are redeemed as defined in investment contracts. Generally, the redemption premiums range from 2.5% to 30%.

During each year, the Authority's management evaluates the recoverability of the investments and records a valuation allowance for investments which are deemed as doubtful of realization. As of June 30, 2019, the balance of the investments is net of an allowance of $4,784,730 for investments considered doubtful of realization.

NOTE 5 - RENT RECEIVABLE

Puerto Rico Land Authority

As of June 30, 2019, the Authority’s rent receivable was as follows:

Rent and Other Receivables From Commonwealth Agencies and Municipalities	$ 2,813,804
Rent and Land Leases From Third Parties	18,279,668
	21,093,472
Less Allowance for Doubtful Accounts	(16,511,733)
Net Rent Receivable	$ 4,581,739

The Authority has a policy of including in the allowance for doubtful accounts all balances over one year old, except for certain balances, principally with governmental entities, that the Authority's management believes will be collectible.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 6 - NOTES AND INTERESTS RECEIVABLE

As of June 30, 2019, the Authority's notes and interests receivable were as follows:

Puerto Rico Land Authority:	
Family Farms Program	$ 1,315,369
FIDA:	
Private Entities	$ 18,719,472
Governmental Entities	1,393,791
	20,113,263
Total	$ 21,428,632

Family Farms Program

The Family Farms Program (from now on "the Program") was the main program of the Corporation for Rural Development (from now on "CDR"), a component unit of the DA of the Commonwealth. The Program was created for the purpose of stimulating the use of agricultural land by individuals who meet certain requirements. The land, transferred to qualified individuals under the program, is granted in usufruct. The usufructuary is under obligation to use the land for agricultural purposes only.

The value of the usufruct is the market value of the land and will be paid by the usufructuary over a period of 40 years, plus annual interest of 3% on the unpaid balance. In case the usufructuary does not comply with the payment requirements or with other conditions specified in the program, the usufruct is considered terminated.

During 2010, the Legislature of the Commonwealth approved Reorganization Plan No. 4 of the DA ("the Reorganization Plan"). Under the Reorganization Plan, the program was transferred from CDR to the Authority, which assumed all responsibilities and obligations under the program. The Reorganization Plan required CDR to transfer to the Authority all notes receivable and titles of all agricultural land under the Program.

As the result, during the year ended June 30, 2011, the Authority recorded notes receivables in the amount of $3,722,000 under the program, which consisted of total notes receivable received from CDR of $11,333,000, net of an allowance of, for notes receivable considered doubtful of collection, in the amount of $7,611,000.

As of June 30, 2019, notes receivable outstanding balance of $8,904,558 is presented net of an allowance for doubtful notes of $6,738,309. In addition, the Authority has not recorded the cost of any land available under the program or the land that should be recorded for terminated usufruct, as explained above.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 6 - NOTES AND INTERESTS RECEIVABLE (CONTINUED)

FIDA

FIDA, as permitted by law, has entered into line of credit agreements with certain governmental entities and private agricultural businesses. The outstanding balances are unsecured and bear interest at rates ranging from 5% to 9% for governmental entities and from 7% to 10% for private agricultural businesses.

The outstanding balance of $25,191,200$ as of June 30, 2019, is presented net of an allowance for doubtful notes of $5,077,937, for $20,113,263.

During the year ended June 30, 2019, interest income recognized on notes receivable from governmental entities amounted to approximately $57,617, included as part of interest income in operating revenues in the accompanying statement of revenues, expenses and changes in net position. Also, as of June 30, 2019, FIDA has a note receivable from a governmental entity with an outstanding balance of approximately $2,405,141, for which no interest charged has been approved by FIDA's Board of Directors.

NOTE 7 - CAPITAL ASSETS

Puerto Rico Land Authority

Capital assets consisted of the following:

Description	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 87,516,401	$ -	$ (6,220)	$ 87,510,181
Construction in Progress	628,466	-	-	628,466
	88,144,867	-	(6,220)	88,138,647
Capital Assets Being Depreciated:				
Building and Improvements	3,718,990	-	-	3,718,990
Infrastructure	14,894,844	-	-	14,894,844
Industrial Equipment	1,520,289	-	-	1,520,289
Machinery and Equipment	5,498,802	1,506,078	-	7,004,880
Vehicles	704,011	68,426	(26,112)	746,325
Furniture and Fixtures	1,934,411	56,427	-	1,990,838
	28,271,347	1,630,931	(26,112)	29,876,166
Less: Accumulated Depreciation	(22,523,212)	(570,502)	23,501	(23,070,213)
	5,748,135	1,060,429	(2,611)	6,805,953
Total Capital Assets, Net	$ 93,893,002	$ 1,060,429	$ (8,831)	$ 94,944,600

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands and several municipalities located in the metro, north, east and south areas of the Island. It was declared a major disaster area by the President of the United States on September 10, 2017.

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NOTE 7 - CAPITAL ASSETS (CONTINUED)

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses. Several months after the incident, there were still many areas without energy and water service.

Damages to offices, warehouses, other structures and equipment of the Authority, related to hurricane events, were estimated at approximately $28.8 millions, as specified in a physical inspection detail prepared by FEMA. The report specifies the name of the facility or description of equipment, address or location, city located, a description of the damage, and amount of estimated damages. Although the Authority made arrangements to procure an insurance broker, the invoice for the insurance coverage was not paid previously to the hurricane events on September 2017, and therefore, no insurance coverage is available. Nevertheless, on January 2019, FEMA has provided assistance to the Authority in the amount of $351,282, and agreed to provide additional further assistance for approximately $266,065.

The Authority, as of basic financial statements report date, is in the process of tracing the individual property and equipment items in the physical inspection detail to their capital assets details, in order to dispose-off or adjust cost and accumulated depreciation related balances. Therefore, no adjustments to capital assets has been made in the accompanying basic financial statements for the year ended June 30, 2019.

Infrastructure Program

The infrastructure program is designed to improve water resource usage and fertilization of land dedicated to the production of fruits and vegetables, through the maintenance of risk pumps and other utilities.Currently, the majority of improvements made through the infrastructure funds are provided by the DA.

NOTE 8 - REAL ESTATE AND EQUIPMENT FOR FUTURE USE

By virtue of Act No. 189, described in Note 1(E), the Sugar Corporation of Puerto Rico and the Land Authority were authorized to transfer certain assets used in the production, marketing and selling of sugar to the sugarcane farmers (known as "colonos"). The Act imposed several restrictions upon the assets transferred to the sugarcane owners, in order to maintain the benefits of the Act. Because of the restrictions imposed by the Act and because of the infringement by the sugarcane growers of said restrictions, the assets were returned to the Corporation and the Land Authority. On September 2, 2004, the “Agroindustria Azucarera del Oeste, Inc." (known as “AGRASO”) and Land Authority/Sugar Corporation agreed to return all assets, by virtue of Act. No. 189, in exchange of payments of certain obligations and release of debt owned to the Sugar Corporation.

The assets received have an estimated book value of $4,090,000, detailed as follows:

Land	$ 1,535,000
Buildings	873,000
Machinery and Equipment	1,682,000
Total	$ 4,090,000

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NOTE 8 - REAL ESTATE AND EQUIPMENT FOR FUTURE USE (CONTINUED)

The Act established that in case of infringement, all assets transferred would be returned at cost or fair market value, whichever is lower. Due to significant adverse environmental damages, equipment becomes obsolete and unfit for industrial purposes, and a projection of future costs associated to clean up premises and legal actions involved, the Corporation considers this property as fully impaired, therefore, no value had been assigned in the accompanying financial statements. The Authority is trying to consolidate all impaired equipment and obsolete structures in sugar mills to convert into disposal material to be sold. As of financial statements date, the Authority cannot determine future losses or gains related to these impaired assets.

NOTE 9 - DEPOSITS ON SALE OF LAND

The Authority is authorized by the Land Law of Puerto Rico to sell surplus land and properties that have no agricultural use to other governmental entities and individuals. The liability for deposits reflected in the accompanying statement of net position, as deferred inflows of resources, represents amounts received in connection with land transactions in process. It also includes legal foreclosures and expropriations cases not finally executed by court.

NOTE 10 - NOTES PAYABLE

Notes payable as of June 30, 2019 consisted of the following:

Participation in Bonds Payable Issued by Puerto Rico Finance Corporation:	$ 17,051,349
Notes Payable to Puerto Rico Industrial Development Company (PRIDCO)	735,448
Total	$ 17,786,797

Puerto Rico Land Authority:

Participation in Bonds Payable Issued by Puerto Rico Finance Corporation:	$ 17,051,349

On December 27, 2001, the Authority entered into a loan agreement ("the Note") with the GDB to refinance certain debts, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (from now on "PFC") acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds ("PFC Bonds"). The PFC Bonds were issued under a trust indenture, whereby the PFC pledged and sold the Note, along with other notes, under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold.

During June 2004, the PFC issued PFC 2004 series A and B bonds, and advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164. The Authority recognized a mirror effect of this advance refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding. The aggregate debt service requirements of the notes will be funded with annual appropriations from the Commonwealth.

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NOTE 10 - NOTES PAYABLE (CONTINUED)

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2004 and before, under Act No.164, including $15,099,000 of the Authority corresponding portion of the debt. The Authority recognized a mirror effect of these current refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding.

The Authority recorded a due from Commonwealth amounting to $338,849 as of June 30, 2014, for an advance made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advance already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (from now on "COFINA"), issued bonds, and a portion of the proceeds from such bond issuance was used to cancel certain appropriation bonds of the Commonwealth and its agencies, departments and certain component units, including $8,355,950 of the Authority's notes payable to PFC. As a result of this bond defeasance, the Authority recognized a contribution from COFINA of $8,555,495 and recognized a loss on extinguishments of debt of $54,886 during the year ended June 30, 2012.

The notes outstanding balance as of June 30, 2019, was $17,051,349 and matures throughout August 1, 2032. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

The activity of the notes payable, during the year ended June 30, 2019, was as follows:

	Balance 6/30/2018	Increase	Decrease	Balance 6/30/2019
Notes Payable	$ 17,051,349	$ -	$ -	$ 17,051,349

The estimated repayment schedule of the note payable during the next years follows:

Fiscal Years Ending June 30,	Principal	Interests	Totals
2020	$ 1,767,432	$ 3,668,535	$ 5,435,967
2021	454,516	874,274	1,328,790
2022	473,330	853,972	1,327,302
2023	493,943	831,812	1,325,755
2024	516,423	807,624	1,324,047
2025-2030	11,713,195	4,001,098	15,714,293
2031	1,632,510	44,894	1,677,404
Total	$ 17,051,349	$ 11,082,209	$ 28,133,558

NOTE 10 - NOTES PAYABLE (CONTINUED)

Puerto Rico Industrial Development Company (PRIDCO):

On July 18, 2018, the Authority entered into a loan agreement ("the Note") with the PRIDCO for the purchase of an used equipment for $150,000. On September 20, 2018, the Authority entered into another loan agreement with PRIDCO for the purchase of nineteen (19) used machinery and equipment items for a total value of $585,448. The machinery and equipment total value of $735,448 will be used as down payment in a land sales transaction between the Authority and PRIDCO.

FIDA - Credit Line

FIDA had a non - revolving credit line with GDB. When issued, FIDA had a ceiling on the line of $94 millions. Proceeds from this credit line were used by FIDA to fund investments in agricultural businesses, loans to farmers and contributions, as were permitted by laws and regulations. Repayments of principal and interests were made from the collection of coffee and sugar taxes allocated by the Commonwealth.

Nevertheless, the Authority has made no additional payments, of neither principal or interests, on the credit line since July 1, 2016. The credit line does not have a formal repayment schedule. Base rate on the credit line is the London Interbank Offered Rate or LIBOR, with a spread of 1.25%. The credit line matures on March 1, 2027.

GDB faced significant risks and uncertainties and it currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full. Pursuant to enacted legislation and executive orders by two separate government administrations, GDB was ordered to suspend loan disbursements, to impose restrictions on the withdrawal and transfer of deposits from GDB and it is currently winding down in an orderly fashion under Title VI of PROMESA.

On May 15, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and GDB entered into a Restructuring Support Agreement (the RSA) with a significant portion of the GDB's creditors. The parties to the RSA agreed to undertake a financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). On August 9, 2018, the GDB commenced the solicitation of votes on the Qualifying Modification and on August 10, 2018 commenced an action to obtain court approval of the Qualifying Modification. Following the conclusion of voting on September 12, 2018, the GDB announced that it received the necessary votes from holders of claims subject to the Qualifying Modification (the "Participating Bond Claims") to approve the Qualifying Modification, as required under PROMESA. On November 6, 2018, the Qualifying Modification was approved by the Federal Court. On November 29, 2018, the FAFAA and the GDB announced the consummation of the Qualifying Modification. Under the Qualifying Modification, holders of Participating Bond Claims exchanged their Participating Bonds claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and the GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash.

Pursuant to Act No. 109-2017, also known as the Government 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 the Authority, will be exchanged for interest in the Public Entity Deed of Trust created pursuant to the GDB Restructuring Act. Specifically, pursuant to the GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a "Non-Municipal Government Entity") and the GDB will be determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal

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NOTE 10 - NOTES PAYABLE (CONTINUED)

FIDA - Credit Line (Continued)

Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the GDB or of any bond or note of such Non-Municipal Government Entity held by the GDB as of such date. Those Non-Municipal Government Entities having net claims against the GDB, after giving effect to the foregoing adjustment will receive their pro rata share of interests in the Public Entity Trust (PET), which will be deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. The assets of the PET (the "PET Assets") will consist of, among other items, a $890 million claim against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth Title III case under PROMESA. A portion of the PET Assets will be transferred to the PET on the Closing Date and the remainder of the PET Assets, or any portion thereof, will be transferred to the PET in one or more transactions, as set forth in the Public Entity Deed of Trust (as defined in the GDB Restructuring Act). Under the GDB Restructuring Act, the transfer of the PET Assets by the GDB to the PET will be an irrevocable, non-voidable, and absolute transfer of all the GDB's legal and equitable right, title, and interest in the PET Assets.

As a result of the qualifying Modification, on November 29, 2018, the credit facility of FIDA owed to the GDB of $28,125,394 ($27,674,033 plus accrued interests of $451,361) was partially offset for $22,971,172, leaving a balance outstanding of $5,154,222 ($4,702,861 plus accrued interests of $451,361). As of financial statements date, an agreement has not been reached to cancel the remaining of the balance, or to determine how the remainder of the credit facilty will be managed.

NOTE 11 - RELATED PARTY TRANSACTIONS

Intercompany transactions occurred during the fiscal year ended June 30, 2019 between Puerto Rico Land Authority and FIDA, because by request of FIDA, the Authority makes payments on behalf of FIDA and records the corresponding receivable or payable transaction, as applicable.

NOTE 12 - DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2019 due to other governmental entities consisted of the following:

Municipal Revenues Collection Center (CRIM)	$ 11,717,221
Puerto Rico Electric Power Authority	2,922,174
Retirement System Administration	9,777,082
Puerto Rico Aqueduct and Sewer Authority	218,691
Total Due to Other Governmental Entities	$ 24,635,168

NOTE 13 - DEFERRED OUTFLOWS AND INFLOW OF RESOURCES

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, "Elements of Financial Statements", as the acquisitions and consumption's of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Authority recognizes deferred outflows and inflows of resources.

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NOTE 13 - DEFERRED OUTFLOWS AND INFLOW OF RESOURCES (CONTINUED)

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Based on this concept, the Authority reports the following as deferred outflows of resources and deferred inflows of resources:

- The deferred outflows of resources and deferred inflows of resources resulting from the implementation of GASB Statements No. 73 and 75. Notes 14 and 15 presents additional information about the composition of these items, respectively.

NOTE 14 - PENSION PLAN

As described in Note 1(L), the Authority implemented 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". As the ERS is a multiple employer plan and the benefits are not funded by a pension trust, GASB Statement No. 73 applies to the pension benefits provided to each participating employers' own employees.

Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for participants of the 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 for 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 ERS of the Government of the Commonwealth of Puerto Rico. 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 pension payments. Also, pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Puerto Rico Treasury Department (PRTD) 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. 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.

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside the ERS. This summary details the provisions under Act No. 3-2013, which was effective July 1, 2013 and under which the benefits to be paid to ERS members were determined. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

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NOTE 14 - PENSION PLAN (CONTINUED)

Description of the Plan and Basis of Presentation (Continued)

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Defined Contribution Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable 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.

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 the Defined Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program.

Each member has a no forfeitable 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 retirement age.

Participant Data

The following provides a brief summary of the number of participants included in the valuation in total:

Active Members	112,615
Inactive Members in Pay Status	120,441
Total	233,056

Eligibility for Membership

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447-1951. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contributory Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include those in the following categories:

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NOTE 14 - PENSION PLAN (CONTINUED)

Eligibility for Membership (Continued)

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors, of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employee.

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112-2004).

Definitions

- **Fiscal Year**: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- **General Fund**: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico
- **Government of Puerto Rico or Government**: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- **Public Enterprise**: Any government instrumentality of the People of Puerto Rico (Article 1-04).
- **Employer**: The Government of Puerto Rico, any public enterprise that has effected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).
- **Employee**: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).
- **Creditable Service for Act No. 447-1951 members:** the years and months for plan participation, during which contributions have been made, beginning on the later of date of hire or January 1, 1952, and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Note: All the days must be during the same month.

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NOTE 14 - PENSION PLAN (CONTINUED)

Months in which less than 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

- **Creditable Service for Act No. 1-1990 members**: the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

- **Compensation:** The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the fund are based (Article 1-104).

- **Average Compensation for Act No. 447-1951**: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).

- **Average Compensation for Act No. 1-1990**: The average of the 5 highest years of compensation that the participant has received for Creditable Service. If annual compensation in the averaging period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation (Article 2-108).

- **Contributions**: The amount deducted from the compensation of a Member and the employer (Section 781).

- **Regular Interest**: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.

- **Accumulated Contributions**: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (article 1-104).

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NOTE 14 - PENSION PLAN (CONTINUED)

- **Actuarial Equivalent**: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary.

For purposes of converting the Defined Contribution Hybrid Contribution account to lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

- **Public Officers in High-Risk Positions**: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.

- **Social Security Retirement Age (SSRA)**: The Social Security Retirement Age varies based on the year of birth as indicated in the table below.

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
2958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 Years

- **Retirement Savings Account**: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Savings Account (Article 3-107).

- **Credits to Retirement Savings Accounts**: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

- **Investment Alternatives for Retirement Savings Account**: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.

NOTE 14 - PENSION PLAN (CONTINUED)

1. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
2. System's Investment portfolio – The yield is equal to 90% (75% prior to July 1, 2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
3. Other alternatives adopted by the Board of the System.

- **Defined Contribution Hybrid Contribution Account**: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Savings Account as of June 30, 2013.

- **Credits to Defined Contribution Hybrid Contribution Account**: The credits to the retirement savings amount include (1) the Retirement Savings Accounts as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to ERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to Pay-As-You-Go funding under Act 106-2017, no credits are applied after June 30, 2017.

Coordination with Social Security Act No. 447-1951 members

Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

Pension Benefits

- Eligibility for Act No. 447-1951 Members: Act No. 447-1951 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. 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 (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), 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 attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

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NOTE 14 - PENSION PLAN (CONTINUED)

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.

- 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.

- 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 otherwise.

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 otherwise.

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

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NOTE 14 - PENSION PLAN (CONTINUED)

- 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.

- Benefit: An annuity 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. 447-1951 and Act No. 1-1990 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.
- Coordination with Social Security Act for Act No. 447-1951 Members – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

NOTE 14 - PENSION PLAN (CONTINUED)

For Act No. 447-1951 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor credited service in excess of 20 years. Non-Mayor credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

- If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- Compulsory Retirement: All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

Service Retirement Annuity Benefits

- **Lump Sum Withdrawal**

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contributions account is $10,000 or less.
Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

- **Deferred Retirement**

Eligibility: A member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

NOTE 14 - PENSION PLAN (CONTINUED)

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

Death Benefits

- **Pre-Retirement Death Benefit**

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

- **High-Risk Death Benefit under Act No. 127-1958**

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

- **Postretirement Death Benefit for Members who Retired prior to July 1, 2013**

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105-1969, as amended by Act No. 4-2017):

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NOTE 14 - PENSION PLAN (CONTINUED)

1. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

2. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

- **Postretirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013**

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

- **Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits**

Disability Benefits

- **Disability**

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

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NOTE 14 - PENSION PLAN (CONTINUED)

- **High-Risk Death Benefit under Act No. 127-1958**

Eligibility: Police, firefighters, and other employees in specified high-risk positions who disabled in the line of work due to reasons specified in Act No. 127-1958, as amended.

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127-1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

- **Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.**

- **Disability Insurance**

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2019-2020 the disability insurance amounted to $13,161.

Minimum Benefits

- Past Ad hoc Increases: The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

- (Act No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

- Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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NOTE 14 - PENSION PLAN (CONTINUED)

Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

Special "Bonus" Benefits

- Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

- Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

Contributions

- **Member Contributions**: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

From July 1, 2013 to June 30, 2017, contributions by members are 10% of compensation. However, for Act No. 447-1951 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

Prior to July 1, 2013, contributions by Act No. 447-1951 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

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NOTE 14 - PENSION PLAN (CONTINUED)

- **Employer Contributions**: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

Formerly – Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020 (Article 2-116 as amended by Act No. 116-2011 and Act No. 3-2013).

- **Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities**.

Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees (Act No. 3-2013).

- **Additional Uniform Contribution**: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

Formerly – During the 2013-2014 fiscal year, the System will receive an Additional Uniform Contribution of $120 million. During each year from 2014-2015 through 2032-2033 the System will receive an Additional Uniform Contribution certified by the external actuary of the System as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The AUC will be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities (Act No. 32-2013).

Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10-1992, Act No. 14-1981, Act No. 122-2000, Act No. 33-2007 and Act No. 203-2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contributory Account during the years of military leave prior to July 1, 2017.

Early Retirement Programs

On July 2, 2010, the Commonwealth Enacted Act No. 70 (Act No. 70-2010) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70-2010, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth).

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NOTE 14 - PENSION PLAN (CONTINUED)

Under Section 4B of Act No. 70-2010, active members who had at least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund/Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applied to final salary increases as under Act No. 116-2010 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C if Act No. 70-2010, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions,
- Act No. 32-2013 Additional Uniform Contribution,
- Act No. 3-2013 Supplemental Contributions, and
- Member Contributions.

Total Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

1) Total Pension Liability and Actuarial Information

The Authority's total Pension Liability for each plan program is measured as the proportionate share of the total Pension Liability. The Total Pension Liability of each of the plan program was measured as of July 1, 2017, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to July 1, 2018 using standard update procedures. The Authority's proportion of the total Pension Liability was based on a projection of the long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

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NOTE 14 - PENSION PLAN (CONTINUED)

As June 30, 2019, the Authority's used the proportional share of .93786%, which was the June 30, 2018 base as required by GASB No. 73:

Proportion - June 30, 2017	0.24277 %
Proportion - June 30, 2018	0.23869 %
Change - Decrease	(0.00408)%

As of June 30, 2019, the Authority reported $58,454,814 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS, as follows:

Total Pension Liability	Total	Proportional Share (.23869%)
Total Pension Liability	$ 24,489,519,237	$ 58,454,814

2) Pension Expense

For the fiscal year ended June 30, 2019, the Authority recognized pension expense of $7,104,986. Pension expense represents the change in the method of benefits payment from "pay-as-you-go" system.

3) Deferred Outflows/Inflow of Resources

As of June 30, 2019, the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Pension Benefits Paid Subsequent to Measurement Date	$ 3,154,687	$ -
Differences Between Actual and Expected Experience	-	1,767,975
Changes in Assumptions	-	1,916,857
Change in Employer's Proportion and Differences Between The Employer's Contributions and the Employer's Proportionate Share of Contributions	-	957,772
Net Differences Between Projected and Actual Earnings on Plan Investments	3,226,439	-
	$ 6,381,126	$ 4,642,604

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NOTE 14 - PENSION PLAN (CONTINUED)

Pension benefits paid subsequent to measurement date of $3,154,687 are presented as current portion of Total Pension Liability in the Statement of Net Position. Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Amounts
2020	$ (347,704)
2021	(347,704)
2022	(347,704)
2023	(347,704)
2024	(347,706)
Thereafter	-
Total	$ (1,738,522)

Actuarial Methods and Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019 is provided below. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

The actuarial valuation used the following actuarial assumptions:

Inflation Rate	Not Applicable
Actuarial Cost Method	Entry Age Normal
Municipal Bond Index	3.87%, based on Bond Buyer General Obligation 20 - Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Discount Rate	3.87%
Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four year extension of Act No. 66-2014, and the current general economy.

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NOTE 14 - PENSION PLAN (CONTINUED)

Mortality	Pre-Retirement Mortality: for general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. .For members covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. Postretirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from UP-1994 Mortality Table for females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Postretirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015. After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that result in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the ERS's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the ERS's fiduciary net position is not projected to be sufficient.

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NOTE 14 - PENSION PLAN (CONTINUED)

The discount rate on June 30, 2017 and 2018 was as follows:

	June 30, 2017	June 30, 2018
Discount Rate	3.58%	3.87%
Long-term expected rate of return net of investment expense	N/A%	N/A
Municipal bond rate *	3.58%	3.87%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index.		

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2016, as the tax-free municipal bond index applies in all years, and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the Net Pension Liability, calculated using the discount rate of 3.87%, as well as what the Authority's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the current rate:

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Net Pension Liability as of June 30, 2018	$66,516,166	$58,454,814	$51,911,565

Pay-As-You-Go Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106), which reformed the Commonwealth Retirement Systems. Act. No. 106 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

NOTE 14 - PENSION PLAN (CONTINUED)

Furthermore, Act No. 106 modified the ERS's governance. Under Act No. 106, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The "pay-go" funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for "pay-go" funding will be. While the ERS can set an expected "pay-go" amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

Pension Plan Fiduciary Net Position

The Employee's Retirement System of the Government of the Government of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Program Description and Membership

The Athority provides postemployment benefits other than the pension benefits described in Note 10, for its retired employees (the “OPEB Program”). The plan is an unfunded, single-employer defined benefit other postemployment healthcare and insurance coverage benefit plan. The plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75 "Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions".

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member ($1,200 annually) provided that the member retired prior to July 1, 2013 (Act No. 43, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. In addition, a bonus of $100 is given to retirees annually (on July), for the purpose of acquiring medicines. These benefits are not provided to the retirees' spouse or any relatives.

Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Funding Policy

The obligations of the Plan members’ employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Relationship Between Valuation Date, Measurement Date and Reporting Date

The valuation date is July 1, 2017. This is the date as of which the actuarial valuation is performed. The measurement date is June 30, 2018. This is the date as of which total OPEB liability is determined. The reporting date is the Administration's fiscal year ending date. This report is for measurement year July 1, 2017 to June 30, 2018 for reporting periods ending June 30, 2018 through June 30, 2019.

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Significant Changes

There have been no significant changes between the valuation date and measurement year end.

Total OPEB Liability, Expense and Deferred Outflows/Inflows of Resources

As permitted by GASB, the Authority's unfunded total OPEB liability as of June 30, 2019 of approximately $1,590,950 was measured at June 30, 2018 by an actuarial valuation as of that date. An expected total OPEB liability was determined as of June 30, 2017, the valuation date, using standard roll back techniques. The roll back calculation begins with the total OPEB liability, as of the measurement date, June 30, 2018, adds the expected benefit payments for the year, deducts interest at the measurement date, June 30, 2018, adds the expected benefit payments for the year, deducts interest at the discount rate for the year, and then subtracts the annual normal cost (also called the service cost).

For the year ended June 30, 2019, the Authority recognized an OPEB (credit) expense of $68,410, included as part of other postemployment benefits expense in the accompanying Statement of Revenues, Expenses and Change in Net Position.

As of June 30, 2019, the Authority reported deferred outflows of resources from OPEB activities as follows:

Source	
Other Postemployment Benefits Paid Subsequent to the Measurement Date	$ 132,141
Differences Between Expected and Actual Experience	-
Changes in Assumptions or Other Inputs	1,398
Total Deferred Outflows	$ 133,539

Deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date which amounted to $132,141 as of June 30, 2019 is recognized as a reduction of the total OPEB liability in the year ending June 30, 2020. Therefore, it is presented as current portion of the Total OPEB Liability in the Statement of Net Position.

Amounts reported as deferred outflows of resources from OPEB activities as of June 30, 2019 will be recognized in the OPEB expense as follows:

Years Ending June 30:	
2020	$ (280)
2021	(280)
2022	(280)
2023	(280)
2024	(278)
Total	$ (1,398)

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

The Authority's proportional share of the OPEB liability used was as follows:

Proportion - June 30, 2018	0.18891 %
Proportion - June 30, 2017	0.18011 %
Change - Increase	0.00880 %

Discount Rate

The discount rate as of June 30, 2018 and 2017 were as follows:

	June 30, 2018	June 30, 2017
Discount Rate	3.87%	3.58%
20 Year Tax-Exempt Municipal Bond Yield	3.87%	3.58%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability at June 30, 2019 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

Measurement Date	June 30, 2018
Valuation Date	July 1, 2017
Actuarial Cost Method	Entry Normal Age
Medical Trend Rate	Not Applicable
Salary Increases	Current General Economy
Mortality	Pre-Retirement Mortality - For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Postretirement Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS Plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational tables, and it reflects mortality improvements both before and after the measurement date.

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Postretirement Disable Mortality - Rates which vary by gender are assumed for disable retirees based on a study of plan's experience equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future improvement for disabled retirees.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a longterm perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and actuarial value of assets.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability calculated using the discount rate of 3.878%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower (2.87%) or 1 percent-point higher (4.87%) than the current rate:

	1% Decrease 2.87%	**Current Discount Rate 3.87%**	**1% Increase 4.87%**
Total OPEB Liability as of June 30, 2018	$1,744,900	$1,590,950	$1,460,158

NOTE 16 - OPERATING LEASES

The Authority's land operating lease terms vary generally from one to five years. Minimum future rental revenues on non-cancelable operating lease with terms of one year or longer are as follows:

Years	Amount
2020	$ 7,195,263
2021	6,295,457
2022	6,130,008
2023	6,058,335
2024	5,847,140
2025 - 2030	20,369,882
2031 - 2036	6,620,854
2037 - 2042	3,619,346
2043 - 2048	876,828
2049 - 2053	95,220
	$ 63,108,333

Real estates taxes, insurance and maintenance expenses are usually obligations of the lessees. Contracts provide, in certain cases, for rent increases during renewal periods to be based on fixed percentages. Usually, rent is collected six (6) months in advance, and is billed taking into consideration the rent of the parcel and property taxes estimated using the CRIM invoices sent to the Authority related the specific parcel of land. The lessee is responsible to provide a certificate of "bonafide farmer", in order to be released of such payment. In most cases, farmers need to pay in advance the total amount of the rent, and when condition is satisfied, an adjustment of such amount is credited to their account balance.

NOTE 17 - CONTINGENCIES

Puerto Rico Land Authority

(A) LITIGATIONS

The Authority is a defendant or a co-defendant in various lawsuits and complaints. The Authority's management, after consultation with legal counsel, has made a provision of $4,421,078 for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

NOTE 17 - CONTINGENCIES (CONTINUED)

(A) LITIGATIONS (CONTINUED)

The Authority is a defendant in various claim most of them resulting form the closing of several sugar mills throughout the years and from events generally incidental to its operations. Also, it has various environmental claims and penalties imposed by The Environmental Protection Agency (EPA), mainly from the handling of pesticide warehouses. The Authority is in the process of litigating such claims. The accompanying statement of net position include a reserve in relation to this matter, but the ultimate outcome is uncertain at this time and accordingly, the ultimate liability, if any, cannot be presently determined.

In July 2004, the Land Authority deposited in the Superior Court in San Juan, the amount of $5 million for expropriation of land form “Comunidad Agricola Bianchi”. The case is still in court because “Comunidad Agricola Bianchi” does not consider the amount given as fair value of the property. The Authority’s management believes that the case will be settled for an additional of $4 millions, which was considered in the reserve for contingencies included in the accompanying, basic financial statements.

During 2006, the "Central Roig Company, Inc.", which is one of the two corporations organized by sugarcane farmers that received 50% of the transferred assets of the Sugar Corporation (the sugar mills known as Central Roig, Central Coloso, Central Plata and Central Mercedita, together with the "Refineria Mercedita"), in compliance with and according to the provisions of Public Law No. 189 of December 26, 1997, is suing, among other parties, the Authority, alleging all sorts of actions in damages against the different parties, based upon their inability to produce sugarcane as contemplated by Public Law No.1 189 at the time that the aforementioned assets were transferred to them. The plaintiffs are basically alleging that, because of the failure of the different governmental agencies and third parties involved, to comply with certain undefined and allegedly multiple obligations and commitments to which they were bound, they suffered economic damages in excess of $l00 million. This case is related to two other cases considered in the contingency reserve. Management, based on advice from legal counsel, believes that no potential loss is forecasted as of this date, other that attorney's fees and litigation expenses.

(B) FEDERAL AWARDS

During the year ended June 30, 2015, the Authority received a grant fund from the Department of Education. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. For the year ended June 30, 2019 and as of the basic financial statements date, no audits have been conducted for this particular grant. Nevertheless, any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

(C) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS

The Authority is also audited by the Comptroller’s Office of Puerto Rico (COPR), who has issued several reports on audits over operations of the Authority and FIDA. The oversight entities, such as the Puerto Rico Department of Justice, are evaluating actions to be taken against the Authority and its employees. The financial impact if any of the possible actions to be taken by the oversight entities can not be presently determined.

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NOTE 17 - CONTINGENCIES (CONTINUED)

Innovation Fund for the Agriculture Development of Puerto Rico (FIDA)

(D) 2010 AGRICULTURE DEPARTMENT REORGANIZATION PLAN NUMBER 4

Article 36 of the Reorganization Plan number 4, discussed on Note 1 to the financial statements, amended laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as "Technological Innovation and Agricultural Promotion" ("Fondo de Innovacion"), to be transferred to the "Administration for the Development of Agricultural Enterprises" ("Administración para el Desarrollo de Empresas Agropecuarias" or ADEA). According to the Reorganization Plan, this fund can be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico.

As of financial statement date, monies from such sugar and coffee taxes has not been deposited in such fund nor transferred to ADEA, and kept on FIDA accounts.

FIDA had received funds from sugar and coffee taxes, from 2011 (date in which the Reorganization Plan was to be implemented) to June 30, 2017 as follows:

Years	Amount
2011	$ 14,784,002
2012	13,932,814
2013	15,301,865
2014	12,866,028
2015	12,685,288
2016	13,695,023
2017	12,889,062
Total	$ 96,154,082

During the years ended June 30, 2018 and June 30, 2019, no funds were received.

On November 2015, COPR issued audit report number CP-16-03, covering FIDA operations from July 1, 2009 to December 31, 2013. In such report, COPR includes a special comment that the Reorganization Plan will impact FIDA operations and services that FIDA provides to farmers and agricultural activities, since monies that FIDA receives to fund their operations are to be transferred to the "Technological Innovation and Agricultural Promotion" fund of ADEA. Also, COPR comments that the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines through the GDB, and management of incentives already given to farmers.

In his audit report, COPR makes a recommendation, to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations.

NOTE 17 - CONTINGENCIES (CONTINUED)

(D) 2010 AGRICULTURE DEPARTMENT REORGANIZATION PLAN NUMBER 4 (CONTINUED)

FIDA management has also raised these concerns and is in agreement with the COPR recommendations. In addition, on April 19, 2016, Project 2873 (P. de la C. 2873) was presented to the Legislature of Puerto Rico, and referred to the Governmental, Agriculture and Environmental and Natural Resources Commissions. Project 2873 propose to revitalize and restructure DA by including FIDA as a programatic and operational component of DA, separated from the Authority, for the purpose of promoting agricultural enterprises. According to Project 2873, the requirements of Reorganization Plan number 4 were never placed in operation, and are not in accordance with the present public policy of the Commonwealth of Puerto Rico, and that it is necessary to derogate the requirements of such Reorganization Plan.

The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico, and the outcome of Project 2873, cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements.

NOTE 18 - RESTATEMENT OF NET POSITION

Puerto Rico Land Authority

During the year ended June 30, 2019, the Authority adjust balance due to Puerto Rico Aqueduct and Sewer Authority liability base on balance confirmation and identified in FIDA the payment for farm workers christhmas bonus for December 2017 which was recorded on July 1, 2018. The effect of these prior period adjustments on the net position of the Authority as of July 1, 2018 is as follows:

Net Position, Beginning of Year, as Previously Presented	$ 4,124,962
Restatement Adjustments:	
Due to Puerto Rico Aqueduct and Sewer Authority	183,164
Insurance Balance not Paid in Prior Year	(1,301,900)
Net Position, Beginning of Year, as Restated	$ 3,006,226

NOTE 19 - DATE OF MANAGEMENT'S REVIEW

The Authority's management evaluated subsequent events until October 5, 2021, date in which the basic financial statements are available to be issued. See also Note 21.

NOTE 20 - VOLUNTARY TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows: Article 4(a) provides economic incentive based on the following parameters:

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NOTE 20 - VOLUNTARY TERMINATION BENEFITS (CONTINUED)

Years of Services in Public Sector	Incentive Gross Amount
Up to 1 Year	1 Month of Salary
From 1 Year and One Day Up to 3 Years	3 Months of Salary
from 3 Years and One Day and Up	6 Months of Salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payments are based on the following parameters:

Credited Years of Service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

The Authority will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth o41f Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

The Authority has 18 participants in the plan, and termination benefits are measured at the discount present value of expected future benefit payments. Benefits are based on 60% of average pay (meaning the highest annual average salary of the participant during any of three years of credited services), in addition to social security computed at 7.65%, retirement benefits based on a percentage ranging from 25.5250% to 30.5250% from 2016 to 2025, and $320 of medical plan up to fiscal year 2018 - 2019. Termination benefits will be completed during fiscal year 2024-2025.

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NOTE 20 - VOLUNTARY TERMINATION BENEFITS (CONTINUED)

As of June 30, 2019, the present value of future incentive payments reported as a liability amounted to approximately $3,639,344. Of this amount, $812,103 should be funded during the next fiscal year. The long - term portion of the early termination obligation amounted to $2,827,241. Such amounts are disclosed respectively, as short - term and long - term liabilities in the accompanying statement of net position.

NOTE 21 - SUBSEQUENT EVENTS

The Authority has evaluated subsequent events and the basis for the date, whether it is the date the basic financial statements were issued or were available to be issued.

(a) Administrative Bulletin No. OE-2021-003

On January 2, 2021, the newly elected governor of the Commonwealth of Puerto Rico, issued Administrative Bulletin No. OE-2021-003 named "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. It orders all governmental agencies in Puerto Rico to implement the necessary measures in order to reduce operational expenses, without adversely affect those services necessary to protect the citizens health, security and wellnes.

Among the most significant measures required by the executive order are:

1) **Vacancies** - All regular career, transitory and irregular positions, which are vacant at executive order's date, or which becomes vacant after the effective date of the executive order, will be subject to a need assessment. The governmental agencies are also not allowed to fill any vacant positions by any means (like promotion, merit, mobility, transfer and others), unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Busdet Office (OGP),
2) **Prohibition to Create New Positions** - Governmental agencies are not allowed to create new regular career, transitory and irregular positions, unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Busdet Office (OGP),
3) **Reduction in Positions of Confidence** - All governmental agencies are required a 20% reduction in posts of confidence,
4) **Reduction in Operational Expenses** - All governmental agencies are required reductions in operational expenses, as part of the expense reduction measures,
5) **Credit Cards** - The use of official credit cards, paid through with public funds, is prohibited, unless it is done is strict compliance with applicable and outstanding regulations,
6) **Traveling outside Puerto Rico** - The order prohibits the use, by officers and employees of the governmental ageciesm of public funds for traveling outside Puerto Rico, unless they are strictly essential to perform the duties of the position, and only when authorized by the Secretary of the agency and the Secretary of the Commonwealth of Puerto Rico. Also, if authorized, should be done in strict compliance with applicable and outstanding regulations,

NOTE 21 - SUBSEQUENT EVENTS (CONTINUED)

(a) Administrative Bulletin No. OE-2021-003 (Continued)

7) **Cellular Phones and Other Technological Services** - The order prohibits the use of public funds for payment of celullar phones, personal digital assistants (PDA's), personal internet service equipment and other technological services, for exclusive use of the Officers and employees of the agencies. OGP Director is allowed to offer waivers to thses requirements, considering, among other things, the service needs of public employees related to remote working. Agencies are required to obtain authorization from OGP and the Puerto Rico Innovation and Technology Service (PRITS), for any plan related to the acquisition of these technological equipments or services,
8) **Reduction in Energy and Water Consumption** - All agencies directors are required to reduce consumtion of public utilities, like electric power and water. Regarding electric power, the agencies are required to implement all necessary measures to reach a minimum annual reduction of 5%. As for water consumption, those agencies, for which operational expenses are subsidized, in whole or in part, with funds from the Commonwealth's Central Government, must reduce water consumption by 5% annually, during years 2020-2021, 2021-22, and 2022-23, so it can reach a reduction of 15% in the three-year period. Percentage reduction will be measured from water consumption expense during year 2019-20 as base year,
9) **Reduction in Contract Amounts** - Each agency must reduce expenses for services (purchased and/or professional) by 10% annually,
10) **Contracting for Services** - It is prohibited to make a contract for purchased or professional services over $10,000 (and below $10,000,000) in the same fiscal year, without the written authorization from OGP. For this purpose, the Director of OGP will verifiy funds availability in the budget assigned to the agency. For contracts in excess of $10,000,000, in the same fiscal year, must be authorized together by the Director of OGP and the the Secretary of the Commonwealth of Puerto Rico, or the person designated by him for such purpose, and
11) **Lease Contracts** - Agencies must submitt to OGP, within 30 days after the effective date of this executive order, a list of all outstanding lease contracts, amount contracted, and the reasons to justify the contract. OGP is authorized to deny the renewal of these contracts, or to modify its terms when due, unless it is necessary for the services given to citizens. OGP can consolidate operations in various agencies in a single lease premise , and renegotiate monthly fees and other clauses, in order to attain better terms.

The executive order discloses that all these control measures are the first ones to be implement to face the fiscal crisis, and that it should not be understood that they are the only ones to be implemented. All agencies must evaluate its operations in order to detect additional measures of control, savings and expense reduction.

The Authority has not yet determined the effects these measures will have on the basic financial statements and the results of operations.

(b) Effects of the Coronavirus Disease

During the month of December 2019, a respiratory disease started to spread, caused by a novel virus called “Coronavirus” or COVID-19. The World Health Organization (WHO) declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTE 21 - SUBSEQUENT EVENTS (CONTINUED)

(b) Effects of the Coronavirus Disease (Continued)

The effects of the disease have been swift. The pandemic has transformed economic outlooks, health, and social norms around the globe. Government and health care providers are working around the clock to slow the spread of the disease. The whole world is affected by the pandemic. Travel restrictions are in place, and global trade, commerce, tourism, investment, and supply chains were in disarray. Measures taken to contain the spread of the virus, including quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses locally and worldwide, resulting in an economic slowdown.

The Governor of the Commonwealth of Puerto Rico issued a lock-down starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lockdown effective May 24, 2021. On July 5, 2021, all Administrative Orders related to the COVID-19 disease were eliminated. Nevertheless, due to increase in the number of cases of contagion form the disease, new Administrative Orders have been issued, most recently, Administrative Order OE-2021-065 dated August 30, 2021, to implement emergency measures to slow the recent increase in the spread of the disease.

The Authority was not affected by the full lock - down because services are provided remotely to customers as it is in normal times; also, all employees were available to work remotely too. Also, the Authority cannot predict the exact impact on our activities in the reminder 2021 and thereafter. Depending on the duration of the COVID-19 crisis and continued negative impact on the individuals, local and global economic activity, we might experience additional negative results, although, as of the basic financial statements issuance date, this is not expected.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY - GASB 73 IMPLEMENTATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Last 10 Years (1)	June 30, 2019	June 30, 2018
Proportion of Total Pension Liability	0.23869 %	0.24277 %
Proportionate Share of Total Pension Liability	$ 58,454,814	$ 68,471,789

Benefit Changes: Beginning on July 1, 2017, the pension benefits were paid through pay-as-you-go method. Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. 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, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73.

Date References: Employee's Retirement System of the Government of the Commonwealth of Puerto Rico: Actuarial Valuation Report

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Notes to the Schedule:

(1) Fiscal year 2019 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.
(2) There are no assets accumulated in a trust for payment of defined pension benefits participants, and the plan is not administered through a trust or equivalent arrangement.

PUERTO RICO LAND AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Last 10 Years (1)	June 30, 2019	June 30, 2018	June 30, 2017
Proportion of the Total OPEB Liability	0.18891 %	0.18011 %	0.18334 %
Proportionate Share of the Total OPEB Liability	$ -	$ 1,657,962	$ 2,172,834
Covered - Employee Payroll	N/A	N/A	N/A
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A
Plan's Fiduciary Net Position	N/A	N/A	N/A

Notes to the Schedule:

(1) Fiscal year 2018 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.

(2) There are no assets accumulated in a trust for payment of OPEB related benefits, and the plan is not administered through a trust or equivalent arrangement.

See accompanying independent auditor's report.

PUERTO RICO LAND AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster	Federal CFDA Number	Pass - Through Entity Indentifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Innovation Fund for the Agriculture Development in Puerto Rico (FIDA)				
Pass-through Puerto Rico Department of Education:				
Specialty Crop Block Grant Program Farm Bill	10.170	Not Available	$ -	$ 810,007
Total of Expenditures of Federal Awards			$ -	$ 810,007

See accompanying notes to the Schedule of Federal Awards.

PUERTO RICO LAND AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activities of Puerto Rico Land Authority, (the Authority) under programs of the Federal government for the fiscal year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Authority reporting entity is defined in Note 1 in the Notes to the Financial Statements on pages 20 through 48. All federal awards received passed-through other government agencies, if any, are included on the Schedule.

NOTE (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This schedule is prepared from the Authority's accounting records and is not intended to present financial position or the results of operations. The financial transactions are recorded by the Authority in accordance with the terms and conditions of the grants, which are consistent with US GAAP. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first. The Authority has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE (3) CFDA NUMBER

The CFDA number included in this Schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogs of Federal Domestic Assistance.

NOTE (4) MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor Results Section of the Schedule of Findings and Questioned Costs on Pages 100 to 102.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Puerto Rico Land Authority (From now on the Authority), an enterprise fund of the commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 5, 2021. Our report was qualified because the Authority was not able to perform the evaluation and recognition of capital asset impairments, and therefore, capital assets are overstated and the amount of loss from impairment and restoration or replacement of the impaired capital assets amounts are not available as of basic financial statements date.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the basic financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs, as item # 2019-001.

The Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in a separate document (Corrective Action Plan) prepared by the Authority. Authoithy's responses were not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

October 5, 2021

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Puerto Rico is affixed
to the original.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Land Authority (From now on the Authority) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2019. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Going Concern

The Authority is a component unit of the Commonwealth of Puerto Rico. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions that raised substantial doubt about the Commonwealth of Puerto Rico's ability to continue as a going concern.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Specialty Crop Block Grant Program Farm Bill

As described in the accompanying schedule of findings and questioned costs as item #2019-001, the Authority did not comply with the requirements regarding reporting (single audit report submission) that is applicable to Specialty Crop Block Grant Program Farm Bill, Major Federal Program. Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to this program.

Qualified Opinion on Specialty Crop Block Grant Program Farm Bill

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion Paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the fiscal year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

October 5, 2021

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COMMONWEALTH OF PUERTO RICO

PUERTO RICO LAND AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

Part I - Summary of Audit Results:

Financial Statements

- The independent auditor's report on the basic financial statements expressed a qualified opinion.

Internal Control Over Financial Reporting:

Material weaknesses identified?	______yes	__X___ no
Significant deficiencies identified?	______yes	__X___ none reported
Noncompliance material to the Statement noted?	______yes	__X___ no

Federal Awards

Internal control over major programs:

Material weaknesses identified?	__X___yes	_____ no
Significant deficiencies identified?	______yes	__X__ none reported

The independent auditor's report on compliance with requirements applicable to major federal award program expressed a qualified opinion.

The audit disclosed findings to be reported in accordance with Uniform Guidance, Section 200.516.	__X___yes	_____ no

The Authority's major award during this year was:

CFDA # 10.170 - Specialty Crop Block Grant Program Farm Bill

A threshold of $750,000 was used to distinguish between type A and type B programs, as those terms are defined in Uniform Guidance, Section 200.518.

The Authority qualify as a low risk auditee?	______yes	__X___ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Part II - Findings Related to the Basic Financial Statements

Our audit disclosed no findings that are required to be reported under Government Auditing Standards.

Part III - Findings and Questioned Costs Related to Federal Awards:

FINDING NUMBER #2019-001: LATE SUBMISSION OF SINGLE AUDIT REPORT PACKAGE

FEDERAL PROGRAMS: CFDA #10.170 – Specialty Crop Block Grant Program Farm Bill

CONDITION: The Authority did not submitted the single audit reports and reporting package for the year ended June 30, 2019, to the Federal Audit Clearinghouse (FAC) during the required submission deadline period.

CRITERIA: Title 2, Subtitle A, Chapter II, Part 200 named "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" Subpart F- Audit Requirements, under 200.512 "Report Submission" states that the audit shall be completed and the Data Collection Form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted to the Federal Clearinghouse designated by OMB within the earlier of 30 calendar days after receipt of the auditor's reports, or nine months after the end of the audit period.

The reporting package must include the following:

(1) Financial statements and schedule of expenditures of Federal awards discussed in section 200.510 "Financial Statements", paragraphs (a) and (b), respectively;
(2) Summary schedule of prior audit findings discussed in section 200.511 "Audit Findings Follow-Up",paragraph (b)
(3) Auditor's report(s) discussed in section 200.515 "Audit reporting"; and
(4) Corrective action plan discussed in section 200.511 "Audit Findings Follow-Up",paragraph (c).

CONTEXT: The Authority last single audit was as of June 30, 2015, and the Authority complied with the deadline for delivering the single audit reporting package to the FAC.

CAUSE: Financial information contained in the basic Financial Statements was not available before the reporting package submission due date extension of six months, until December 31, 2020. Data was provided after December 31.

EFFECT: The Authority may be subject to sanctions such as:

1. Withholding a percentage of federal awards until the audit is completed satisfactorily,
2. Withholding or disallowing overhead costs,
3. Suspending federal awards until the audit is conducted,
4. Terminating the federal award.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

FINDING NUMBER #2019-001: LATE SUBMISSION OF SINGLE AUDIT REPORT PACKAGE (CONTINUED)

RECOMMENDATION: We recommend that the Authority should start the process of compiling and preparing the financial information to complete the Basic Financial Statements and the Schedule of Expenditures of Federal Awards with enough time to assure that such information is available for the audit process, before March 31, and to provide it with enough time so the audit process can be completed before such due date.

QUESTIONED COSTS: None.

MANAGEMENT RESPONSE: See corrective action plan.

COMMONWEALTH OF PUERTO RICO

PUERTO RICO LAND AUTHORITY

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

No single audits were required prior to the year ended June 30, 2019, Therefore, there are no previous audit findings that require follow up.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

To the clients and users of the financial statements
Reported upon by Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

The partners and staff of Torres, Hernández & Punter, CPA, PSC are pleased to announce the successful completion of the 2019 independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPA's in public practice, industry, government and education. Our participation in the Peer Review Program demonstrates our firm's commitment and desire of maintaining and improving the quality of our practice.

After through study or our policies and procedures, the team conducting the review concluded our firm complies with the quality control standards established by the AICPA and the Puerto Rico Society of CPA's (PRSCPA). Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff, deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC

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To the Stockholders of
Torres, Hernandez, & Punter, CPA, PSC
and the Peer Review Committee of the
Puerto Rico Society of Certified Public Accountants

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

We have reviewed the system of quality control for the accounting and auditing practice of **Torres, Hernandez, & Punter, CPA, PSC** (the firm) in effect for the year ended December 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audit under Single Audit Act, and audits of *Employee Benefit Plans*.

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **Torres, Hernandez, & Punter, CPA, PSC** in effect for the year ended December 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. **Torres, Hernandez, & Punter, CPA, PSC** has received a peer review rating of *pass*.

License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
October 1, 2019
2019-10-52

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