RSM Puerto Rico

Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information For the Fiscal Year Ended June 30, 2019

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Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statement and Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Infrastructure Financing Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority (the Authority), a Component Unit 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

As discussed in Note 3 to the basic financial statements, the Authority's government-wide statement of net position (deficit) reflect a net deficit of approximately $2 billion in its governmental activities. This situation occurs because the Authority's normal operation is to acquire and/or construct capital assets that are transferred to other Commonwealth's agencies or other component units and funded by the Commonwealth with future appropriations. The Authority is completely dependent on the Commonwealth to effectively reverse its deficit position.

Also, as discussed in Notes 12, 13 and 20 to the basic financial statements, the Authority has defaulted on certain of its bonds and loans obligations; as such, is currently involved in various litigation actions. Also, the Commonwealth is involved in litigation that may also have an impact the Authority. The final resolution of such litigation and its impact on the Authority financial condition is currently unknown.

Current cash flows shortage and liquidity uncertainties affecting the Commonwealth and events in the Commonwealth's Title III case, and activities pertaining to the Commonwealth's Fiscal Plan and Budget could have a significant impact on the Authority's continuing operations and its ability to pay obligations as they become due.

The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 21 schedule of proportionate share of the collective net pension liability on page 82, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
November 12, 2021.

Stamp No. E474388 was affixed
to the original of this report.

RSM Puerto Rico

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing Authority (the Authority) and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2019, the Authority's restricted investment in bonds of Puerto Rico Sales Tax Financing Corporation (COFINA, by its acronym in Spanish) reported an increase of its fair value of approximately $39.3 million.

- Capital assets reflected a net increase of approximately $814 thousand, mainly due to: (i) the construction in progress of approximately $591 thousand related to "Malecon de Santa Isabel" and "Intersección la Muda" (ii) certain additions of furniture and equipment made for the World Plaza Building, amounting to approximately $141.1 thousand, additions to building improvements amounting to approximately $952 thousand, and (iii) the effect of the depreciation expense for the fiscal year ended June 30, 2019, amounting to approximately $870 thousand.

- Total liabilities reflected an increase of approximately $106.1 million, mainly due to: (i) an increase in accrued interest of approximately $63.4 million, (ii) a net increase in bonds and loans payable of approximately $1.2 million as a result of the net amortization of discounts/premiums and the settlement with GDB, (iii) an increase in accounts payable and accrued expenses of approximately $7.2 million, (iv) an increase in the due to Commonwealth of approximately $44.8 million, (v) a decrease in the due to other governmental entities of approximately $5.6 million, and (vi) a decrease of approximately $5.0 million in total pension liability recorded in accordance with Governmental Accounting Standards Board (GASB) Statement No. 73.

- As of June 30, 2019, the central government of the Commonwealth of Puerto Rico (the Commonwealth) and most of its public corporations were in the midst of a profound fiscal and economic crisis, which was the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's finances is (i) the vulnerability of revenue streams during times of major economic downturns, (ii) natural disasters, and (iii) large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues have been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other essential services. On December 1, 2015, the Governor of Puerto Rico (the Governor) signed Executive Order No. OE-2015-46, which provided that the Commonwealth would begin to redirect certain revenues in light of recently revised revenue estimates and its deteriorating liquidity situation.

  Pursuant to the Executive Order, certain available revenues that were historically appropriated to pay debt service on the debt of the Authority were redirected, pursuant to constitutional requirements, to pay debt issued or guaranteed by the Commonwealth. On April 2016, the Legislature of Puerto Rico enacted Act 21 of 2016, known as the *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act* (the Moratorium Act). Based on the provisions of the Moratorium Act, the Commonwealth, the Authority, and certain other governmental instrumentalities suspended the payment of debt service on their respective debts.

Subsequent to the enactment of the Moratorium Act, the Governor adopted a series of additional executive orders pursuant thereto, declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth, the Authority, and certain other governmental instrumentalities. As a result, the Authority was in default in relation to payment of principal and interest related to Series 2005, Series 2006, Series 2007 and BANs 2015A. As of June 30, 2019, the total of unpaid obligations under default amounted to approximately $468.0 million.

Additionally, and as described below, on May 3, 2017, the Commonwealth initiated a debt adjustment case pursuant to Title III of PROMESA (each term as defined therein). Certain provisions of PROMESA and rulings in the Commonwealth's Title III case have impacted the Authority's ability to pay its obligations and have addressed the legal ownership of revenues historically used to pay certain of the Authority's obligations. The Authority is not a party to those litigations, and refers the reader to the publicly available docket in the Commonwealth's Title III case for further details: https://cases.primeclerk.com/puertorico/Home-DocketInfo

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

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

The government-wide financial statements include two statements:

Statement of Net Position (Deficit) – This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position (deficit) may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Activities – This statement presents information showing how the Authority's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The government-wide financial statements present the following columns segregated by activities:

- ***Governmental Activities*** – These activities are mostly supported by intergovernmental revenue (Contributions from the Commonwealth of Puerto Rico). Most services normally associated with the Authority fall into general government, economic development, education, aqueduct and sewers, transportation, recreation and sports, edification, arts and entertainment, and public safety.

- ***Business Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business type activities of the Authority include the rental operations of the World Plaza Building.

The government-wide financial statements can be found immediately following this Management's Discussion and Analysis.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has two types of funds: governmental funds and proprietary funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both, the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental Funds Financial Statements – The Authority has three major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Authority's major governmental funds are:

- General Fund
- Capital Projects Fund
- Debt Service Fund

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Notes to the Basic Financial Statements – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT- WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in the United States of America (US GAAP), as prescribed by the GASB, to report on their net position (deficit). The Statement of Net Position (Deficit) presents the value of all of the Authority's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position (deficit).

The following was derived from the Statement of Net Position (Deficit) as of June 30, 2019, and 2018:

	Governmental Activities				Business Type Activities			
	2019	2018	Change	Percentage	2019	2018	Change	Percentage
Assets:								
Current assets	$ 4,476,691	$ 4,949,032	$ (472,341)	-9.5%	$ 7,669,016	$ 5,478,452	$ 2,190,564	40.0%
Capital assets, net	10,030,049	9,420,524	609,525	6.5%	27,120,301	26,915,713	204,588	0.8%
Noncurrent assets	342,122,841	251,435,131	90,687,710	36.1%	-	-	-	0.0%
Total assets	356,629,581	265,804,687	90,824,894	34.2%	34,789,317	32,394,165	2,395,152	7.4%
Deferred outflows of resources	33,335,222	38,137,880	(4,802,658)	-12.6%	-	-	-	0.0%
Liabilities:								
Liabilities due within one year	676,252,093	530,373,528	145,878,565	27.5%	49,848,451	47,416,693	2,431,758	5.1%
Liabilities due after one year	1,761,330,116	1,801,151,725	(39,821,609)	-2.2%	-	-	-	0.0%
Total liabilities	2,437,582,209	2,331,525,253	106,056,956	4.5%	49,848,451	47,416,693	2,431,758	5.1%
Deferred inflow of resources	170,232	960,541	(790,309)	-82.3%	-	-	-	0.0%
Net position / deficit:								
Net investment in capital assets	10,030,049	9,420,524	609,525	6.5%	(2,240,849)	(2,445,437)	204,588	-8.4%
Restricted for:								
Other purposes	144,327,031	105,013,189	39,313,842	37.4%	-	-	-	0.0%
Unrestricted / (Deficit)	(2,202,144,718)	(2,142,976,940)	(59,167,778)	2.8%	(12,818,285)	(12,577,091)	(241,194)	1.9%
Total net position (deficit)	$ (2,047,787,638)	$ (2,028,543,227)	$ (19,244,411)	0.9%	$ (15,059,134)	$ (15,022,528)	$ (36,606)	0.2%

Governmental Activities

Overall, the Authority's deficit for governmental activities increased by approximately $19.2 million or 0.9% mainly driven by revenues increase approximately $35.6 million mainly due to Contributions from the Commonwealth of approximately $35.5 million and expenses increased approximately $7.5 million, mainly related to loan principal expense of approximately $7.2 million. Even though revenues and expenses increased during the year it resulted in a deficit of $19.2 million.

Total assets for governmental activities increased approximately $90.8 million or 34.2 %, mainly driven by an increase of the fair value of the investment in debt securities of approximately $39.3 million, an increase in cash and cash equivalents (unrestricted and restricted) of approximately $64.7 million, a decrease in restricted assets due from other governmental entities of approximately $3.4 million, and a decrease in due from Commonwealth of Puerto Rico of approximately $9.5 million.

Deferred outflows of resources decreased approximately $4.8 million or 12.60%, due to decrease in deferred charges on debt refunding of approximately $3.6 million and decrease of approximately $1.2 million on changes in the deferred outflows related to pensions and deferred unamortized loss on advance refunding for the year ended June 30, 2019.

Total liabilities for government activities increased by approximately $106.1 million or 4.5%, mainly due to an increase in accrued interest of approximately $63.4 million, net increase in bonds payable of approximately $13.2 million as a result of the net amortization of discounts/premiums, decrease in loan payable of approximately $12.0 million as a result of the settlement with GDB, an increase in accounts payable and accrued expenses of approximately $7.2 million, an increase in the due to Commonwealth of approximately $44.8 million, a decrease in the due to other governmental entities of approximately $5.6 million and a decrease in total pension liability of approximately $5.0 million related to the implementation of GASB 73.

Deferred inflows of resources related to pensions decreased by approximately $790 thousand or 82% due to the implementation of the PayGo System, as provided by Act. No. 106 of 2017 (Act 106).

Business-Type Activities

The deficit in business-type activities increased approximately $37 thousand or 0.2%, from approximately $15.0 million in 2018 to approximately $15.1 million in 2019. The increase in deficit was mainly due to a decrease in operating revenues of $189 thousand, decrease in net insurance and casualty losses recoveries of approximately $370 thousand received because of the damages caused by Hurricane María, decrease in proceeds from grant – FEMA of approximately $701 thousand, and an overall decrease in the expenses of approximately $323 thousand.

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Condensed program net revenues or expenses and changes in net position (deficit) are presented below:

	Governmental Activities				Business-Type Activities			
	2019	2018	Change	Percentage	2019	2018	Change	Percentage
Revenues:								
Program revenues:								
Operating grants and contributions	$ 39,609,273	$ 4,157,560	$ 35,451,713	852.7%	$ -	$ -	$ -	0.0%
Charges for services	7,689,851	-	7,689,851	100.0%	6,279,632	6,468,428	(188,796)	-2.9%
General revenues (expenses):								
Gains (losses) on investments	17,607,332	45,894,536	(28,287,204)	61.6%	-	-	-	0.0%
Investments earnings	18,231,516	484,045	17,747,471	3666.5%	70,018	17,841	52,177	292.5%
Transfers	2,998,400	-	2,998,400	100.0%	-	-	-	100.0%
Other	-	-	-	0.0%	188,167	1,252,569	(1,064,402)	-85.0%
Total revenues	86,136,372	50,536,141	35,600,231	70.4%	6,537,817	7,738,838	(1,201,021)	-15.5%
Expenses:								
Functions/Programs:								
General government	(1,225,902)	4,002,476	(5,228,378)	-130.6%	-	-	-	0.0%
Contribution to Puerto Rico Highway and Transportation Authority	-	-	-	0.0%	-	-	-	0.0%
Education, aqueduct and sewers, and transportation	9,112,426	390,315	8,722,111	2234.6%	-	-	-	0.0%
Economic development program	135,421	-	135,421	100.0%	-	-	-	0.0%
Recreation and sports	40,322	50,353	(10,031)	-19.9%	-	-	-	0.0%
Edifications	4,455,279	725,920	3,729,359	513.7%	-	-	-	0.0%
Arts and entertainment	-	-	-	0.0%	-	-	-	0.0%
Public safety	-	-	-	100.0%	-	-	-	0.0%
Interest on line of credit		-	-	100.0%	-	-	-	0.0%
Loan principal expense	7,196,685	-	7,196,685	100.0%	-	-	-	0.0%
Bad debt expense	-	-	-	100.0%	-	-	-	100.0%
Loss on due from commonwea	706,916	-	706,916	100.0%	-	-	-	100.0%
Impairment loss on deposits	-	142,067	(142,067)	-100.0%	-	2,996	(2,996)	-100.0%
Interest on long-term debt	84,959,636	92,486,046	(7,526,410)	-8.1%	-	-	-	0.0%
World Plaza Building	-	-	-	0.0%	6,574,423	6,895,273	(320,850)	-4.7%
Impairment loss on deposits		-	-	0.0%	-	-	-	100.0%
Total expenses	105,380,783	97,797,177	7,583,606	7.8%	6,574,423	6,898,269	(323,846)	-4.7%
Increase (decrease) in net position before transfers	(19,244,411)	(47,261,036)	28,016,625	-59.3%	(36,606)	840,569	(877,175)	-104.4%
Beginning deficit	(2,028,543,227)	(1,981,282,191)	(47,261,036)	2.4%	(15,022,528)	(15,863,097)	840,569	-5.3%
Ending deficit	$ (2,047,787,638)	$ (2,028,543,227)	$(19,244,411)	0.9%	$ (15,059,134)	$ (15,022,528)	$ (36,606)	0.2%

Governmental Activities

Revenues – Total revenues increased approximately $35.6 million or 70.4%, mainly due to an increase in contributions from the Commonwealth of approximately $35.5 million, an increase in interest bearing demand deposits of $17.7 million and an increase of $7.7 million in other revenues related to COFINA bonds. In addition, the effect of the total gain on investments for 2019 amounted to approximately $17.6 million, a decrease in gain on investment of $28.3 million from prior year. Due to the fiscal and economic crisis confronted by the Commonwealth, the agency has not received charges for services of approximately $3 million of rent revenues from the tenant ASSMCA (by its Spanish acronym) in the last two years.

Expenses – Total expenses increased approximately $7.6 million or 7.8%, mainly due to an increase in loan principal expense of approximately $7.2 million, decrease in interest expense on long-term debt of approximately $6 million, increases in education, aqueduct and sewers, and transportation expenses of $8.7 million related to construction of new projects, increase in edifications of approximately $3.7 million and a decrease in general government expenses of $6.7 million.

Business-Type Activities

Revenues – Revenues decreased approximately $1.2 million or 15.5%, mainly due to insurance and casualty losses recoveries and a FEMA grant received for the World Plaza Building because of the damages caused by Hurricane María, amounting to approximately $1.3 million received in prior year and decrease in charges for services of approximately $189 thousand. Refer to Note 20 for Federal Emergency Management Agency (FEMA) funds.

Expenses **–** Total expenses decreased approximately $323 thousand or 4.7%, mainly due to a decrease of approximately $459 thousand in operating expenses (mainly utilities), an increase in depreciation expense of approximately $24 thousand, decrease in bad debt expense of approximately $80 thousand, and an increase in interest expense of approximately $194 thousand when compared with the prior fiscal year.

4. GOVERNMENTAL FUNDS RESULTS

General Fund – Total assets in the general fund increased approximately $30.8 million as a direct result of the increase in the fair value of the restricted non-spendable investment in COFINA Bonds of approximately $39.3 million, including interest receivable of approximately $2.4 million and an overall increase in cash and cash equivalents amounting to approximately $30 thousand and decrease in due from Commonwealth of Puerto Rico of $9.3 million due to the settlement with GDB. The fund balance increased from approximately $109.8 million in 2018 to approximately $150.4 million in 2019 or 37%, mostly due to the increase in fair value of the investment in COFINA Bonds.

Revenues in the general fund decreased from approximately $49.5 million in 2018 to revenues of approximately $45 million in 2019, mainly due to an increase in interest bearing demand deposits of $16.8 million, a decrease of approximately $16 thousand in the contributions from the Commonwealth, Increase in other revenues of $4.9 million, and a decrease in fair value of the restricted non-spendable investment in COFINA Bonds of $28.3 million. General government expenditures increased from approximately $3.8 million for 2018 to $12 million in 2019; this was due to repayment of line of credit and interest expense related to the settlement with GDB and cost control measures implemented for the administrative and operating expenses of the Authority.

Capital Projects Fund – Total assets increased from approximately $99.3 million in 2018 to approximately $160.1 million in 2019, or 61.17%. This increase is mainly related to an increase in the restricted cash and cash equivalents of approximately $64.7 million and a decrease in the due from other governmental entities of approximately $3.8 million.

Total liabilities increased from approximately $91.0 million in 2018 to approximately $135.7 million in 2019 or 49.16%. The increase is mainly related to an increase in the due to Commonwealth of approximately $44.8 million, a decrease in the due to other governmental entities of approximately $5.6 million, and an increase in the accounts payable and accrued liabilities of approximately $4.8 million.

Total revenues increased from approximately $1 million in 2018 to approximately $38.1 million in 2019, for an increase of approximately $25 million, mainly driven by an increase in contributions from the Commonwealth of approximately $22.3 million and increase in other revenues of $2.7 million.

Debt Service Fund – Total assets decreased from approximately $3.2 million in 2018 to approximately $3.1 million in 2019, resulting in a decrease of approximately $78 thousand, or 2.4%. The decrease was in cash and cash equivalent balance.

Total liabilities increased from approximately $354.0 million in 2018 to approximately $469.1 million or 33%. The increase is mainly related to an increase in bonds payable of approximately $46.2 million and increase in accrued interest of $68.6 million.

5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles, and buildings. The following is a schedule of the Authority's capital assets activity:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 6,689,828	$ 6,689,828	$ 4,438,534	$ 4,438,534	$ 11,128,362	$ 11,128,362
Construction in progress	3,295,163	2,703,864	-	-	3,295,163	2,703,864
Building	-	-	22,561,474	22,561,474	22,561,474	22,561,474
Building improvements	-	-	4,468,508	3,516,368	4,468,508	3,516,368
Furniture and equipment	1,085,807	1,053,181	983,938	875,512	2,069,745	1,928,693
Vehicles	57,692	57,692	-	-	57,692	57,692
Total capital assets	11,128,490	10,504,565	32,452,454	31,391,888	43,580,944	41,896,453
Less accumulated depreciation and amortization	1,098,441	1,084,041	5,332,153	4,476,175	6,430,594	5,560,216
Capital assets - net	$ 10,030,049	$ 9,420,524	$ 27,120,301	$ 26,915,713	$ 37,150,350	$ 36,336,237

Capital assets reflected a net increase of approximately $814 thousand, mainly due to the increase in construction in progress of approximately $591 thousand related to "Malecon de Santa Isabel" and "Intersección la Muda", certain additions of furniture and equipment related to the World Plaza Building, amounting to approximately $141.1 thousand net of adjustments, additions to building improvements amounting to approximately $952 thousand, and the effect of the depreciation expense for the fiscal year ended June 30, 2019, amounting to approximately $870 thousand.

Debt Outstanding

As of June 30, 2019, the Authority had approximately $2,010 million in long-term and other liabilities, mainly composed of approximately $2,003.1 million of bonds payable (net of premiums and discounts), $41 million of loans payable, and $2.7 million of total pension liability. Total long-term and other liabilities include bonds and loans payable, termination benefits, total pension liability, and accrued compensated absences. Overall, long-term and other liabilities decreased by approximately $3.8 million, mainly as a result of the repayment of $12 million in loans payable and the net effect of the discount accretion and amortization of premiums of approximately $13.2 million.

6. CURRENTLY KNOWN FACTS

Public Finance Corporation (PFC) Notes

The Authority has defaulted on the PFC Notes since fiscal year 2016 due to a non-appropriation of funds for payment of such funds in the annual budget of the Commonwealth. See Note 13 for further details.

Investments

On June 13, 2017, Standard & Poor's Rating Services downgraded the rating of the COFINA subordinated sale tax bonds to D from CC. See Note 6 for further details.

COFINA Plan of Adjustment

On November 29, 2018, the Authority received a notice to elect to receive a Taxable bond distribution. The Authority held "Class 5 Junior COFINA Bond Claims" under the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment) and voted to accept the COFINA Plan of Adjustment. Each holder of a Class 5 Junior COFINA Bond Claim will receive its pro rata share of the "Junior COFINA Bond Distribution," which generally will be a distribution of COFINA's new "Restructured Sales Tax Bonds" equal to 56.41% of the Authority's current holdings. It is expected that these Restructured Sales Tax Bonds primarily will be federally tax-exempt securities.

On January 11, 2019, the Authority made the taxable election to receive the federally taxable securities and the 2.00% cash fee. By making the taxable election, the Authority will get the benefit of receiving the 2.00% cash fee upfront, and, when the securities are subsequently disposed or used for a particular purpose, a tax analysis will be made to determine eligibility, and the federally taxable securities will be converted into federally tax-exempt COFINA Bonds. The federally tax-exempt COFINA Bonds are expected to be more marketable than the federally taxable bonds. Accordingly, it is expected that ERS will have greater optionality to sell the tax-exempt COFINA Bonds in the market and subsequently use the cash proceeds in accordance with its restructuring objectives—e.g., by sale in the open market, settlement with certain of the Authority's current bondholders, or otherwise for any other purpose in accordance with the Authority's organic act.

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which became effective on February 12, 2019. Pursuant to the COFINA Plan of Adjustment, COFINA issued new sales tax revenue bonds in the aggregate amount of approximately $12 billion, and its total outstanding debt was reduced by approximately 32 percent.

Litigation Regarding the 2015A Notes and Proposed Settlement

On April 1, 2019, certain holders of the Series 2015A Bonds filed a complaint, styled Puerto Rico BAN (VL) LLC, et al. v. United States of America, Case No. 19-482C (Fed. Cl. Filed Apr. 1, 2019), currently pending in the United States Court of Federal Claims, seeking a declaratory judgment against the United States of America and just compensation for the alleged unconstitutional taking of the Bondholders' property by the Oversight Board.

On May 1, 2019, the Special Claims Committee of the Oversight Board (the SCC), together with the Statutory Committee of Unsecured Creditors appointed in the Commonwealth Title III case (the Creditors' Committee), filed a complaint, styled The Special Claims Committee of the Financial Oversight and Management Board, et al. v. The Bank of New York Mellon, et al., Adv. Pro. No. 19-00269, currently pending in the Title III Court, with respect to, among other things, the Series 2015A Bonds, payments made with respect to the Series 2015A Bonds and the validity and scope of any liens and security interests asserted by the Trustee and holders of Series 2015A Bonds.

On May 2, 2019, the Oversight Board, the SCC and the Creditors' Committee filed the complaints styled (i) The Financial Oversight and Management Board, et al. v. Ada R. Valdivieso, et al., Adv. Pro. No. 19-00295, and (ii) The Special Claims Committee of the Financial Oversight and Management Board, et al. v. Alan Friedman, et al., Adv. Pro. No. 19-00296, each currently pending in the Title III Court, seeking declaratory relief with respect to the Commonwealth's guarantee of the Series 2015A Bonds and the avoidance of liens, if any, securing such guarantee obligation.

Executive Order

On December 1, 2015, the Governor signed Executive Order No. OE-2015-046, which provided that the Commonwealth would not provide revenues to the Authority in light of the Commonwealth's deteriorating liquidity situation. Pursuant to the Executive Order, certain revenues budgeted to pay debt service on the debt of the Authority were retained by the Commonwealth.

Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Legislature enacted Act No. 21, known as the "Emergency Moratorium and Financial Rehabilitation Act" (the Moratorium Act). The Moratorium Act provides for the following: (a) it authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico (EDB) or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) it amends GDB's Enabling Act to give GDB options and tools that it may need to address in its own resolution (these amendments modernize GDB's Organic Act related to a receivership for GDB, and authorizes the creation of a temporary "bridge" bank to carry on certain of GDB's functions and honor its deposits); (c) it amends the Enabling Act of the EDB to modernize its receivership provisions; and (d) it creates a new fiscal agency and financial authority. As a result, on April 30, 2016, the Governor signed Executive Order 2016-014, declaring the Authority in a state of emergency and providing for a moratorium on the payment of certain of the Authority's obligations.

In addition, since the enactment of the Moratorium Act, the Governor adopted a series of executive orders pursuant thereto, declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth and certain other governmental instrumentalities.

Consequently, the Authority failed to make certain debt service payments. Pursuant to the executive orders referred to above, the Commonwealth retained certain revenues that would have otherwise been transferred to the Authority and other public corporations for the payment of their respective debt obligations. In addition, the Authority was in default in relation to payment of principal and interest related to the following bond series: Series 2005, Series 2006, Series 2007 and BANs 2015A. As of June 30, 2019, the total of unpaid obligations under default amounted to approximately $468.1 million. See Note 12 for further details.

The implementation of the Moratorium Act and its related executive orders has been the subject of ongoing litigation, as discussed further herein in Note 13. Since the commencement of the Commonwealth's Title III case on May 3, 2017, the automatic stay under Title III of PROMESA and the outcome of certain litigations has prevented debt service payments to holders of certain securities issued by the Authority.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

On June 30, 2016, President Obama signed PROMESA into a law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territories. More specifically, PROMESA did the following: (a) it established an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well.

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and other instrumentalities and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members (some of whom have been replaced with new members in the interim).

Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government."

The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board."

(b) *Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

(c) Title III – In-Court Restructuring Process

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

(d) Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment), through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015.

A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 28, 2019, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for "critical projects" as identified by the Revitalization Coordinator.

(f) Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government-related issuer based upon relative priorities.

After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

The Title VI process was successfully implemented to restructure the debts of the GDB. The GDB Title VI process is discussed in more detail below.

(g) Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States."

Commonwealth Title III Process

On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation. All claims against the Commonwealth that arose prior to the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III. As of the date of these financial statements, the Authority is not the subject of a Title III case, however, certain matters in the Commonwealth's Title III case have affected the Authority.

Subsequently from fiscal year end, on January 16, 2020, the monoline insurers (the Monolines) of certain bonds issued by the Authority filed a motion in the Commonwealth's Title III case seeking to terminate or modify the automatic stay in such case, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue, including special revenue taxes generated from rum excise taxes (the Rum Taxes) imposed by the United States federal government. The Monolines assert that the Commonwealth is not entitled to use revenues generated from Rum Taxes, which they assert were pledged to Authority bondholders as collateral, and were the property of either the Authority or Authority bondholders. The motion seeks relief from the automatic stay to pursue enforcement of the bondholders' alleged liens against the Rum Tax revenues in two proceedings outside of the Title III cases. On February 4, 2020, the Oversight Board, as joined by the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), objected to the stay motion. The Monolines filed their reply on April 30, 2020.

On September 9, 2020, the Title III Court denied the lift stay motion, relying, in part, on its prior decision that movants had not established a colorable claim that either bondholders of the Authority (or the Authority itself), are the owners of the Rum Tax revenues, or that bondholders had a security interest in the Rum Tax revenues in the possession of the Commonwealth. On September 23, 2020, the Monolines and certain other parties in interest appealed the Title III Court's denial of the lift stay motion to the First Circuit.

The First Circuit heard oral argument on February 4, 2021, and on March 3, 2021, affirmed the Title III Court's denial of the lift stay motion.

Commonwealth Fiscal Plan

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions.

On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

(i) Human Capital and Welfare Reform
(ii) Ease of Doing Business Reform
(iii) Energy and Power Regulatory Reform
(iv) Infrastructure and Capital Investment Reform
(v) Establishment of the Office of the Chief Financial Officer (CFO)
(vi) Agency Efficiency Measures
(vii) Healthcare Reform
(viii) Tax Compliance and Fees Enhancement
(ix) Reduction in UPR and Municipality Appropriations
(x) Pension Reform
(xi) Fiscal Controls and Transparency

In September 2021, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan for Fiscal Year 2022. According to the Oversight Board's current schedule, a revised fiscal plan is expected to be certified in October 2021. There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

In addition, the Oversight Board must certify an annual budget for the Commonwealth prior to the beginning of each fiscal year based upon the Oversight Board Fiscal Plan (either as currently certified or as subsequently amended and recertified). Accordingly, any appropriations to the Authority in the Commonwealth's annual budget are ultimately subject to Oversight Board approval.

Commonwealth Plan of Adjustment

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and the Public Buildings Authority (PBA) in their respective Title III cases—filed its initial joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement), which was founded upon the pre-COVID-19 economic assumptions contained in the Commonwealth fiscal plan as certified by the Oversight Board on May 9, 2019.

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The Initial Plan incorporated the terms of a restructuring support agreement with the Retiree Committee (the Retiree Committee RSA), in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,200, as well as freezes in pension benefits for teachers and judges.

On February 9, 2020, the Oversight Board announced that it entered into a Plan Support Agreement (the 2020 PSA) with certain Commonwealth general obligation bondholders and PBA bondholders (collectively, the PSA Creditors), which would require revisions to the Initial Plan.

On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] and an amended disclosure statement related thereto [ECF No. 11947], which revised the Initial Plan to conform to the 2020 PSA while retaining the terms of the Retiree Committee RSA. However, due to the national economic shut down caused by the global spread of COVID-19 that has had substantial negative effects on the people and businesses in Puerto Rico, the Oversight Board decided to pause discussion and prosecution of the plan, including re-evaluation of the 2020 PSA.

Throughout 2021, the Oversight Board resumed plan discussions and has since filed several amended plans to incorporate additional settlements with creditors, including the most recently filed Seventh Amended Plan filed on July 30, 2021. The Court is currently scheduled to consider confirmation of the Seventh Amended Plan on November 8, 2021.

The Government has not yet determined whether it will support the Seventh Amended Plan given its view that Government pensioners must be protected and must not receive additional cuts to their pension benefits. The Seventh Amended Plan remains subject to future amendments and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan or any further amended plan.

For additional information, refer to the publicly available Seventh Amended Plan and Seventh Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/ Home-DocketInfo.

GDB's Restructuring Support Agreement and Title VI Process

On November 29, 2018, the Government Development Bank (the GDB or the Bank) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

In accordance with Act No. 109 of August 24, 2017 (the GDB Restructuring Act)—the legislation enacted to facilitate the Qualifying Modification—the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at the GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Authority's deposits at GDB were fully extinguished and the Authority obtained its pro rata share of interests in the PET (which included a total PET claim of approximately $19.9 million).

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of $578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets.

The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. In addition, all or some of the PET Claim includes loans only payable from Commonwealth appropriations. Under the proposed Seventh Amended Plan, the Commonwealth's appropriation obligations (including with respect to such appropriation loans held by the PET) are classified in Class 63 (CW Appropriation Claims) and the Seventh Amended Plan proposes to provide no distribution on account of such claims.

The Seventh Amended Plan is subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan. For additional information on the GDB Qualifying Modification see Note 20.

Act No. 5 of 2017

On January 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Financial Emergency and Fiscal Responsibility Act (Act 5-2017), declaring an emergency period commencing on the effective date of the Act and ending upon May 1, 2017. During such period, Act 5-2017 granted the Governor certain powers to provide services essential for the public health, safety, and welfare of the residents of Puerto Rico. The Act also provided that the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth have been provided for; or (b) the Governor has been ordered to pay debt service by the Oversight Board created under PROMESA or by any other board created under federal law. The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.

On July 19, 2017, the emergency period that prevailed under Act 5-2017 was extended until December 31, 2017, with the enactment into law of Act No. 46-2017. This new legislation allows the Governor to sign executive orders to extend the emergency period for successive periods of six months while the Oversight Board maintains its oversight and operations in Puerto Rico. See Note 20 for further details.

Rating Rationale

On July 1, 2016, Standard & Poor's Rating Services downgraded the Authority's Special Tax Revenue Bonds to a level D rating. On March 2, 2018, Standard & Poor's Rating Services discontinued the unenhanced rating on the Authority's Special Tax Revenue Bonds and Special Tax Revenue Refunding Bonds.

On February 8, 2019, Moody's upgraded the Authority's Special Tax Revenue Bonds to a level Caa3 rating from its previous ratings of Ca.

7. REQUEST FOR INFORMATION

This financial report is designed to provide all interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, PO Box 41207, Minillas Station, San Juan, PR 00940.

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Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents in commercial banks	$ 3,205,159	$ 6,667,144	$ 9,872,303
Accounts receivable, net	303,007	736,202	1,039,209
Due from Commonwealth of Puerto Rico	486,036	-	486,036
Internal balances	308,105	(308,105)	-
Prepaid expenses and other assets	174,384	573,775	748,159
Other	23,481	-	23,481
Restricted assets:			
Cash and cash equivalents in commercial banks	140,564,745	-	140,564,745
Accrued interest receivable	39,336	-	39,336
Investments in debt securities	144,327,031	-	144,327,031
Due from Commonwealth of Puerto Rico	6,547,762	-	6,547,762
Due from other governmental entities	15,820,486	-	15,820,486
Net investment in direct financing lease	34,800,000	-	34,800,000
Capital assets, net:			
Non-depreciable:			
Land	6,689,828	4,438,534	11,128,362
Construction in progress	3,295,163	-	3,295,163
Depreciable assets, net	45,058	22,681,767	22,726,825
Total assets	356,629,581	34,789,317	391,418,898
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on debt refunding	32,703,214	-	32,703,214
Pension related	632,008	-	632,008
Total deferred outflows of resources	33,335,222	-	33,335,222
Total assets and deferred outflows of resources	389,964,803	34,789,317	424,754,120
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION (DEFICIT)			
LIABILITIES:			
Accounts payable and accrued expenses	42,777,749	1,079,190	43,856,939
Accrued interest payable	292,048,054	11,408,111	303,456,165
Due to the Commonwealth of Puerto Rico	90,390,139	-	90,390,139
Due to other governmental entities	2,726,644	-	2,726,644
Liabilities due in one year:			
Compensated absences	115,936	-	115,936
Termination benefits	43,916	-	43,916
Total pension liability	480,525	-	480,525
Loans payable	3,611,108	37,361,150	40,972,258
Bonds payable	244,058,022	-	244,058,022
Liabilities due in more than one year:			
Termination benefits	2,595	-	2,595
Total pension liability	2,219,966	-	2,219,966
Loans payable	37,363	-	37,363
Bonds payable	1,759,070,192	-	1,759,070,192
Total liabilities	2,437,582,209	49,848,451	2,487,430,660
DEFERRED INFLOW OF RESOURCES:			
Pension related	170,232	-	170,232
Total deferred inflow of resources	170,232	-	170,232
NET POSITION (DEFICIT):			
Net investment in capital assets	10,030,049	(2,240,849)	7,789,200
Restricted for:			
Investment in capital appreciation bonds of COFINA	144,327,031	-	144,327,031
Unrestricted	(2,202,144,718)	(12,818,285)	(2,214,963,003)
TOTAL NET POSITION (DEFICIT)	$ (2,047,787,638)	$ (15,059,134)	$ (2,062,846,772)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet-Governmental Funds
June 30, 2019

FUNCTIONS / PROGRAMS	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Charges for Services	Net (expense) / revenue and changes in net position (deficit): Governmental Activities	Business - Type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	$ (1,225,902)	$ 26,459,915	$ 7,689,851	$ 35,375,668	-	$ 35,375,668
Education, aqueduct and sewers, and transportation	9,112,426	-	-	(9,112,426)	-	(9,112,426)
Economic development program	135,421	-	-	(135,421)	-	(135,421)
Recreation and sports	40,322	-	-	(40,322)	-	(40,322)
Edifications	4,455,279	-	-	(4,455,279)	-	(4,455,279)
Loan principal expense	7,196,685	-	-	(7,196,685)	-	(7,196,685)
Loss on due from Commonwealth	706,916	-	-	(706,916)	-	(706,916)
Recovery on deposits held on GDB	-	13,149,358		13,149,358	-	13,149,358
Interest on long-term debt	84,959,636	-	-	(84,959,636)	-	(84,959,636)
Total governmental activities	105,380,783	39,609,273	7,689,851	(58,081,659)	-	(58,081,659)
BUSINESS - TYPE ACTIVITIES:						
World Plaza Building	6,574,423	-	6,279,632	-	(294,791)	(294,791)
Recovery on deposits held with GDB	-	2,998,400	-	-	2,998,400	2,998,400
Total	$ 111,955,206	$ 42,607,673	$ 13,969,483	(58,081,659)	2,703,609	(55,378,050)
GENERAL REVENUES:						
Change in fair value in investments-net				17,607,332	-	17,607,332
Investment earnings				18,231,516	70,018	18,301,534
Other revenues				-	188,167	188,167
Transfers				2,998,400	(2,998,400)	-
CHANGE IN NET POSITION (DEFICIT)				(19,244,411)	(36,606)	(19,281,017)
NET POSITION (DEFICIT) - Beginning of year				(2,028,543,227)	(15,022,528)	(2,043,565,755)
NET POSITION (DEFICIT) - End of year				$ (2,047,787,638)	$ (15,059,134)	$ (2,062,846,772)

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet-Governmental Funds
June 30, 2019

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents in commercial banks	$ 3,205,159	$ -	$ -	$ 3,205,159
Due from other governmental entities	303,007	-	-	303,007
Due from other funds	3,452,470	493,439	3,000	3,948,909
Due from Commonwealth of Puerto Rico	142,948	-	-	142,948
Other	23,481	-	-	23,481
Restricted assets:				
Cash and cash equivalents in commercial banks	-	140,491,115	73,630	140,564,745
Accrued interest receivable	-	39,336	-	39,336
Investments	144,327,031	-	-	144,327,031
Due from other governmental entities	-	15,820,486	-	15,820,486
Due from Commonwealth of Puerto Rico	236,022	3,238,990	3,072,750	6,547,762
	$ 151,690,118	$ 160,083,366	$ 3,149,380	$ 314,922,864

Continues

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet-Governmental Funds
June 30, 2019

Continued

	General Fund		Capital Projects Fund		Debt Service Fund		Total Governmental Funds
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable and accrued liabilities	$	880,417	$	-	$	10,435	$	890,852
Liabilities payable from restricted assets:								
Loans payable		-		-		373,826		373,826
Bonds payable		-		-		209,730,000		209,730,000
Accrued interest payable		-		-		259,009,161		259,009,161
Accounts payable and accrued liabilities		236,022		39,157,342		-		39,393,364
Due to Commonwealth of Puerto Rico		-		90,390,139		-		90,390,139
Due to other governmental entities		-		2,726,644		-		2,726,644
Due to other funds		201,455		3,439,349		-		3,640,804
Total liabilities		1,317,894		135,713,474		469,123,422		606,154,790
FUND BALANCES:								
Non-spendable		144,327,031		-		-		144,327,031
Restricted for Capital Projects		-		24,369,892		-		24,369,892
Unassigned		6,045,193		-		(465,974,042)		(459,928,849)
Total fund balances		150,372,224		24,369,892		(465,974,042)		(291,231,926)
	$	151,690,118	$	160,083,366	$	3,149,380	$	314,922,864

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2019

FUND BALANCES - GOVERNMENTAL FUNDS		$ (291,231,926)
Amounts reported for governmental activities in the statement of net position (deficit) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These amounts are:		
Non-depreciable capital assets	9,984,991	
Depreciable capital assets, net	45,058	10,030,049
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds	174,384	174,384
Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Net investment in direct financing lease	34,800,000	34,800,000
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Deferred charges on debt refunding	32,703,214	
Pension related	632,008	33,335,222
Deferred inflows of resources are not reported in the funds		
Pension related	(170,232)	
Due from Commonwealth	343,088	172,856
Liabilities, including bonds payable, loans payable, net pension liability, and accrued interest payable are not due and payable currently and, therefore, are not reported in the funds		
Bonds and loans payable	(1,796,672,859)	
Total pension liability	(2,700,491)	
Accrued legal expenses	(2,493,533)	
Accrued interest payable	(33,038,893)	
Termination benefits	(46,511)	
Compensated absences	(115,936)	(1,835,068,223)
DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (2,047,787,638)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2019

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Intergovernmental revenues:				
Contributions from Commonwealth of Puerto Rico	$ 3,583,740	$ 22,876,175	$ -	$ 26,459,915
Interest and investment income:				
Interest bearing demand deposits	16,802,863	1,427,492	1,161	18,231,516
Change in fair value in investments-net	17,607,332	-	-	17,607,332
Charges for services	17,043	-	-	17,043
Recovery on deposits held on GDB	2,080,574	11,068,784	-	13,149,358
Other	4,952,943	2,719,865	-	7,672,808
Total revenues	45,044,495	38,092,316	1,161	83,137,972
EXPENDITURES:				
Current:				
General government	2,575,691	939,687	-	3,515,378
Education, aqueduct and sewers and transportation	-	9,112,426	-	9,112,426
Economic development program	-	135,421	-	135,421
Recreation and sports	-	40,322	-	40,322
Edifications	-	1,961,746	-	1,961,746
Principal on line of credit	7,196,685	4,779,941	-	11,976,626
Maturing bonds and loans	-	-	46,572,432	46,572,432
Interest	2,213,408	-	68,577,325	70,790,733
Capital outlays:				
General government	32,626	-	-	32,626
Education, aqueduct and sewers, and transportation	-	476,960	-	476,960
Recreation and sports	-	114,339	-	114,339
Total expenditures	12,018,410	17,560,842	115,149,757	144,729,009

Continues

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2019

Continued	**General Fund**	**Capital Projects Fund**	**Debt Service Fund**	**Total Governmental Funds**
REVENUES OVER (UNDER) EXPENDITURES	33,026,085	20,531,474	(115,148,596)	(61,591,037)
OTHER FINANCING SOURCES:				
Transfers in	9,853,789	5,356,778	-	15,210,567
Transfers out	(2,268,903)	(9,853,789)	(89,475)	(12,212,167)
Total other financing sources	7,584,886	(4,497,011)	(89,475)	2,998,400
NET CHANGES IN FUND BALANCES	40,610,971	16,034,463	(115,238,071)	(58,592,637)
FUND BALANCES - beginning of year	109,761,253	8,335,429	(350,735,971)	(232,639,289)
FUND BALANCES - end of year	$ 150,372,224	$ 24,369,892	$ (465,974,042)	$ (291,231,926)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance – Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are:	
Capital outlays	623,925
Depreciation expense	(14,400)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were:	
Principal payments	4,779,941
Deferred charges on debt refunding	(3,633,960)
Amortization of bonds premium, net	(13,198,882)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount includes:	
Long term debt	46,572,432
Total pension liability	(4,964,511)
Accrued expenses	2,553,041
Pension expense	4,586,122
Loss on due from Commonwealth	(706,916)
Insurance expense	87,495
Accrued interest expense	2,663,939
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) – Proprietary Fund
June 30, 2019

		Business -Type Activities
ASSETS:		
Current assets:		
Cash and cash equivalents in commercial banks	$	6,667,144
Accounts receivable, net		736,202
Prepaid expenses		573,775
Total current assets		7,977,121
Non current assets:		
Capital assets, net:		
Nondepreciable:		
Land		4,438,534
Depreciable, net		22,681,767
Total assets	$	35,097,422
LIABILITIES AND NET POSITION (DEFICIT):		
Current liabilities:		
Accounts payable and accrued expenses	$	1,079,190
Accrued interest payable		11,408,111
Line of credit		37,361,150
Due to other funds		308,105
Total current liabilities		50,156,556
NET POSITION (DEFICIT):		
Net investment in capital assets		(2,240,849)
Deficit		(12,818,285)
TOTAL NET DEFICIT	$	(15,059,134)

The accompanying notes are an integral part of these basic financial statements.

		Business -Type Activities
ASSETS:		
Current assets:		
Cash and cash equivalents in commercial banks	$	6,667,144
Accounts receivable, net		736,202
Prepaid expenses		573,775
Total current assets		7,977,121
Non current assets:		
Capital assets, net:		
Nondepreciable:		
Land		4,438,534
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NET POSITION (DEFICIT):		
Net investment in capital assets		(2,240,849)
Deficit		(12,818,285)
TOTAL NET DEFICIT	$	(15,059,134)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

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Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2019

	Business -Type Activities
Cash flows from operating activities:	
Receipts from customers and users	$ 3,064,052
Recovery on deposits held on GDB	2,998,400
Payments to suppliers	(3,290,095)
Net cash provided by operating activities	2,772,357
Cash flows from non-capital and related financing activities:	
Other Income	8,167
Advances from other funds	4,199
Net cash provided by non-capital and related financing activities	12,366
Cash flows from capital and related financing activities:	
Proceeds from insurance	180,000
Capital expenditures, net	(1,060,566)
Net cash used in capital and related financing activities	(880,566)
Cash flows from investing activities:	
Interest collected on deposits, investments and loans	70,018
Net cash provided by investing activities	70,018
Net change in cash and cash equivalents	1,974,175
Cash and cash equivalents, at beginning of year	4,692,969
Cash and cash equivalents, at end of year	$ 6,667,144
Cash and cash equivalents include:	
Cash and cash equivalents in commercial banks	$ 6,667,144
	$ 6,667,144
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 5,200,579
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	855,978
Transfer to other funds	(2,998,400)
Changes in operating assets and liabilities:	
Increase in accounts and loans receivable	(217,180)
Increase in prepaid expenses	(3,408)
Increase in accounts payable and accrued liabilities	(65,212)
Total adjustments	(2,428,222)
Net cash provided by operating activities	$ 2,772,357

The accompanying notes are an integral part of these basic financial statements.

1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 44 of June 21, 1988, as amended (Act No. 44) and an affiliate of the Government Development Bank for Puerto Rico (GDB), another Component Unit of the Commonwealth. On March 23, 2018, GDB ceased its operations, and it is currently winding down in an orderly fashion under Title VI of PROMESA. The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The accompanying financial statements present the net position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) for governments as prescribed by the Governmental Accounting Standard Board (GASB).

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

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

Government-Wide Financial Statements – The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities.

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

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- *Restricted* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the assets result from a resource flow that also results in the recognition of a liability or if a liability will be liquidated with the restricted assets reported.
- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

Statement of activities demonstrates the degree to which the expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Certain indirect costs have been allocated and are reported as direct program expenses of individual functions or programs. Program revenues include: (1) interest and investment income, including the changes in the fair value of investments; (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function; and (3) certain charges for services to customers that purchase, use or directly benefit from services given by a particular function. Other items not meeting the definition of program revenue are instead reported as general revenue.

Governmental Funds Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are considered major funds.

Governmental Funds

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

- ***General Fund*** – The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- ***Capital Projects Fund*** – The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.
- ***Debt Service Fund*** – The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Proprietary Funds

These funds account for those activities that are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public. The only major proprietary fund is the World Plaza Building Fund, which is used to account for the activities related to the rental of office space and parking lots.

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Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements – The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred. However, principal and interest on long term debt, loans and notes payable are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt, notes and loans and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements – The basic financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements. The proprietary fund accounts for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenue is generated from rental, investing, and other related activities. Operating expenses include general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash Equivalents – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less.

Investments – To the extent available, the Authority's investments, except for money market investments, which use a cost base measure, are recorded at fair value as of June 30, 2019. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

Restricted Assets – Certain resources are set aside for the repayment of bonds payable, construction of capital projects and other purposes. All of these assets are classified as restricted assets on the accompanying statement of net position (deficit) and governmental funds balance sheet because these resources are limited for these purposes by applicable agreements.

Direct Financing Lease – Aggregate rental payment due over the term of the lease less unearned income are included in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

Capital Assets – Capital assets include land, construction in progress, buildings, furniture and equipment, vehicles, and building improvements. The threshold for capitalizing furniture and equipment, vehicles, and building improvements is $750. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair value at the time received. Capital assets and related depreciation are recognized in the government-wide financial statements and proprietary funds financial statements. Depreciation is determined using the straight-line method over the related asset's estimated useful lives. There is no depreciation recorded for land and construction in progress. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized.

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The ranges of the useful lives are as follows:

Description	Years
Building	40
Building improvements	15
Furniture and equipment	3–5
Vehicles	3–5

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are expensed.

Capital assets are evaluated for impairment, using the guidance provided by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage, among others. The Authority's management determined that there were no impairment losses for the year ended June 30, 2019.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position (Deficit) reports 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 will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category in the government-wide Statement of Net Position (Deficit): (i) the deferred amount on refunding debt, and (ii) certain pension-related items. Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense. In relation to the pension related items, which are related with the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68,* the changes in proportional share of contributions and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date according to the requirements of GASB Statement No. 71. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the Statement of Net Position reports 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 and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category in the government-wide Statement of Net Position (Deficit), which is related to certain pension-related items (GASB Statement No. 73).

Changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. There were no deferred inflows of resources at the governmental funds level.

Long-term debt obligations – In the government-wide financial statements, long-term debt obligations include bonds payable, due to Commonwealth of Puerto Rico and due to other governmental entities.

Compensated Absences – Based on the provisions of Act No. 26 of April 29, 2017, known as the Fiscal Plan Compliance Act (Act No. 26-2017), employees earn vacation benefits at a rate of 15 days per year, with 60 days as the maximum permissible accumulation at the end of any natural year. In addition, employees accumulate sick leave at the rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year. After the enactment of Act No. 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sick leave balances are no longer liquidated upon employment termination, as provided by Act No. 26-2017. The Authority records as a liability and as expense the vested accumulated vacation benefits accrued to employees, as provided by Act No. 26-2017. No accrual is recognized as related to sick leave. Accrued vacation as of June 30, 2019, amounted to $111,499.

Bond Premiums/Discounts – In the government-wide financial statements, premiums and discounts related to long-term debt are deferred and are amortized or accreted over the life of the related debt, using systematic and rational methods that approximate the interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, Dedicated Tax Revenue Bonds Anticipation Notes, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements are shown net of unamortized premium or discount.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued, as well as any related premium is reported as other financing source while discounts on debt issuances are reported as other financing use. Issuance costs are recorded as expenditures when paid.

Interfund Transactions – The Authority has the following types of interfund transactions:

- **Loans** – Represent amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender fund and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by the nonspendable fund balance, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.
- **Reimbursements** – Represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- **Transfers** – Represent flow of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Fund Balance – Fund balances for each governmental fund are displayed into the following classifications, when applicable, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable** – Amounts that cannot be spent because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.
- **Committed** – Amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned** – Amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- **Unassigned** – Represent the residual classification for the general funds, and includes all spendable amounts not contained in the other classifications. In the other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted.

For classification of governmental fund balances, the Authority considers expenditures to be made from restricted resources first, then in the following order: committed, assigned, and unassigned resources.

The Authority has no committed or assigned fund balances.

Risk Management – The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority evaluates the information regarding all property owned and the respective replacement values, and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2019 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Accounting for Pension Costs – For purposes of measuring the total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Termination Benefits – The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

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A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Future accounting pronouncements – GASB has issued the following accounting pronouncements that have effective dates after June 30, 2019:

- **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. The requirements of this Statement were to be effective for reporting periods beginning after June 15, 2018. Earlier application was encouraged. As amended by GASB statement No. 95, effective date is postponed by 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. The requirements of this Statement were to be effective for reporting periods beginning after December 15, 2018. Earlier application was encouraged. As amended by GASB statement No. 95, effective date is postponed by one year.

- **GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. As amended by GASB statement No. 95, effective date is postponed by 18 months.

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- **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 (i) unused lines of credit; (ii) assets pledged as collateral for the debt; and (iii) terms specified 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 debt. The requirements of this Statement were to be effective for reporting periods beginning after June 15, 2018. Earlier application was encouraged. As amended by GASB statement No. 95, effective date is postponed by one year.

- **GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.*** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. As amended by GASB statement No. 95, effective date is postponed by one year.

- **GASB Statement No. 90*, Majority Equity Interests.*** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement were to be effective for reporting periods beginning after December 15, 2018. Earlier application was encouraged. As amended by GASB statement No. 95, effective date is postponed by one year.

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

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

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

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

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

This Statement achieves its objective by:

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

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement were to be effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR. As amended by GASB Statement No. 95, effective date is postponed by one year.

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

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

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

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

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

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

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

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

  The requirements of this Statement are effective immediately.

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

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

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

  The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67 or paragraph 3 of Statement No. 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 requirements 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.*

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

3. UNCERTAINTY

Governmental Activities – The accompanying Statement of Net Position (Deficit) presents an accumulated deficit of approximately $2 billion. This situation occurs because the Authority's normal operation is to issue long-term debt to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other component units and will be funded by the Commonwealth with future appropriations. Accordingly, the Authority is completely dependent on the Commonwealth to effectively reverse its deficit position. Current cash flow shortage and liquidity uncertainties affecting the Commonwealth and events in the Commonwealth's Title III case, and activities pertaining to the Commonwealth's Fiscal Plan and Budget could have a significant impact on the Authority's continuing operations and its ability to pay obligations as they become due. See notes 12, 13 and 20 for further details.

Business-type Activities – The accompanying statement of net position presents an accumulated deficit of approximately $15.1 million. This situation occurs mainly due to the debt issued to acquire and refurbish the World Plaza building and other costs incurred in connection with the acquisition of the building, that by their nature were not considered capital assets, and the net effect of the depreciation of capital assets. During fiscal year 2019, overall operations continue to deteriorate as a direct result of decrease in rent income and increase in interest expense related to the line of credit since the Authority did not make any payments of principal or interest during the year. As a result, on September 16, 2020 the building was transferred to GDB in full satisfaction of the loan. Refer to Note 20 for subsequent event.

Management Plan

Management recognizes the financial situation of the Authority and the consequences it may have on its future operations and capacity to meet its obligations. Commonwealth's financial crisis has been the main cause of the Authority's financial situation. At this time, the Authority depends entirely on the decisions made by the Commonwealth, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), and/or the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), related to the restructuring of the Authority's long-term obligations.

In addition, the Authority's financial situation is directly impacted by the Oversight Board Fiscal Plan and appropriations allocated under annual Commonwealth budgets. As discussed in Note 6, the Oversight Board certified the Oversight Board Fiscal Plan for the Commonwealth on April 23, 2021, but is subject to a revision process in which the Oversight Board is expected to certify a new fiscal plan for the Commonwealth in October 2021. There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. In addition, the Oversight Board must certify an annual budget prior to the beginning of each fiscal year based upon the Oversight Board Fiscal Plan. Accordingly, any appropriations to the Authority in the Commonwealth's annual budget are ultimately subject to Oversight Board approval. Refer to Note 20 for the Authority's Title IV Process.

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4. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits might not be recovered. However, the Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained at Economic Development Bank (EDB) are exempt from the collateral requirement established by the Commonwealth and thus represent custodial credit risk that in the event of EDB's failure, the Authority may not be able to recover these deposits. As of June 30, 2019, the Authority does not have cash in EDB. EDB is a component unit of the Commonwealth. The balance and carrying amount of the Authority's accounts with commercial banks as of June 30, 2019, amounted to $150.9 million.
As of June 30, 2019, the Authority's cash and cash equivalents are as follows:

	Cash and Cash Equivalents as of June 30, 2019			
	Governmental Activities		Business-Type Activities	
Description	Book Balance	Bank Balance	Book Balance	Bank Balance
Unrestricted:				
Cash in commerical banks	$ 3,205,159	$ 3,204,252	$ 6,667,144	$ 6,705,503
Restricted:				
Cash in commerical banks	118,157,717	118,533,676	-	-
Money market funds	22,407,028	22,407,028	-	-
	$ 143,769,904	$ 144,144,956	$ 6,667,144	$ 6,705,503

Restricted Funds relates to governmental agencies for the purpose of capital projects development.

After Hurricane Maria, the Authority was eligible to receive funds under the Federal Emergency Management Agency (FEMA) Public Assistance Program (PA). FEMA approved reimbursement claims to the Authority related to Debris Removal (Category A) and Emergency Measures (Category B) performed in the Work Plaza Building in the amount of $701 thousand received on May 2018. The approved funds are classified as unrestricted to be used only for the Authority's operations and were transferred to an account in Banco Popular of Puerto Rico and have not been obligated at this time.

5. PUBLIC ENTITY TRUST CLAIM RECEIVABLE

The Authority was historically authorized to deposit funds in Government Development Bank (GDB) and/or in the custody of financial institutions approved by the Commonwealth. The Commonwealth's regulations required domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage. GDB was historically exempt from collateral requirements established by the Commonwealth. On March 23, 2018, GDB ceased its operations.

On November 6, 2018, the United States District Court for the District of Puerto Rico approved the Qualifying Modification pursuant to section 601(m)(2) of PROMESA, and the Qualifying Modification became effective as of November 29, 2018.

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to the Title VI Qualifying Modification. Under the Qualifying Modification, holders of the GDB Senior Notes and certain deposit claims against GDB (each a Participating Bond Claim) exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA)—and 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.

In addition, as discussed above, under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and each Non-Municipal Government Entity, including the Authority, and the GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.
Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in the Public Entity Trust (the PET), which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The PET Assets consist of, among other items, the PET Claim (i.e. an unsecured claim of $578 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. All or some of the PET Claim includes loans only payable from Commonwealth appropriations.

Under the proposed Seventh Amended Plan, the Commonwealth's appropriation obligations (including with respect to such loans held by the PET) are classified in Class 63 (CW Appropriation Claims) and the Seventh Amended Plan proposes to provide no distribution on account of such claims.

The Seventh Amended Plan is subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan.

Pursuant to PROMESA, the Qualifying Modification is valid and binding on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of Participating Bond Claims, and any trustee, any collateral agent, any indenture trustee, any fiscal agent, and any bank that receives or holds funds related to such Participating Bonds. The Qualifying Modification, including all settlements, compromises, releases, discharges, and injunctions, were deemed by the District Court to be full, final, complete, binding, and conclusive as to the Commonwealth, all Commonwealth instrumentalities, and any creditors of such entities, and shall not be subject to any collateral attack or other challenge by any such entities in any court or other forum. Claims that the Commonwealth and other governmental entities may have had against GDB, including the Authority, have been released pursuant to the GDB Restructuring Act.

As a result, pursuant to the terms of the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Authority and GDB were determined by applying the balance of the Authority's deposits at GDB against the outstanding balance of any loan the Authority owed GDB. Based on this adjustment, all deposits that the Authority held at GDB were extinguished as of the closing of the Qualifying Modification, and the Authority received a claim against the PET in the amount of approximately $19 million.

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Description	Balance as of June 30, 2019	Allowance of Doubtful Accounts	Book Balance
PET Claimed balance	$ (19,010,794)	$ (19,010,794)	$ -

6. INVESTMENTS

In accordance with investment guidelines promulgated under Act No. 113 of August 3,1995, and Executive Order 1995-50A (the Investment Guidelines), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt

The Investment Guidelines also establish other limitations and guidelines. Investments related to bond issuances are purchased in accordance with the related bond indenture.

The investment in COFINA capital appreciation bonds (which, as described below were discharged as part of COFINA's Title III proceeding) was a permanently restricted investment, which the Authority could not dispose of without certain permissions. In addition, the Authority is not allowed to use the interest earned to support its programs. Refer to Note 20 for subsequent events related to COFINA bonds.

Fair value of investments based on the hierarchy of inputs are determined as follows:

	Fair Value	**Classification Level**
Investments by Fair Value Level		
Debt Securities:		
Cofina Revenue Bonds, Junior Subordinate, Series 2011 A	$ 144,327,031	2

Debt securities classified in Level 2 are valued using prices quoted in active markets for those securities. Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The investment in Sales Tax Revenues Bonds Junior Subordinate, Series 2011A, issued by COFINA, are not subject to redemption prior to maturity; maturity dates range from August 1, 2046, to August 1, 2050. The Authority may not dispose of this investment or its earnings, unless approved by the Legislature of Puerto Rico.

The credit quality ratings for investments as of June 30, 2019, are as follows:

	Credit Risk Rating	
Counterparty	**Standard & Poor's**	**Moody's**
U.S. Bank Trust National Association	AA-	A1
Government Development Bank of Puerto Rico	N/R	WR
Federated Prime Obligations	AAAm	Aaa-mf
Money Market Funds	AAAm	Aaa-mf
COFINA Revenue Bonds Junior/Sub. Series 2011 A	N/R	Caa3

The credit quality rating for time deposits are based on the credit quality ratings of the counterparties with whom those contracts are entered. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Since June 2016, upon the enactment of PROMESA, the Oversight Board is the entity which evaluates any financing determination of the Commonwealth of Puerto Rico and its components units.

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth of Puerto Rico "Commonwealth" by filing a petition for relief under Title II of PROMESA in the Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, followed with a similar filing in the Title III Court.

Questions regarding the Commonwealth and COFINA's respective ownership interests in the SUT revenue pledged as collateral for the then-existing COFINA bonds were at the center of the Title III cases since their commencement in May 2017. Resolution of this Commonwealth-COFINA Dispute was essential in order for Puerto Rico's debt restructuring to move forward.

On January 9, 2019, the Oversight Board filed its Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment). The COFINA Plan of Adjustment proposed, among other things, to release the Commonwealth from all liability from claims and causes of action held by any creditor of COFINA (solely in its capacity as a creditor of COFINA) arising from or relating to the relationship of the Commonwealth and COFINA. The COFINA Plan of Adjustment can be found at: www.cofina.pr.gov.

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On January 16 and 17, 2019, the Title III Court held a hearing to confirm the COFINA Plan of Adjustment and to approve Motion Pursuant to Bankruptcy Rule 9019 for Order Approving Settlement Between Commonwealth of Puerto Rico and Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 4067] (the Settlement Motion), which proposed a settlement of the Commonwealth-COFINA Dispute pursuant to a settlement agreement (the Settlement Agreement), attached to the Settlement Motion as Exhibit A Proposed Order, Schedule I. The Settlement Agreement was consistent with the Agreement in Principle (as defined above). On February 4, 2019, the Title III Court entered an order granting the Settlement Motion and approving the Settlement Agreement.

On February 5, 2019, the Title III Court entered (i) the Amended Memorandum of Findings of Fact and Conclusions of Law in Connection with Confirmation of the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 13-3283, Docket No. 5053] (the Findings and Conclusions) and (ii) the Amended Order and Judgment Confirming the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 5055] (the Confirmation Order). Pursuant to the Findings and Conclusions and the Confirmation Order, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019 (the Effective Date), the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

Pursuant to the Settlement Motion approved in the Commonwealth's Title III case by the Settlement Order and through the COFINA Plan of Adjustment confirmed in the Title III Case, the Title III Court found the split of the Pledged Sales Tax Base Amount into a 53.65% portion (i.e., the COFINA Revenues), which the Corporation receives, and a 46.35% portion, which the Commonwealth receives, to be consistent with the Agreement in Principle. Moreover, pursuant to articles 1.4 and 2.1(c) of the COFINA Plan of Adjustment, several litigation actions and claims and causes of action asserted therein have been dismissed with prejudice on the Effective Date of the COFINA Plan of Adjustment (February 12, 2019) pursuant to the Settlement Order and the Confirmation Order.

The Confirmation Order and Findings and Conclusions confirmed the COFINA Plan of Adjustment, which authorized the issuance of approximately $12 billion in principal amount of the New COFINA Bonds, cancelled the then-outstanding bonds, and discharged the related liability. The Confirmation Order and Findings and Conclusions also provided the following enumerated protections for the New COFINA Bonds. Specifically, the Confirmation Order provisions include: (i) the New COFINA Bonds "constitute valid, binding, legal and enforceable obligations of" COFINA; (ii) the COFINA Revenues are property of the new issuer "free and clear of all liens, claims, encumbrances, and any other interests of creditors of the old issuer, the new issuer, the Commonwealth, or any instrumentality of the Commonwealth, other than the liens granted" hereunder; (iii) the COFINA Revenues shall not be "available resources" or "available revenues" of the Commonwealth; and (iv) retention of Title III Court jurisdiction to ensure protection and enforcement of legal framework and security pledges.

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Consummation of the COFINA Plan of Adjustment together with the enactment of Act No. 241-2018 quieted the Authority's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The COFINA Plan of Adjustment and Act No. 241-2018 provide for the reduction of the principal amount of the Authority's bonds and clarify the Authority's ownership of the COFINA Revenues. They further provide for the Authority's financial and operating independence from the Commonwealth by establishing independent standing for the Authority's operations.

Certain parties whose objections were overruled in confirming the COFINA Plan of Adjustment filed Notices of Appeal in the Title III Court. Two of the appeals were docketed with the United States Court of Appeals for the First Circuit (the First Circuit) under case numbers 19-1181 and 19-1182 (the Initial Appeals), which were filed by certain of COFINA's junior bondholders, including Mark Elliott, Peter Hein, Lawrence Dvores, and a group comprised of René Pinto Lugo, Rep. Manuel Natal Albelo, Movimiento de Concertación Ciudadana Inc. (VAMOS), Unión de Empleados de Oficina y Profesionales de la Autoridad de Edificios Públicos, Unión Insular de Trabajadores Industriales y Construcciones Eléctricas Inc., Unión Independiente de Empleados de la Autoridad de Acueductos y Alcantarillados, Unión de Empleados de Oficina Comercio y Ramas Anexas, Puertos, Unión de Empleados Profesionales Independientes, Unión Nacional de Educadores y Trabajadores de la Educación, Asociación de Inspectores de la Educación, and Asociación de Inspectores de Juegos de Azar (collectively, the Appellants).

On April 12, 2019, Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Oversight Board filed a motion to dismiss the Initial Appeals as equitably moot, arguing that because the appellants failed to seek a stay of the COFINA Plan of Adjustment pending appeal and the COFINA Plan of Adjustment was substantially consummated on February 12, 2019, it would be unfair to innocent third parties to unwind the hundreds of transactions completed to adjust approximately $17.64 billion of COFINA debt. On August 7, 2019, the First Circuit denied the motion to dismiss the Initial Appeals without prejudice to reconsideration by the panel that will decide the appeal on the merits. The Appellants filed their opening briefs on November 7, 2019. The Oversight Board and FAFAA filed an opening brief on February 14, 2020. The First Circuit granted the appellants' request to file their reply brief by April 30, 2020.

In addition, seven state-chartered Puerto Rico credit unions, known as cooperativas (the Cooperativas), filed a separate Notice of Appeal in the Title III Court and amended an adversary complaint previously filed in the Title III Court, in response to the confirmation of the COFINA Plan of Adjustment and after their motion to reconsider the confirmation of the COFINA Plan of Adjustment was denied by the Title III Court. This appeal is docketed with the First Circuit under case number 19-1391. On June 28, 2019, FAFAA and the Oversight Board filed a motion to dismiss the Cooperativas appeal as equitably moot on a similar basis as argued in the motion to dismiss the Initial Appeals. On October 4, 2019, the First Circuit denied the motion to dismiss the Cooperativas appeal without prejudice to reconsideration by the First Circuit panel that will decide the appeal on the merits. On December 4, 2019, the Cooperativas filed its opening brief, which was refiled on December 23, 2019 in compliance with a First Circuit order to file a conforming brief. The Oversight Board and FAFAA filed an opening brief on February 21, 2020. The First Circuit granted the appellants' request to file their reply brief by April 30, 2020.

Accordingly, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity of the amendments made by Act No.241-2018 and the validity or enforceability of the Indenture and the New COFINA Bonds.

In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds issued by COFINA in accordance with the COFINA Plan of Adjustment with a face value of approximately $12 billion on account of their approximately $18 billion in pre-Title III claims.

Also, several insurance companies (mono-lines) provided funds to cover acceleration and commutation payments to holders of COFINA's existing bonds that were insured by such insurance companies. Such holders chose to accept such payments rather than receive an interest in new COFINA bonds. The amount of such payments was approximately $339 million and the effect of deposits and disbursements was zero.

The Authority has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019. Upon confirmation of the COFINA Plan of Adjustment by the Title III Court, the pre-petition liabilities that were subject to the plan were discharged and the Authority was bound to the new and lower debt repayment terms set forth in the COFINA Plan of Adjustment. Deferred charges related to discharged debt obligations were eliminated from the fiscal year 2019 financial statements.

Also, the amount of approximately $1,142.6 million was paid to bondholders from the funds held by trustee under the interplead order as part of the Commonwealth-COFINA dispute. Also, the amount of $61 million was applied or paid to settle a swap agreement; from which approximately $50 million came from a restricted account held by COFINA in which collateral was deposited for the benefit of the swap counterparty and $11 million cash payment from the funds held by the trustee under the Interpleader Order (as defined in Note 14).

Also, the Court assigned a maximum amount of $100,000 to distribute among unsecured creditors. This amount was recorded as a liability in the governmental funds balance sheet and the statement of net deficit as of June 30, 2019.

7. DUE FROM OTHER GOVERNMENTAL ENTITIES

Accounts receivable presented in Balance Sheet - Governmental Funds as of June 30, 2019, are as follows:

Description	General Fund	Capital Projects Fund	Total
Due from other governmental entities	$ 303,007	$ 15,820,486	$ 16,123,493

In December 2011, the Authority entered into an Agreement with the Municipality of San Juan (the Municipality) to sell a parcel of land owned by the Authority for $5 million. Pursuant to provisions set forth by this agreement, the Municipality committed to settle a legal claim against the Authority in the amount of approximately $3.7 million and to pay the remaining $1.3 million in three equal installments, which were due at the date of closing, in July 2012 and in July 2013. As of June 30, 2019, accounts receivable due from the Municipality related to this transaction amounted to $381,956. Receivables from other governmental entities are related to construction projects managed by the Authority.

8. ACCOUNTS RECEIVABLE - BUSINESS TYPE ACTIVITY

The Authority earns income from the leasing of office space in the World Plaza Building. The World Plaza Building is a commercial space building owned by the Authority that is located in San Juan, Puerto Rico, with approximately 368,585 square feet available for rent. The occupancy rate is 99%. Rental income is accounted as it is earned, and the related expenses as incurred.

Accounts receivable, net, presented as of June 30, 2019, in the Statement of Net Position (Deficit) – in the amount of $736 thousand is composed of rent and related receivables, net of allowance for doubtful accounts of $2.3 million.

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2019:

Fiscal Year Ending June 30,	Amount
2020	$ 6,270,849
2021	1,549,509
Total minimum future rentals	$ 7,820,358

Refer to Note 20 for subsequent events related to the World Plaza Building.

9. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities known as the MEPSI Center located in the Municipality of Bayamón. Concurrent with the transaction, the Authority assumed a loan payable to GDB for $34,225,725 and entered into a lease agreement (the Lease Agreement) with the Mental Health and Anti-Addiction Services Administration (MHAASA).

On October 24, 2007, the Authority issued $39,800,000 in Revenue Bonds, Series 2007 A, and $3,530,000 in Series 2007 B (collectively, the Series 2007 Bonds). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay the GDB loan related to the acquisition of the MEPSI Center. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to GDB amounting to $3,305,780.

As part of the transaction, the Authority entered into a trust agreement with Banco Popular de Puerto Rico (the Trustee), pursuant to which the Lease Agreement was assigned to the Trustee and payments by MHAASA under the Lease Agreement were to be made directly to GDB to cover the principal and interest required on the Series 2007 Bonds. The Lease Agreement provides that payments will be for 30 years after the commencement of the Series 2007 Bond’s term and the lease payments will be equal to the annual principal and interest required to repay the Series 2007 Bonds. MHAASA’s annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sub lessors of MHAASA were assigned to the Trustee as security interest for the lease payments. MHAASA has the option to purchase the leased premises for $1 at the end of the lease term.

The total rentals receivable under the Lease Agreement, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the Lease Agreement is recognized monthly at a constant periodic rate of return on the unrecovered investment.

For the year the ended June 30, 2019, the Authority did not receive the required payments as established by the Lease Agreement. As such, it did not amortize the asset and liability accounts related to the direct financing lease.

As of June 30, 2019, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Principal	Interest	Total Amount
2020	$ 2,500,000	$ 5,381,875	$ 7,881,875
2021	1,000,000	2,054,000	3,054,000
2022	1,100,000	1,988,375	3,088,375
2023	1,100,000	1,919,625	3,019,625
2024	1,200,000	1,847,750	3,047,750
2025-2029	7,300,000	7,925,125	15,225,125
2030-2034	10,000,000	5,161,000	15,161,000
2035-2038	10,600,000	1,430,000	12,030,000
	$ 34,800,000	$ 27,707,750	$ 62,507,750

Refer to Note 20 for subsequent events related to the World Plaza Building.

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10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets:				
Nondepreciable:				
Land	$ 6,689,828	$ -	$ -	$ 6,689,828
Construction in progress	2,703,864	591,299	-	3,295,163
Depreciable:				
Furniture and equipment	1,053,181	32,626	-	1,085,807
Vehicles	57,692	-	-	57,692
Total capital assets	10,504,565	623,925	-	11,128,490
Less: Accumulated depreciation				
Furniture and equipment	1,026,349	14,400	-	1,040,749
Vehicles	57,692	-	-	57,692
Total accumulated depreciation	1,084,041	14,400	-	1,098,441
Governmental activities capital assets, net	9,420,524	609,525	-	10,030,049
Business-type activities:				
Capital assets:				
Nondepreciable:				
Land	4,438,534	-	-	4,438,534
Depreciable:				
Building	22,561,474	-	-	22,561,474
Building improvements	3,516,368	952,140	-	4,468,508
Furniture and equipment	875,512	167,884	(59,458)	983,938
Total capital assets	31,391,888	1,120,024	(59,458)	32,452,454
Less: Accumulated depreciation				
Building	3,561,930	564,036	-	4,125,966
Building improvements	676,284	242,002	-	918,286
Furniture and equipment	237,961	49,940	-	287,901
Total accumulated depreciation	4,476,175	855,978	-	5,332,153
Business-type activities capital assets, net	26,915,713	264,046	(59,458)	27,120,301
Total capital assets, net	$ 36,336,237	$ 873,571	$ (59,458)	$ 37,150,350

The Authority issued certain bonds and notes and received legislative appropriations to finance the construction of certain capital projects for the benefit of the Puerto Rico Aqueduct and Sewer Authority (PRASA), various municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations.

These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2019, the Authority incurred construction costs for the benefit of other instrumentalities, which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds, as follows:

Function/Programs	Amount
Education, aqueduct and sewers and transportation	$ 9,112,426
Recreation and sports	40,322
Edifications	1,961,746
Economic development program	135,421
General Government	939,687
	$ 12,189,602

During the year ended June 30, 2019, depreciation expense of approximately $856 thousand, was charged to Business-type activities, respectively, in the accompanying statement of activities.

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11. INTERFUND BALANCES AND TRANSFERS

The summary of the amounts due from/to other funds as of June 30, 2019, is as follows:

Fund	Receivable By	Payable By	Purpose	Amount
Governmental	General Fund	Capital Projects Fund	Reimbursement of administrative costs	$ 3,436,349
Governmental	Capital Projects Fund	General Fund	Reimbursement of administrative costs	201,455
Governmental	Debt Service Fund	Capital Projects Fund	Reimbursement of administrative costs	3,000
				$ 3,640,804
Business Type	Capital Projects Fund	Propietary Fund	Reimbursement of administrative costs	$ 291,984
Business Type	General Fund	Propietary Fund	Reimbursement of administrative costs	16,121
				$ 308,105

The summary of the transfer in/out as of June 30, 2019, is as follows:

Transfer Out	Transfer In	Purpose	Amount
Debt Service	Capital Projects Fund	Reimbursement of administrative costs	$ (89,475)
General Fund	Capital Projects Fund	Reimbursement of construction services	$ (186,709)
General Fund	Capital Projects Fund	Debt Settlement with GDB	(2,082,194)
			$ (2,268,903)
Capital Projects Fund	General Fund	Debt Settlement with GDB	$ (9,853,789)
Propietary Fund	Capital Projects Fund	Debt Settlement with GDB	$ (2,998,400)

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12. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2019, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year	Due in More than One Year
Governmental Activities:						
Special Tax Revenue Bonds:						
Series 2005 A, B and C Bonds	$ 1,928,594,999	$ -	$ -	$ 1,928,594,999	$ 157,350,000	$ 1,771,244,999
Series 2006 Bonds	444,375,000	-	-	444,375,000	20,625,000	423,750,000
Mental Health Infrastructure Revenue Bonds —						
Series 2007 A and B Bonds	34,800,000	-	-	34,800,000	2,500,000	32,300,000
Dedicated Tax Revenue Bonds Anticipation Notes:						
Series 2015 A Bonds	78,145,000	-	-	78,145,000	78,145,000	-
Subtotal	2,485,914,999	-	-	2,485,914,999	258,620,000	2,227,294,999
Net premium/(discount)	57,167,874	-	(7,489,026)	49,678,848	7,106,366	42,572,482
Unaccreted discount on capital appreciation bonds	(553,158,176)	-	20,692,543	(532,465,633)	(21,668,344)	(510,797,289)
Total bonds payable	1,989,924,697	-	13,203,517	2,003,128,214	244,058,022	1,759,070,192
Loans payable:						
Principal	15,583,098	-	(11,976,625)	3,606,473	3,606,473	-
Net premiums	46,633	-	(4,635)	41,998	4,635	37,363
Other Liabilities:						
Compensated absences	153,270		(37,334)	115,936	115,936	-
Total pension liability	7,665,002	2,928,378	(7,892,889)	2,700,491	480,525	2,219,966
Termination benefits	89,723	-	(43,212)	46,511	43,916	2,595
Total governmental activities	2,013,462,423	2,928,378	(6,751,178)	2,009,639,623	248,309,507	1,761,330,116
Business-type activities:						
Loans payable:						
Principal	37,361,150	-	-	37,361,150	37,361,150	-
Total	$ 2,050,823,573	$ 2,928,378	$ (6,751,178)	$ 2,047,000,773	$ 285,670,657	$ 1,761,330,116

Employee Benefits

On June 17, 2014, the Commonwealth signed into law Act No. 66 (also known as the *Fiscal Operation and Sustainability Act*), which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditure reduction measures and a structured management in order to satisfy the commitments of the Commonwealth.

Act No.66 provides for, among other things, cost reduction measures including a prohibition on public corporations increasing salaries or benefits; the establishment of a maximum amount of $600 for Christmas bonuses and $200 for summer bonuses. The elimination of sick leave and vacation accruals beyond certain set maximums, compensated absences, including vacations and sick leave, are available to be liquidated by the employees during the calendar year.

Bonds Payable

Special Tax Revenue Bonds – On June 16, 2005, the Authority issued $309,102,577 in Special Tax Revenue Bonds, Series 2005 A (the Series 2005 A Bonds), $324,625,000 in Special Tax Revenue Bonds, Series 2005 B (the Series 2005 B Bonds), and $699,235,339 in Special Tax Revenue Refunding Bonds, Series 2005 C (the Series 2005 C Bonds). The Series 2005 A Bonds mature at various dates from July 1, 2029, through July 1, 2045, inclusive; the Series 2005 B Bonds mature on July 1, 2037 and 2041, and the Series 2005 C Bonds mature on July 1, 2028. The Series 2005 B Bonds may be redeemed by the Authority prior to maturity upon not less than 30 days' prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C, which are not subject to redemption prior to maturity, were issued as Capital Appreciation Bonds.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1, at rates ranging from 4% to 5.5%. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value.

The Series 2005 A and B Bonds were issued primarily for the purpose of providing approximately $292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately $26 million for certain advances made to the Authority by GDB for the purpose of providing funds to pay certain capital improvements of the Authority or of other Commonwealth instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately $317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and Series 2005 B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority's Capital Projects Fund.

The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority's Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest, and to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements. The transaction resulted in a deferred loss on refunding of $76,267,097.

The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in a special redemption fund under the terms of an escrow deposit agreement.

Such net proceeds, together with such other available moneys, were invested in government obligations, whose principal and interest when due, together with any other non-invested moneys deposited with the Trustee, will provide moneys sufficient to pay the principal redemption of premium and interest on the refunded bonds through the date of redemption.

On September 28, 2006, the Authority issued $469,770,000 in Special Tax Revenue Bonds, Series 2006 (the Series 2006 Bonds), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the Games). The proceeds of this issuance provided for: (1) the acquisition, improvement and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010, to July 1, 2046.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies.

Act No. 44, as amended, provides that in each fiscal year through fiscal year 2057, the first $117 million of certain federal excise taxes received by the Commonwealth “shall be covered into a Special Fund to be maintained by-or on behalf of the Authority” subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. Ownership of these federal excise taxes and the extent to which any party has a security interest therein is the subject of ongoing litigation.

Rum is the only product currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit certain of the federal excise taxes and other moneys in a sinking fund maintained by the Bond trustee in order to meet the debt service requirements with respect to the Special Tax Revenues Bonds.

Federal excise taxes are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. Future levels of federal excise taxes received by the Commonwealth are expected to decline, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Legislature of the Commonwealth, however, is not obligated to make the necessary appropriation to cover such deficiency. Subsequent to the enactment of PROMESA, appropriations for the Commonwealth are subject to annual budgets certified by the Oversight Board.

The trust agreement required that the Bond trustee establish a reserve account in the sinking fund for the Authority to deposit therein an amount equal to the reserve requirements, as defined in the trust agreement. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

Since November 30, 2015, the Commonwealth has retained Rum Tax revenues previously allocated to the Authority. Refer to Note 20 for subsequent events related to the Commonwealth Revenue Bond Litigation.

Additional bonds, secured on parity with the Special Tax Revenue Bonds, may be issued for any purpose authorized by Act No. 44, subject to compliance with certain financial tests in the trust agreement.

On March 16, 2015, the Authority issued the Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015, under and pursuant to Act No. 1 of 2015, as amended by Act No. 2 of 2015 of the Legislature of Puerto Rico, approved January 15, 2015, as amended, in the aggregate principal amount of $245,955,000, with a maturity date of May 1, 2017, with an interest rate of 8.25% payable monthly on the first business day of each month, commencing on April 1, 2015.

The Series 2015A Notes are subject to redemption in whole or in part in Authorized Denominations at any time, at the option of the Authority upon not less than 20 days' prior written notice. The Series 2015A Notes are also subject to mandatory sinking fund redemption prior to maturity, and to redemption from funds in the redemption fund.

Proceeds of the Series 2015A Notes, together with funds contributed by the Puerto Rico Highways and Transportation Authority (PRHTA), were used to (i) redeem the PRHTA Special Revenue Bonds 2013A Bond Anticipation Notes (the PRHTA Notes), (ii) make a deposit to the Note Account established under the Trust Agreement to pay debt service on the Series 2015A Notes, and (iii) pay certain costs of issuance of the Series 2015A Notes.

The Series 2015A Notes are payable from, and are secured by the pledge of a Trust Estate comprising certain assets and revenues of the Authority, which include (i) a $6.25/barrel Petroleum Products Tax on Non Diesel products, (ii) any funds received by the Authority pursuant to the terms of a Financial Assistance Agreement between the Authority and PRHTA and (iii) any additional revenues pledged to the Authority in accordance with the Trust Agreement. The revenues pledged to the payment of the Series 2015A Notes could be applied to pay general obligation debt of the Commonwealth if its available resources are insufficient to cover all approved appropriations.

The Commonwealth guarantees the Series 2015A Notes. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of principal and interest on the Series 2015A Notes.

The Commonwealth does not guarantee any payments in excess of scheduled principal and interest payments on the Series 2015A Notes. During the year ended June 30, 2019, the Authority did not receive appropriations from the Commonwealth to repay the required principal and interest installments of the Dedicated Tax Fund Revenue Bonds Anticipation Notes.

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As of June 30, 2019, debt service requirements for Special Tax Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2020	$ 256,120,000	$ 318,704,074	$ 574,824,074
2021	50,525,000	61,096,613	111,621,613
2022	53,275,000	58,271,900	111,546,900
2023	56,175,000	55,293,313	111,468,313
2024	59,235,000	52,152,388	111,387,388
2025-2029	348,180,000	208,368,375	556,548,375
2030-2034	401,350,000	162,391,125	563,741,125
2035-2039	416,125,000	144,997,375	561,122,375
2040-2044	490,570,000	66,454,500	557,024,500
2045-2046	319,559,999	15,671,875	335,231,874
	2,451,114,999	$ 1,143,401,538	$ 3,594,516,537
Add — Net Premium	49,345,970		
Less:			
Unaccreted discount on capital appreciation bonds	(532,465,633)		
	$ 1,967,995,336		

On May 24, 2018, the trustee for the Series 2015A Bonds filed a proof of claim in the Commonwealth Title III case with respect to liabilities allegedly associated with the Series 2015A Bonds. On June 28, 2018, certain of the holders of the Series 2015A Bonds filed proofs of claims in the Commonwealth Title III case with respect to liabilities allegedly associated with the Series 2015A Bonds, in the aggregate amount of not less than $66,326,633.72. For a further discussion of the PRIFA Stipulations please also refer to Note 20 for subsequent events related to the Litigation Regarding the 2015A Notes and Proposed Settlement.

Mental Health Infrastructure Revenue Bonds – As discussed above, on October 24, 2007, the Authority issued $39,800,000 in Revenue Bonds, Series 2007 A, and $3,530,000 in Series 2007 B (collectively, the Series 2007 Bonds). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to GDB amounting to $34,225,725 related to the acquisition of the MEPSI Center. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to GDB amounting to $3,305,780.

The Series 2007 A Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and GDB, which provides for the assignment of the Lease Agreement with an option to purchase, dated October 24, 2007, as disclosed in Note 9.

The Series 2007 A Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

As of June 30, 2019, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2020	$ 2,500,000	$ 5,381,875	$ 7,881,875
2021	1,000,000	2,054,000	3,054,000
2022	1,100,000	1,988,375	3,088,375
2023	1,100,000	1,919,625	3,019,625
2024	1,200,000	1,847,750	3,047,750
2025-2029	7,300,000	7,925,125	15,225,125
2030-2034	10,000,000	5,161,000	15,161,000
2035-2038	10,600,000	1,430,000	12,030,000
	34,800,000	$ 27,707,750	$ 62,507,750
Add — Premium	332,878		
	$ 35,132,878		

For additional information regarding a potential resolution of the Series 2007 Bonds, see the Subsequent Event on Note 20.

Default

Due to the implementation of Executive Order No. OE-2015-46 and the Emergency Moratorium and Financial Rehabilitation Act described above, the Authority did not transfer sufficient funds to the Trustee to make the required payments of principal and interest related to Series 2005, Series 2006, Series 2007 and BANs 2015A.

The following obligations were not paid as contracted as of June 30, 2019:

	30-Jun-19		
	Unpaid Obligations		
Description	Principal	Interest	Total
Series 2005ABC Bonds	$ 114,900,000	$ 164,861,118	$ 279,761,118
Series 2006 Bonds	15,085,000	76,636,516	91,721,516
Series 2007 Bonds	1,600,000	3,268,500	4,868,500
BANs 2015A Bonds	78,145,000	13,467,159	91,612,159
	$ 209,730,000	$ 258,233,293	$ 467,963,293

Deferred Charges on debt refunding

Changes in deferred outflows or resources related to losses on the refunding of some of the bonds were as follows:

Series	Balance at June 30, 2018	Reduction	Balance at June 30, 2019
2007	$ 36,317,660	$3,631,767	$ 32,685,893
2011A	13,742	1,393	12,349
2011B	4,791	463	4,328
2012A	980	336	644
	$ 36,337,173	$3,633,959	$ 32,703,214

13. LOANS PAYABLE

Public Finance Corporation (PFC) Notes

On January 16, 2002, the Authority entered into a loan agreement (the Note) with (PFC), a Component Unit of GDB. The Note was originally a loan granted by GDB (the Old Note), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the PFC Bonds). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

During the fiscal year 2014, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority. The note matures in June 2031. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164. During the years ended June 30, 2017 June 30, 2018 and June 30, 2019, the Authority did not receive the Commonwealth's appropriations to pay the principal and interest due on the Note; as a result, the Authority was unable to pay in full the required debt payment service, and is not expected to make any additional debt service payments while the Emergency Moratorium and Financial Rehabilitation Act is in effect. As of June 30, 2019, the principal balance and the related accrued interest amounted to $3,606,473 and $775,872, respectively; these balances will remain unpaid and in default until the Commonwealth's appropriations (which are now subject to a budget certified by the Oversight Board) resume. There is no guarantee any such appropriations will resume.

Centro de Bellas Artes Luis A. Ferre's Auditorium Loan

On February 18, 2005, the Authority entered into a loan agreement with GDB related to a nonrevolving line of credit in an amount not to exceed $40 million for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. Principal amount of the loan is due and payable on June 30, 2040. The loan bears interest at 7%, and interest installments are due annually. During the year ended June 30, 2019, the principal balance and the related accrued interest were paid off.

American Recovery and Reinvestment Act (ARRA) Loan

On June 1, 2009, the Authority entered into a revolving line of credit facility (the Line of Credit) with the GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the ARRA Programs). The Line of Credit would be repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth. The line of credit matured on June 30, 2011, and subsequently was extended until January 31, 2016, and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%.

During the year ended June 30, 2019, the principal balance and the related accrued interest were paid off.

World Plaza Building Loan

On March 8, 2012, the Authority entered into a $35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property, and is payable from future appropriations of the Commonwealth.

The line of credit matures on June 30, 2017, and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2019, the principal balance and the related accrued interest amounted to $37,361,150 and $11,408,111, respectively. During the year ended June 30, 2019, the Authority did not make payments of principal or interest on this line of credit.

As of June 30, 2019, debt service requirements for loan agreements are as follows:

Years Ending June 30	Principal	Interest	Total
2020	$ 37,831,110	$ 12,368,880	$ 50,199,990
2021	100,113	180,608	280,721
2022	104,473	175,921	280,393
2023	109,228	170,805	280,032
2024	32,496	168,559	201,055
2025-2029	2,118,182	652,425	2,770,607
2030-2033	672,021	37,470	709,491
TOTAL	40,967,622	$ 13,754,667	$ 54,722,289
Add:Net Premium	41,998		
	$ 41,009,620		

Default

Due to the implementation of Executive Order No. OE-2015-46 and the Moratorium Act and Financial Rehabilitation Act described above, the Authority did not make the required payments of principal and interest related to the debt service fund, PFC loan.

The following loan was not paid as per agreement as of June 30, 2019:

	Unpaid Obligations		
Description	**Principal**	**Interest**	**Total**
PFC Loan	$ 373,826	$ 775,868	$ 1,149,694

14. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations (FAR). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made in June 2015 with no arbitrage exposure reflected. The next arbitrage calculation will be in June 2020. An arbitrage calculation for the Special Tax Revenue Bonds 2006 Series was made in September 2016 with no arbitrage exposure reflected. The next calculation will be in September 2021. As of June 30, 2019, there is no arbitrage exposure.

15. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the Plan) based on Act No. 70, enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010.

The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employee Retirement System of the Commonwealth of Puerto Rico (the Retirement System) for a maximum period of ten years.

- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.

- The employee will receive the benefits of health and dental insurance for a period of one year.

Only one employee was voluntarily separated from employment under the Plan. Total cost related to his termination benefits was $424 thousand and was discounted presented to the value of expected future benefit payments at 1.12%. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2019, the total liability related to this Plan was approximately $46 thousand.

Early Retirement Programs

During the fiscal year ended June 30, 2017, the Authority extended to its employees a new voluntary early retirement program. This program was approved by the Authority's Board of Directors based on provisions established on Act No. 211, which was enacted December 8, 2015. Act No. 211 provides that eligible employees may retire from employment with the Authority in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participation in ERS, as created pursuant to Act No. 447 of 1951, and that have not reached 61 years of age.

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

From fiscal year 2011 through fiscal year 2013, the Authority extended to its employees voluntary early retirement programs, based on provisions established by Act. No. 70, which was enacted on July 2, 2010. Act No. 70 provided that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. Act. No. 70 only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans. Twenty-one employees voluntarily separated from employment under the provisions of Act No. 70. Payments of such voluntary termination plans are expected to be made until November 1, 2030. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of return of unpledged investments.

In addition, during fiscal years 1995, 2000 and 2007, the Authority's Board of Directors authorized early retirement programs for certain Authority employees, subject to different eligibility provisions that are detailed in the corresponding laws signed by the Governor of the Commonwealth. The costs incurred and accounted for during the fiscal year ended June 30, 2018, consisted principally of the incremental actuarial costs, if any, of retiring earlier than under the original retirement plan, specifically costs related to medical and life insurance plans for such employees until they reach a certain age.

As of June 30, 2019, approximately four employees continue to benefit from the voluntary separation programs. Employer contributions to the medical and life insurance plans for the applicable period were discounted based on management's best estimate of the expected long-term plan performance.

16. CONDUIT DEBT OBLIGATION

In December 2011, the Authority issued $669,215,000 in Special Revenue Bonds (the PRPA Bonds), pursuant to a Loan and a Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority (PRPA), another component unit of the Commonwealth. The proceeds from the PRPA Bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. The PRPA bonds are limited obligations of the Authority and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement.

Under the terms of the Loan and Trust Agreement, PRPA is required to make loan payments sufficient to cover the payment of principal and interest due on the PRPA Bonds. The PRPA Bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB (the GDB Letters of Credit).

The Authority is not obligated in any manner for the repayment of the PRPA Bonds. Accordingly, the PRPA Bonds are not reported as liabilities in the basic financial statements of the issuing entity. As of June 30, 2019, the remaining outstanding balance amounts to $190.6 million.

On May 16, 2017, the Trustee made a demand for payment under the GDB Letters of Credit in the amounts of approximately $9.4 million on account of interest due on the PRPA Bonds and $190.6 million on account of principal due on the PRPA Bonds as a result of the acceleration of the PRPA Bonds.

The Trustee's claim was thereafter treated as a Participating Bond Claim in the GDB Qualifying Modification and the Trustee, on behalf of the PRPA Bondholders, received new bonds issued by the DRA with a value of approximately $116.3 million for the unfunded letter of credit. Under the terms of the Qualifying Modification, the GDB Letters of Credit were extinguished.

Thereafter, on December 27, 2019, PRIFA and PRPA also completed a private exchange that resulted in the resolution of over 92% of the PRPA Bonds. At the time of the exchange, the PRPA Bonds were outstanding in an amount of approximately $190.6 million. Bondholders holding approximately $177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRPA Bonds outstanding) of a cash payment of approximately $82.4 million, resulting in the full resolution of such participating PRPA Bonds. After the exchange, the PRPA Bonds remain outstanding in the amount of approximately $13.5 million.

17. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2019, the Authority entered into the following related party transactions:

- Contributions from appropriations from the Commonwealth of $3.3 million were used for operating expenses.

18. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Authority leases equipment under non-cancelable operating leases. At June 30, 2019, the minimum annual future rentals under non-cancelable leases are as follows:

Year Ending June 30,	Amount
2020	$ 47,708

Rent expense for the year ended June 30, 2019, amounted to approximately $48 thousand.

Construction Commitments

The Authority has active construction projects as of June 30, 2019, under various bond issuances. As of June 30, 2019, the Authority's commitments with contractors are as follows:

Description	Commitment	Incurred-to-Date	Remaining Commitment
Special Tax Revenue Bonds, Series 2006	$ 26,232,933	$ 10,620,100	$ 15,612,833

Contingencies

As of June 30, 2019, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority's financial statements.

19. RETIREMENT PLAN

Structure of Retirement System and Accounting for Pension Costs

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017.

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) is a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including ERS.

This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) were covered by ERS, including the Authority.

Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) were required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that were being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.The benefits provided to members of ERS were established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

Certain provisions of Act No. 3 were different for the three groups of members who entered the ERS before July 1, 2013, as described below:

- Members of Act No. 447 were generally those members hired before April 1, 1990.

- Members of Act No. 1 were generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).

- Members of Act No. 305 (or System 2000) were generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

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

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

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by private third party.

Cost-Sharing, Multiple-Employer, Defined Benefit Program

Pursuant to Act No. 447, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of ERS, under the Defined Benefit Program, as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

The Defined Benefit Program provided retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depended upon age at retirement and the number of years of creditable service. Benefits vested after 10 years of plan participation. Disability benefits were available to members for occupational and non-occupational disabilities. However, a member must have had at least 10 years of service to receive non-occupational disability benefits.

Members who attained 55 years of age and completed at least 25 years of creditable service, or members who attained 58 years of age and have completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant was eligible, was limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who had completed 30 years of creditable service were entitled to receive the Merit Annuity. Participants who had not attained 55 years of age received 65% of the average compensation, as defined; otherwise, they received 75% of the average compensation, as defined.

The contribution requirement to ERS was determined by law and not actuarially determined. Commonwealth legislation required employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary.

The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) 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% that would have been effective July 1, 2020.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining ERS effective April 1, 1990. These changes consisted principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act. No. 305, which amended Act No. 447 to establish System 2000 Program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under ERS, including the Defined Benefit Program.

Defined Contribution Program-System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things, a new benefit structure, similar to a cash balance plan, known as the System 2000 Program. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who were participants of the Defined Benefit Program as of December 31, 1999, had the option to irrevocably transfer their prior Defined Benefit Program contributions (plus interest thereon) to the System 2000 Program until March 31, 2000.

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the System 2000 Program. Employees had the option to elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions were credited to individual accounts established under the Systems 2000 Program. Participants had three options to invest their contributions to the System 2000 Program. Investment income was credited to the participant's account semi-annually.

The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) 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.

Under the System 2000 Program, contributions received from participants were pooled and invested by ERS, together with the assets corresponding to the Defined Benefit Program.

Future benefit payments under the Defined Benefit Program and the System 2000 Program were to be paid from the same pool of assets. As a different benefit structure, the System 2000 Program was not a separate plan and the Commonwealth did not guarantee benefits at retirement age. Corresponding employers' contributions were to be used by ERS to reduce the unfunded status of the Defined Benefit Program.

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

Upon retirement, the balance in each participant's account was to be used to purchase an annuity contract, which provided for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement received a lump-sum payment. In case of death, the balance in each participant's account was to be paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

As discussed further below, on April 4, 2013, the Legislature enacted Act No. 3, which further amended the provisions of the different benefit structures under ERS, including the System 2000 Program and the Defined Benefit Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447 and Act. No. 305 to establish the Contributory Hybrid Program, among other things. 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 System 2000 Program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans became part of the Contributory Hybrid Program.

Participants in the Defined Benefit Program, who as of June 30, 2013, were entitled to retire and receive some type of pension, could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013, had not reached the age of 58 and completed 10 years of service or had not reached the age of 55 and completed 25 years of service could retire depending on the new age limits defined by the Contributory Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013, had not reached the age of 60 could retire depending on the new age limits defined by the Contributory Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program.

Act. No. 3 required employees to contribute 10% of their monthly gross salary to the Contributory Hybrid Program. Employee contributions were to be credited to individual accounts established under the Contributory Hybrid Program. In addition, a mandatory contribution equal to or less than 0.25% was required for the purchase of disability insurance.

The Authority was required to contribute 16.525% of each participant's gross salary for fiscal year 2017. ERS would use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate was annually increased by 1%. Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that was in effect on June 30 of every year was to be annually increased on every successive July 1st by 1.25%.
Upon retirement, the balance in each participant's account would be used to purchase an annuity contract, which would provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries would continue receiving the monthly benefit until the contributions of the participant were completely consumed. In case of the participants in active service a death benefit would be paid in one lump sum in cash to the participant's beneficiaries.

Participants with a balance of less than $10,000 or less than five years of computed services at retirement would receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

To improve the liquidity and solvency of ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to fiscal year 2033. This additional uniform contribution was to be determined annually based on actuarial studies to be performed by ERS actuaries. Pursuant to the Treasury Department Circular Letter No. 1300-46-17 issued on June 27, 2017, the additional uniform contribution was eliminated as of the start of fiscal year 2018 on July 1, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

As of June 30, 2019, the Authority reported a liability of approximately $2.7 million for its proportionate share of the total pension liability.

The June 30, 2019 total pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The Authority's proportion of the total pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of June 30, 2019, the Authority's proportionate share was .01103%, which resulted in an decrease of .01137% from its proportionate share as of June 30, 2018.

For the year ended June 30, 2019, the Authority recognized pension expense of $135 thousand. As of June 30, 2019, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual investments earnings on pension plan investments	$ -	$ -
Difference between expected and actual experience	-	81,677
Changes of assumptions	-	88,555
Change in proportion and difference between the employer's contributions and proportionate share of contributions	151,483	-
Pension paid subsequent to measurement date	480,525	-
Total	$ 632,008	$ 170,232

The deferred outflows of resources related to pensions resulting from the Authority's pension paid subsequent to measurement date amounting to approximately $481 thousand at June 30, 2019, will be recognized as a reduction of the total pension liability in the year ended June 30, 2019.

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

Years Ending June 30,	Amount
2020	(3,749)
2021	(3,749)
2022	(3,749)
2023	(3,749)
2024	(3,753)
Total	$ (18,749)

Total Pension Liability

The total pension liability as of June 30, 2019 (the measurement date used for financial reporting for fiscal year 2018), was determined by an actuarial valuation as of July 1, 2017 which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018).

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value of assets
Inflation rate:	Not applicable
Salary increases:	3% 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.

The mortality tables used in the actuarial valuations were as follows:

- *Pre-retirement Mortality* - For ERS 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 generational basis. For ERS general employees covered under Act No. 127, RP-2014 Employee Mortality Rates were assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on generational basis.
- As generation tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service were assumed to be occupational only for members covered under Act No. 127.
- *Post-retirement Healthy Mortality* - Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 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, 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 reflected mortality improvements both before and after the measurement date.
- *Post-retirement 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 for males and 115% of the rates from the UP-1994 Mortality Table for females.

  The base rates were 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.

Discount Rate

The asset basis for the date of depletion projection is the ERS' fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the ERS fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed.

The ERS fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to measure the total pension liability was 3.87% as of June 30, 2018.

Sensitivity of the Authority's proportionate share of total pension liability to change in the discount rate

The following table presents the Authority's proportionate share of the total pension liability calculated using the current discount rate of 3.87% as well what the Authority's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% increase (4.87%)
Total pension liability	$ (3,073,750)	$ (2,701,194)	$ (2,398,863)

20. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 12, 2021, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2019 financial statements.

Litigation Regarding the 2015A Notes and Proposed Settlement

On January 8, 2020, the Creditors' Committee filed that certain Official Committee of Unsecured Creditors' Omnibus Objection on Constitutional Debt Limit Grounds to (I) Claim of Government Development Bank for Puerto Rico [Claim Number 29485] Based on Certain Commonwealth-Issued Notes and on Commonwealth Guaranty of Certain Bonds Issued by Port of Americas Authority, (II) Claim of ScotiaBank de Puerto Rico [Claim Number 47658] Based on Full Faith and Credit Note Issued by Puerto Rico General Services Administration, and (III) Claims Filed or Asserted Against Commonwealth. Based on Commonwealth Guaranty of Certain Notes Issued by Puerto Rico Infrastructure Authority, dated January 8, 2020, objecting to the proofs of claim asserted against the Commonwealth in respect of the Commonwealth's guarantee of payment of the Series 2015A Bonds. All of the foregoing litigation related to the Series 2015A Bonds is currently stayed.

On February 22, 2021, PRIFA, by and through FAFAA, the Oversight Board, on behalf of itself and as representative of the Commonwealth, and Silver Point Capital, L.P., in its capacity as Owner Representative of the 2015A Notes entered into the PRIFA Stipulation. The PRIFA Stipulation contemplates a settlement of the 2015A Notes in exchange for a payment of (i) $12,657,508.81 from PRIFA, and (2) allowing a claim against the Commonwealth in the amount of $83,589,101.67 on account of the Commonwealth's guarantee of the 2015A Notes, which claim will be treated in accordance with the terms of the Seventh Amended Plan. In exchange, holders of the Series 2015A Bonds agree to dismiss, with prejudice, all of their claims relating to their holdings in the Series 2015A Bonds, including all claims against the Commonwealth in connection with their guarantee on the bonds, and claims against the U.S. Government for allegedly effectuating a taking of bondholder property in connection with PROMESA and the Commonwealth's Title III case. Pursuant to the PRIFA Stipulation, PRIFA escrowed approximately $12.7 million, which will be released in accordance with the terms of such escrow agreement.

The PRIFA Stipulation is subject to termination by the parties thereto if, among other things, the 2021 PSA is terminated. It is not certain that the settlement transaction contemplated by the PRIFA Stipulation will ultimately be effectuated because it is not certain that the Title III Court will confirm the Seventh Amended Plan (as contemplated by the 2021 PSA), or any further amended plan.

Invitation to Exchange Newly Issued Sales Tax Bonds

On June 10, 2019, COFINA launched an invitation to exchange and consent to amendments towards bondholders owning an aggregate principal amount of approximately $3.6 billion of Series 2019 A-2 and $45.6 million of Series 2019 B-2 of its COFINA Bonds (collectively, the Invited Bonds), originally issued on February 12, 2019, as part of the COFINA Plan of Adjustment.

COFINA provided the opportunity to exchange all or a portion of the Invited Bonds to bondholders for an equal aggregate principal amount of converted bonds that will have the same terms as the Invited Bonds, except for: (1) interest rate on converted bonds have 25 basis points lower than the Invited Bonds exchanged (2) interest on converted bonds is excluded from gross income for federal tax purposes under Section 103 of the Tax Code.
On August 1, 2019 (settlement date), COFINA exchanged an aggregate principal amount of approximately $3.1 billion of Series 2019 A-2 and $45.6 million of Series 2019 B-2 and accrued interest of approximately $12.1 million and $177 thousand, respectively, with bondholders who accepted the exchange. Also, bondholders who accepted the invitation consented to certain amendments to certain documents described in the invitation.

As a result of the exchange described above, the Series 2019A-2 consisted of (i) $3,108,661,000 aggregate principal amount series 2019A-2 converted bonds and (ii) $483,148,000 aggregate principal amount of Series 2019A-2 unconverted bonds.

In November 2019, the Authority decided to sell a portion of the $139,355,000 aggregate principal amount of the Series 2019 A-2 maturing on July 1, 2040, with CUSIP 74529JQY4 that it held (the PRIFA Series 2019A-2 Bonds) and requested to qualify interest on a portion of such bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Tax Code.

COFINA, after consultation with bond counsel, clarified and amended certain provisions of the first supplemental indenture to reflect the new tax status of the portion of PRIFA Series 2019A-2 Bonds that qualified to be sold. All terms and conditions of the PRIFA Series 2019A-2 Bonds, including interest rate and maturity, remained equal to the Invited Bonds except that they will be dated July 1, 2019.

Authority-Ports Bonds Exchange

As discussed above, on December 27, 2019, PRIFA and PRPA also completed a private exchange that resulted in the resolution of over 92% of the PRPA Bonds. At the time of the exchange, the PRPA Bonds were outstanding in an amount of approximately $190,630,000. Bondholders holding $177,165,000 participated in the private exchange and received their pro rata share (based on the entire amount of PRPA Bonds outstanding) of a cash payment of approximately $82.4 million, resulting in the full resolution of such participating PRPA Bonds. The recovery the PRPA Bondholders received in the exchange is in addition to the DRA Bonds received by the Trustee in connection with the Qualifying Modification, as discussed above. After the exchange, the PRPA Bonds remain outstanding in the amount of $13,465,000.

Commonwealth Revenue Bond Litigation

Key Bondholder Lift Stay Motions, Case No. 17-3283-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the monoline insurers (the Monolines) for the Special Tax Revenue Bonds filed a motion seeking to terminate or modify the automatic stay, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue, including special revenues taxes generated from Rum Taxes imposed by the United States federal government. The Monolines assert that the Commonwealth is not entitled to use revenues generated from Rum Taxes, which they assert were pledged to Authority bondholders as collateral, and were the Property of either the Authority or Authority bondholders. The motion seeks relief from stay to pursue enforcement of the bondholders' alleged liens against the Rum Tax revenues in two proceedings outside of the Title III cases. On February 4, 2020, the Oversight Board, as joined by FAFAA, objected to the stay motion. The Monolines filed their reply on April 30, 2020.

On September 9, 2020, the Title III Court denied the lift stay motion relying, in part, on its prior decision that the Commonwealth, and not the Authority or the movants, is the owner of the Rum Tax revenues. On September 23, 2020, the Monolines appealed the Title III Court's denial of the lift stay motion to the First Circuit. The First Circuit heard oral argument on February 4, 2021, and on March 3, 2021, affirmed the Title III Court's denial of the lift stay motion.

The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al., Adv. Pro. No. 20-00003-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the Oversight Board filed an adversary complaint challenging the proofs of claim and liens asserted against the Commonwealth by the Monolines and holders of Special Tax Revenue Bonds. The Oversight Board asserts that the Commonwealth is "neither an issuer nor a guarantor" of the Special Tax Revenue Bonds and thus is not liable under the Authority's enabling act or relevant bond documents.

The Oversight Board also asserts that the Commonwealth is the owner of the Rum Tax revenues.

On April 28, 2020, the Oversight Board filed a motion for summary judgment, contending, among other things, that holders of Special Tax Revenue Bonds lack security interests in the Rum Tax revenues securing the bonds. On July 16, 2020, the Monolines filed an opposition to the Oversight Board's summary judgment motion. A hearing on the motion was held on September 23, 2020.

On January 20, 2021, the Title III Court ordered additional discovery. On July 28, 2021, the Title III Court entered an order extending the parties' supplemental briefing schedule, and set a hearing on the Oversight Board's summary judgment motion for September 15, 2021. On August 2, 2021, the parties filed a joint motion to stay this adversary proceeding pending confirmation of the Seventh Amended Plan pursuant to the terms of certain plan support agreements. On August 3, 2021, the Title III Court granted such motion, which also adjourned the September 15, 2021 hearing.

Claims against the Commonwealth arising from or related to the Commonwealth's retention of Rum Tax revenues are subject to treatment under the Commonwealth's plan of adjustment.

Settlement Agreement with GDB (World Plaza Building)

On September 16, 2020, pursuant to Section 207 of PROMESA, the Oversight Board approved a settlement agreement whereby the Authority transferred the World Plaza Building (the Property) to GDB in full satisfaction of the loan, which at such date approximates $50 million, that was originally used to purchase the Property.

Mental Health Infrastructure Revenue Bonds Restructuring

The Authority has reached an agreement with the holders of the Series 2007 Bonds to exchange the Series 2007 Bonds for certain Sales Tax Financing Corporation bonds maturing July 1, 2040 (the COFINA Bonds) currently held by the Authority (the Exchange). Under the Exchange, all claims related to the Series 2007 Bonds will be permanently released and discharged in exchange for receipt by each holder of the Series 2007 Bonds of their pro rata share of COFINA Bonds with a par amount totaling $26.42 million. Upon completion of the Exchange, the Authority will be free and clear of all obligations and liabilities associated with the Series 2007 Bonds.

On July 27, 2021, the Oversight Board approved the Exchange under Section 207 of PROMESA. The Exchange is expected to be completed by the end of calendar year 2021.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Váquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread.

In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

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

The Authority's Title VI Process

On August 13, 2021, certain monoline insurers of the Authority's bonds payable solely from the Commonwealth's rum tax revenue (the Rum Bonds) sent the Oversight Board a letter formally requesting that the Oversight Board commence the restructuring of the Authority's Rum Bonds under PROMESA Title VI (the Qualifying Modification) pursuant to the terms of the PRIFA Related Plan Support Agreement, dated July 27, 2021 (the PRIFA PSA).

On August 27, 2021, the Oversight Board, as the administrative supervisor under PROMESA Title VI, certified the PRIFA PSA pursuant to the "Voluntary Agreement Process" set forth in PROMESA Title VI, thereby establishing the Qualifying Modification as a "qualifying modification" under Title VI.

Upon consummation of the Qualifying Modification (the PRIFA Effective Date), holders of the Rum Bonds that vote in favor of the Qualifying Modification will receive their pro rata share of cash from the Commonwealth and their pro rata share of contingent value instruments issued by the Commonwealth pursuant to the Seventh Amended Plan. In exchange for such consideration, on the PRIFA Effective Date, the Authority's Rum Bonds will be canceled and discharged, and holders of Rum Bond claims will release all remaining claims against the Authority under the Rum Bonds.

On September 2, 2021, AAFAF's board of directors authorized the Authority and AAFAF to commence solicitation of votes on the Qualifying Modification. On September 2, 2021, the Authority's board of directors also authorized the Authority to commence such solicitation. As of the date of these financial statements, the Authority's solicitation of votes is ongoing.

For additional information, refer to the publicly available docket in the Commonwealth's Title IV case for further details: https://cases.primeclerk.com/puertorico/Home-DocketInfo

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REQUIRED SUPPLEMENTARY INFORMATION

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of Collective Total Pension Liability (Unaudited)
For the year ended June 30, 2019

The schedule of Proportionate Share of Collective Total Pension Liability for the Authority for the year ended June 30, 2019:

	GASB 73	GASB 68		
	2019	2018	2017	2016
Proportion (percentage) of the total pension liability	0.01103%	0.02240%	0.02095%	0.01972%
Proportion (amount) of the net total pension liability	$ 2,700,491	$ 7,665,002	$ 7,899,363	$ 6,573,847

The Authority's net pension liability as of June 30, 2019, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2018).

As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

The Authority's proportion of the total pension liability was actuarially determined based on the ratio of the Authority's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

There are no assets accumulated in a trust to pay related benefits.