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

BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2019

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

INDEPENDENT AUDITORS' REPORT

To Honorable Secretary of the Department
of Transportation and Public Works

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Puerto Rico Integrated Transit Authority* (PRITA) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise PRITA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to in the first paragraph of the preceding page present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of PRITA as of June 30, 2019 and the respective changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that PRITA will continue as a going concern. As discussed in Note 3 to the basic financial statements, PRITA is highly dependent on the Commonwealth of Puerto Rico's (the Commonwealth) contributions to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about PRITA's ability to continue as a going concern. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Valdés, García, Marín & Martínez, LLP

San Juan, Puerto Rico
September 21, 2021

Stamp E463376 was
affixed to the original

Management's Discussion and Analysis

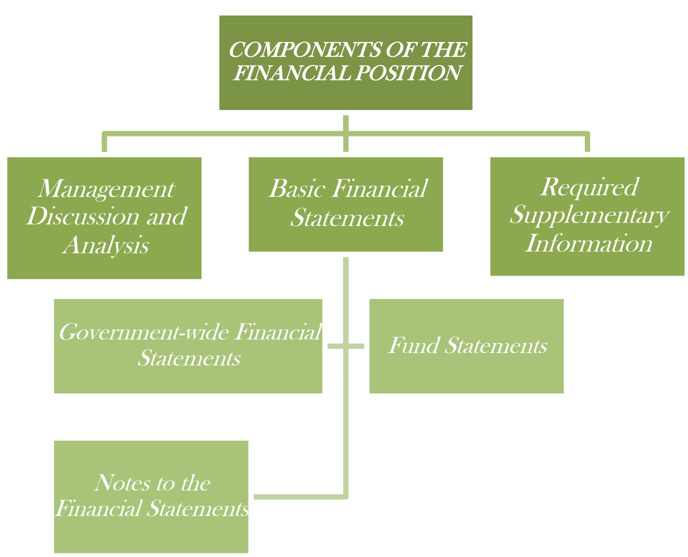
This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Integrated Transit Authority (PRITA) for the fiscal year ended June 30, 2019. The MD&A is intended to serve as an introduction to PRITA's basic financial statements, which have the following components: (1) government-wide financial statements (2) governmental fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, and (b) provide an overview of PRITA's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the PRITA's financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

- The assets of PRITA exceeded its liabilities at the close of the fiscal year 2019 by $5,008,450 million.
- Total revenues, including interests, increased by $1,3017,347 million or 25% when compared to fiscal year 2018. Total expenses, excluding contributions to other entities, increased by $ 129,871, or 15% when compared with fiscal year 2018. Contributions to other government entities increased $1,801,208 million or 43% when compared fiscal year 2019. The change in net position decreased by $623,732, with respect to prior year's change in net position.
- The investment in capital assets as of June 30, 2019 was $150,693, net of depreciation.
- Total liabilities increased by $242,791 or 9% when compared to 2018.

Overview of the Basic Financial Statements

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



Government-Wide Financial Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

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

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Financial Analysis

The following is an analysis of the financial position and changes in the financial position of PRITA's activities for the fiscal year ended June 30, 2019:

Net Position

Condensed financial information of the statement of net position as of June 30, 2019 and 2018, is as follows:

	2019	2018	In Dollars	Percent
Assets				
Current assets	$ 7,656,474	$ 7,870,405	$ (213,931)	(3) %
Capital assets, net	150,693	196,011	(45,318)	(23) %
Total assets	$ 7,807,167	$ 8,066,416	$ (259,249)	(3) %
Liabilities				
Current liabilities	$ 2,777,299	$ 2,551,450	$ 225,849	9 %
Noncurrent liabilities	21,418	4,476	16,942	379 %
Total liabilities	2,798,717	2,555,926	242,791	9 %
Net Position:				
Net investment in capital assets	150,693	196,011	(45,318)	(23) %
Unrestricted	4,857,757	5,314,479	(456,722)	(9) %
	5,008,450	5,510,490	(502,040)	(9) %
Total liabilities and net position	$ 7,807,167	$ 8,066,416	$ (259,249)	(3) %

Current assets decreased by approximately $214 thousand or 3% due mainly to cash outlays to other governmental entities. Capital assets decreased by approximately $45 thousand, mainly due to depreciation charges for the year.

Current liabilities increased by approximately $225 thousand or 9%, mostly due to increases in due to other government entities of $116 thousand and the remaining balance for increases in accrued payroll obligations.

Non-current liabilities that consist of compensated absences increased by approximately $17 thousand.

Changes in net position

Condensed financial information of the statement of activities of the governmental activities for the years ended June 30, 2019 and 2018, is as follows:

	Revenues		Increase / (Decrease)	
Functions/Programs	**2019**	**2018**	**Amount**	**%**
Governmental activities:				
Administrative services	$ 6,361,200	$ 5,225,000	$ 1,136,200	22%
Total revenues	$ 6,361,200	$ 5,225,000	$ 1,136,200	22%

	Expenses		Increase / (Decrease)	
Functions/Programs	**2019**	**2018**	**Amount**	**%**
Governmental activities:				
Administrative services	$ 1,014,631	$ 884,760	$ 129,871	15%
Total expenses	$ 1,014,631	$ 884,760	$ 129,871	15%
General revenues:				
Interest	184,599	13,452	171,147	1272%
Contributions to other governmental entities	(6,033,208)	(4,232,000)	(1,801,208)	43%
	(5,848,609)	(4,218,548)	(1,630,061)	
Change in Net Position	(502,040)	121,692	(623,732)	-513%
Beginning Net Position	5,510,490	5,388,798	121,692	2%
Ending Net Position	$ 5,008,450	$ 5,510,490	$ (502,040)	-9%

PRITA reported a negative change in the net position of approximately $502 thousand, a decrease of (512%), with respect to prior year's change in net position. This decrease is the result in major part of a decrease of approximately $214 thousand in total current assets and an increase of approximately $243 thousand in total liabilities.

Total revenues consist of contributions from the Commonwealth of approximately $6 million.

Capital Assets

At the end of the fiscal year, PRITA has invested in capital asset of approximately $151 thousand, net of depreciation and amortization. Capital assets, include furniture and fixtures, computer equipment and software.

Long-Term Debt

At the end of the fiscal year, PRITA reported approximately $21 thousand in long-term debt, which consists of compensated absences.

Current Known Facts

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

Much of DTOP's transportation operations management was channeled through the Puerto Rico Highways and Transportation Authority (PRHTA), and DTOP sought to create a separate entity to specifically handle public transportation. PRITA assumed responsibility over the Urban Train (UT) upon its creation in 2014 and was intended to merge the Puerto Rico Metropolitan Bus Authority (PRMBA) and the Puerto Rico Maritime Transportation Authority (PRMTA) under its authority. As of today, full transfer of responsibility from PRHTA and the transit agencies to PRITA has not been fully realized due to the lack of available resources, mostly due to the Commonwealth's fiscal deficit. Despite this, there has been some progress in the integration as several bus routes previously managed by PRMBA were handed over to PRITA for management in 2015.

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

The *Metrobus*, *Metro Urbano* and *UT Connection* bus lines operations have been contracted with a private operator, First Transit, since 2008 while the management of those lines was still under PRMBA's responsibility. Since then, the contract has been extended and amended several times to continue providing good service. As of today, the contract with First Transit will run until June 30, 2020 with a possibility of an extension.

Organizational Structure

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

Opportunities For Improvement

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

Further Development of Transit Asset Management Plans

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

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

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

2. Analysis tools in place to exploit this data;

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

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

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

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

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

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

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

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

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

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

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

Asset Information

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

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

Operations Oversight

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

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

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

Ridership Data and Demand Forecasting

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

Information Available to Customers

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

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

Skilled Workforce

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

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

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

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

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

Contacting PRITA's Financial Management:

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

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Cash	$ 4,806,474
Due from Commonwealth	2,850,000
Capital assets, net of accumulated depreciation and amortization	150,693
Total assets	$ 7,807,167
LIABILITIES	
Accounts payable and other accrued liabilities	$ 215,376
Due to other governmental agencies	2,529,795
Liabilities due within one year:	
Compensated absences	32,128
Liabilities due after one year:	
Compensated absences	21,418
Total liabilities	2,798,717
NET POSITION	
Net investment in capital assets	150,693
Unrestricted	4,857,757
Total net position	$ 5,008,450

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions\Programs	Expenses	Program Revenues Operating Contributions	Net (expenses) revenue and changes in net position
Governmental Activities:			
Administrative services	$ 1,014,631	$ 6,361,200	$ 5,346,569
Total	$ 1,014,631	$ 6,361,200	5,346,569
General revenues:			
Interest			184,599
Contributions to other governmental entities			(6,033,208)
Total general revenues and contributions			(5,848,609)
Change in net position			(502,040)
Net position, beginning of year			5,510,490
Net position, end of year			$ 5,008,450

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET-GOVERNMENTAL FUND
JUNE 30, 2019

	General Fund
ASSETS	
Cash	$4,806,474
Due from Commonwealth	2,850,000
Total assets	$7,656,474
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and other accrued liabilities	$ 215,376
Due to other governmental agencies	2,529,795
Total liabilities	2,745,171
Fund balance:	
Unassigned	4,911,303
Total liabilities and fund balance	$7,656,474

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balance-Governmental Fund	$4,911,303
Amounts reported for governmental activities in the Statement of Net Position are different than the amounts reported in the Balance Sheet-Governmental Fund because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet-Governmental Fund	150,693
Compensated absences not liquidated immediately with current financial resources are not reported in the Balance Sheet-Governmental Fund	(53,546)
Net Position of Governmental Activities	$5,008,450

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund
REVENUE:	
Contributions from Commonwealth	$ 6,361,200
Interest	184,599
Total revenue	6,545,799
EXPENDITURES:	
Salary and employee benefits	428,951
Professional services	81,650
Capital outlays	30,950
Repairs and maintenance	26,799
Transportation subcontract	225,008
Other general and administrative	126,885
Total expenditures	920,243
Excess of revenue over expenditures	5,625,556
Other financing uses:	
Contributions to other governmental entities	(6,033,208)
Net change in fund balance	(407,652)
Fund balance - beginning of year	5,318,955
Fund balance - end of year	$ 4,911,303

See the accompanying notes to the basic financial statements.

PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balance-Governmental Fund		($407,652)
Amounts reported for governmental activities in the Statement of Activities and changes in net position are different because:		
Governmental funds report capital outlays as expenditures while in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.		
In current period these amounts are:		
Capital outlays	30,950	
Less: Depreciation and amortization expense	(76,268)	
		(45,318)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are reported as expenditures in governmental funds:		
Compensated absences (net change)		(49,070)
Change in Net Position of Governmental Activities		($502,040)

See the accompanying notes to the basic financial statements

1. REPORTING ENTITY

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

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

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

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

<u>Component Unit</u>

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

<u>Basic Financial Statements</u>

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

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

The government-wide financial statements (the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes contributions.

<u>Fund Financial Statements</u>

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

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, PRITA considers revenue to be available if it is collected within 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under the accrual basis of accounting. A modification to the accrual basis of accounting includes employee's vested annual vacation that is recorded as expenditure when matured. The unmatured amount of accumulated annual vacation as of June 30, 2019 is reported only in the government-wide financial statements.

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

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

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

- Nonspendable - Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.

- Committed - Amounts that are constrained for specific purposes that are internally imposed by the government highest level of decision-making authority, which in the case of PRITA are the Executive Director and the Board of Directors.

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

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

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

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

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

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

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

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

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

g. *Compensated Absences* - Employees accumulate vacation at a rate of 1.25 days per month up to an annual amount of 15 days. Vacation time is fully vested by the employee from the first day of work up to a maximum of 60 days. Employees accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. After the enactment of Act 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are not liquidated upon employment termination.

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

i. *Accounting for Pension Costs* - PRITA accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68,* that requires employers to report a total pension liability and related pension accounts. For purposes of measuring the total pension liability, deferred outflows and inflows of resources related to pension, and pension expense, the balances have been determined on the same basis as reported by the Plan. As of June 30, 2019, PRITA does not have retired employees and there is no total pension liability to report.

j. Accounting Pronouncements Issued but Not Yet Effective

- 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 effective for reporting periods beginning after June 15, 2018 but its implementation was postponed for one year by GASB No. 95. Earlier application is encouraged.

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

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms 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 are effective for reporting periods beginning after June 15, 2018 but its implementation was postponed for one year by GASB No. 95. Earlier application is encouraged.

- 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.

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

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

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

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

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

  This statement achieves its objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of *reference rate,* as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 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.

- *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.

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

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

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

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

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

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

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

3. GOING CONCERN AND UNCERTAINTIES

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

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

In response to the financial difficulties mentioned above, the Commonwealth submitted a fiscal plan to the Oversight Board. Refer to Note 12 for more details of the fiscal plan. In addition, PRITA's management began conversations with state and federal authorities to obtain the necessary resources to convert PRITA in a federal fund grantee and increases revenues. Once PRITA can receive federal funds, the management of PRITA will continue the process of obtaining the required approvals from local and federal agencies to integrate and complete the merger of the Urban Train, PRMBA and PRMIMTA into PRITA.

4. CASH AND CASH EQUIVALENTS

PRITA's cash and cash equivalents as of June 30, 2019 consists of the following:

	Books balance	Depository bank balance	Amount uninsured and uncollateralized
Cash deposited in commercial bank	$ 4,806,474	$ 5,058,885	$ -

5. DEPOSITS CLAIM RECEIVABLE

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

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

PRITA held deposits at GDB of $9,505,694. A custodial credit risk loss on these deposits was recorded in prior years for the full balance. As of June 30, 2019, the deposits balance and the custodial credit risk allowance were reclassified to deposits claim receivable from the PET and into an allowance for doubtful accounts, respectively, with a carrying amount of zero. As a result of the GDB Qualifying Modification, PRITA's recovery on this claim will depend upon the recovery ultimately received by the PET on account of its assets.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2019 consists of the following:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Governmental Activities:				
Furniture and fixtures	$ 172,234	$ 30,325	$ -	$ 202,559
Computer equipment and software	213,685	625	-	214,310
	385,919	30,950	-	416,869
Less accumulated depreciation and amortization	(189,908)	(76,268)	-	(266,176)
Total capital assets, net	$ 196,011	$ (45,318)	$ -	$ 150,693

7. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2019 consist of the following:

Suppliers	$ 106,682
Payroll taxes and withholdings	108,694
Total	$ 215,376

8. DUE TO OTHER GOVERNMENTAL AGENCIES

Amounts due to other governmental agencies as of June 30, 2019 consist of contributions pending to transfer to the following agencies:

PRMBA	$1,407,137
PRMIMTA	1,122,658
Total	$2,529,795

9. CONTRIBUTIONS TO OTHER GOVERNMENTAL ENTITIES

During the year ended June 30, 2019, PRITA transferred funds to other governmental entities for their acquisition of property and equipment and capital assets improvements, and for payments of retirement contribution and Christmas bonus, as follow:

PRMBA	$2,410,208
PRMIMTA	3,623,000
Total	$6,033,208

10. RETIREMENT PLAN

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

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

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

<u>Pension benefits transferred</u>

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

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

<u>Plan description prior to July 1, 2017</u>

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

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

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

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

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

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

Benefits provided before July 1, 2017

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

(i) Service Retirements

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

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

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

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

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

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

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

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below.

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

(d) Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(ii) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was $10,000 or less, it would have been paid as a lump sum instead of as an annuity.

(a) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members:* The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447- 1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013.

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

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

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

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

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

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

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

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

(iii) Compulsory Retirement

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

(iv) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(b) Deferred Retirement

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

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

(v) Death Benefits

(a) Pre-retirement- Death Benefit

Eligibility: Any current nonretired member was eligible.

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

(b) High Risk Death Benefit under Act No. 127-1958

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

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

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

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

Postdeath Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. The cost of these benefits was paid by the Commonwealth.

(c) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

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

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

i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan- 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No.158 of 2003.

ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. See Article 2-113 of Act No. 447 of 1951, as amended by Act No. 524 of 2004.

(d) *Postretirement Death Benefit for Members Who Retired after June 30, 2013*

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

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

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

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(vi) Disability Benefits

(a) Disability

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

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

(b) High Risk Disability under Act No. 127-1958

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

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

(c) *Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits*.

(vii) Special Benefits

(a) Minimum Benefits

i. *Past Ad hoc Increases:* The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by the ERS.

ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013):* The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from$300 per month to $400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

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

(b) *Cost of Living Adjustments (COLA) to Pension Benefits:* The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

(c) Special "Bonus" Benefits

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

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

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

(viii) Contributions

Prior to July 1, 2017, the plan contributions requirements were as follows:

(a) *(Article 5-105 of Act No. 447, as amended by Act No. 3of 2013, amended by Act No. 106 of 2017 and amended by Act No. 71 of 2019):* Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 for members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

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

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Treasury Department in the individual member accounts under the New Defined Contribution Plan created pursuant to Act 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to the ERS. However, in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

(b) *Employer Contributions (Article* 2 *116, as Amended by Act No. 116-2010 and Act No. 3-2013):*

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions were 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions were increased annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.53% of compensation effective July 1, 2020. Under Act 106-2017, all employers' obligations to contribute to the ERS were eliminated.

Act 106-2017 eliminated the employer contributions to the ERS as of July 1, 2017. Instead, participating employers are responsible for the payment of the PayGo fee to the newly created accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

(c) *Supplemental Contributions from the Commonwealth, Certain Public Corporations, and Municipalities (Act No. 3-2013):* Effective July 1, 2013, ERS received a supplemental contribution of $2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution was paid by the Commonwealth Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Act 106 of 2017 eliminated the special benefits contribution requirement to the ERS, instead they will be allocated to the new PayGo System through legislative appropriations, as necessary.

(d) *Additional Uniform Contribution (Act No. 32-2013,* as *Amended):* The additional uniform contribution (AUG) was to be certified by the external actuary of ERS each fiscal year from fiscal year 2015 through 2033 as necessary to avoid the projected gross assets of ERS, falling below $1 billion during any subsequent fiscal year. The AUG was to be paid by the Commonwealth, public corporations with their own treasuries, and municipalities. All employers' contributions, including the additional uniform contribution were eliminated effectively on July 1, 2017 by Act 106-2017.

11.CONTINGENCIES

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

12. SUBSEQUENT EVENTS

For purposes of the financial statements, subsequent events have been evaluated by management through September 21, 2021, which is the date that the financial statements were available to be issued. Management believes that the following subsequent events should be disclosed:

a. On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to the infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued Executive Orders (EO) 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management. Puerto Rico continues to experience aftershocks that are not expected to stop any time soon.

b. On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued 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, well-being and public safety of the citizens of Puerto Rico. The EO authorizes the Secretary of the Department of Treasury and the Executive Director of the 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 sharing information with the municipalities. Numerous executive orders have been subsequently issued by the Governor to manage all COVID-19 related matters.

   As the government of the Commonwealth observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and its economy, it is constantly re-evaluating and amending business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico. At the date of the issuance of the financial statements, the duration of the exceptional measures and the effects that they may have on PRITA cannot be reasonably estimated.

c. 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) K-12 Education Reform
(iii) Ease of Doing Business Reform
(iv) Power Sector Reform
(v) Infrastructure and Capital Investment Reform
(vi) Establishment of the Office of the CFO
(vii) Agency Efficiency Measures
(viii) Medicaid Reform
(ix) Enhance Tax Compliance and Optimized Taxes and Fees
(x) Reduction in UPR and Municipality Appropriations
(xi) Comprehensive Pension Reform

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 depend on a number of factors and risks, some of which are not wholly within its control.