RSM Puerto Rico

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

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

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

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Land Administration

We have audited the accompanying financial statements of Puerto Rico Land Administration, 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 financial statements, which collectively comprise the Puerto Rico Land Administration's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Land Administration as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Pension Reform

As discussed in Note 11 to the basic financial statements, as a result of enactment of Act No. 106 of 2017, a pension reform was adopted whereby the Commonwealth of Puerto Rico implemented a new "pay-as-you-go" (PayGo) system for the payment of pensions. The Employees' Retirement System of the Commonwealth of Puerto Rico (ERS) was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth of Puerto Rico to pay pension benefits.

The new Plan does not meet the applicable criteria to follow the guidance of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68.*

Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, the Schedule of Proportionate Share of the Collective Total Pension Liability and Related Ratios, the Schedule of Proportionate Share of the Collective Total Postemployment Benefit Liability and Related Ratios and the Notes to the Required Supplementary Information, on pages 47 through 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
September 22, 2021.

Stamp No. E467466 was affixed to
the original of this report.

RSM Puerto Rico

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)

This section of the Puerto Rico Land Administration (the Administration) financial statements presents a narrative overview and analysis of the Administration's financial performance and is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the Administration as of and for the fiscal year ended June 30, 2019. The information presented herewith should be read in conjunction with the Administration's basic financial statements and accompanying notes.

1. FINANCIAL HIGHLIGHTS

- The Administration's total assets increased approximately by $7.5 million (or 3.40%)
- Deferred outflows of resources decreased approximately $4 million (or 54.90%)
- Cash increased by approximately $4.7 million (or 48.60%)
- Land and properties leased under long-term contracts decreased by approximately $233 thousand (or 1.16%)
- Land and properties held-for-future use increased approximately $4.8 million (or 2.62%)
- Capital assets decreased by approximately $749 thousand (or 14.27%)
- Notes, interest and other receivables, net, decreased by approximately $986 thousand (or 46.95%)
- The Administration's total liabilities increased by approximately $6.4 million (or 8.58%)
- Deferred inflows of resources decreased by approximately $1.5 million (or 37.88%)
- Total pension liability increased by approximately by $7.4 million (or 23.50%)
- Unearned rent decreased approximately $485 thousand (or 25.09%)
- Rental income increased by approximately $1.2 million (or 11.16%)
- Land donations during the year amounted to $4.8 million
- Operating expenses decreased by approximately $7.1 million (or 47.89%)
- During the year ended June 30, 2019, the Administration recognized as a non-operating expense, an adjustment for approximately $11 million, related to the adoption of GASB Statement No. 73.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Administration's basic financial statements, which are comprised of the financial statements and the notes to the financial statements. Since the Administration is comprised of a single proprietary fund, no fund level financial statements are shown.

Basic Financial Statements – The basic financial statements are designed to provide readers with a broad overview of the Administration's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Administration's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. Increase to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.

The statement of revenues, expenses, and changes in fund net position presents information showing how an entity's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The last of the required financial statements is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

3. FINANCIAL ANALYSIS OF THE ADMINISTRATION

Condensed financial information on assets, deferred outflows of resources, liabilities deferred inflows of resources and net position is presented below (all amounts in thousands):

Description	2019	2018	Increase (Decrease)	Percentage
ASSETS:				
Cash	$ 14,240	$ 9,583	$ 4,657	48.60%
Notes, interest, and other receivables, net	1,114	2,100	(986)	(46.95%)
Other assets	177	169	8	4.73%
Land and properties leased under long-term contracts	19,883	20,116	(233)	(1.16%)
Land and properties held-for-sale and held-for-future use	187,530	182,739	4,791	2.62%
Capital assets	4,499	5,248	(749)	(14.27%)
	227,443	219,955	7,488	3.40%
DEFERRED OUTFLOWS OF RESOURCES	3,280	7,272	(3,992)	(54.90%)
LIABILITIES	81,308	74,886	6,422	8.58%
DEFERRED INFLOWS OF RESOURCES	2,452	3,947	(1,495)	(37.88%)
NET POSITION:				
Invested in capital assets	4,499	5,248	(749)	(14.27%)
Unrestricted	142,465	143,146	(681)	(0.48%)
	$ 146,964	$ 148,394	$ (1,430)	(0.96%)

The Administration's net position decreased by approximately $1.4 million, mainly due to the result of operations during fiscal year ended June 30, 2019, which includes an adjustment increasing pension expense related to the adoption of GASB 73 for approximately $11 million, a decrease in operating expenses of approximately $7.1 million and an increase in operating income of approximately $1.3 million.

Total assets and deferred outflows of resources increased by approximately $3.5 million, which is net of an increase of approximately $4.7 million in cash, and a increase of approximately $4.8 million in land and properties held-for-future use related to a donation of property valued at approximately $4.8 million. In addition, there was a decrease in capital assets of approximately $749 thousand mainly related to the depreciation expense of the year. Also, there was a decrease in deferred outflows of resources for approximately $4 million.

The increase in cash of approximately $4.7 million is due to an increase in rental income for land and properties for approximately $1.2 million, mainly to a new lease contract. In addition, there was a decrease in personnel services, contracted services, and property taxes for approximately $500 thousand, $300 thousand, and $426 thousand, respectively. During the year, there was an increase in interests from deposits accounts for approximately $115 thousand, and there was a collection of notes, interest and other receivables of approximately $513 thousand. In addition, during the year ended June 30, 2018, the Administration granted credits on lease contracts for approximately $1.2 million, which were not granted during the year ended June 30, 2019.

The decrease in deferred outflows corresponds to the adjustments made related to GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* net from payments and accruals performed of the Pay-as-you-go (Pay-Go) retirement system for approximately $1.9 million and $179 thousand. In addition, the Administration recorded a liability due to the Commonwealth of Puerto Rico (Commonwealth) for approximately $2.2 million related to the Pay-Go retirement system.

Condensed financial information on revenues, expenses, and changes in fund net position is presented below (all amounts in thousands):

Description	2019	2018	Increase (Decrease)	Percentage
OPERATING REVENUES:				
Land and properties sales, net	$ 62	$ 32	$ 30	93.75%
Rental income	12,278	11,045	1,233	11.16%
Land donations	4,800	-	4,800	100.00%
	17,140	11,077	6,063	54.74%
OPERATING EXPENSES	7,701	14,777	(7,076)	(47.89%)
NON-OPERATING LOSS	(10,870)	(1,110)	(9,760)	(879.28%)
CHANGE IN NET POSITION	$ (1,431)	$ (4,810)	$ 3,379	(70.25%)

The Administration enters into lease agreements on the land and properties it owns with government and private entities. The agreements vary in prices and terms depending on the intended public use and benefits to the Commonwealth of Puerto Rico residents.

The Administration also acquires and sells to other government agencies and instrumentalities or private entities, land and property that have been determined to be used or developed for public interest.

Operating expenses comprising principally of administration expenses, are mostly payroll and payment of real property taxes to which certain land and property are subject.

During the year ended June 30, 2019, there were net sales of land and properties of approximately $62 thousand, while during the year 2018, there were net sales of approximately $32 thousand. The Administration's strategy is focused on long-term ownership of the current resources and leased them. During the year, the Administration remain constant in terms of operations related to the lease of land and properties.

Operating expenses decreased by approximately $7.1 million (or 47.89%), mostly caused by the following:

- During the year ended June 30, 2019, there was no impairment loss on land and properties recorded, while the impairment recognized during the prior year was for approximately $3 million.
- Loss for damages on properties held-for-sale caused by the Hurricane Maria for approximately $1.9 million was recognized during the year ended June 30, 2018.
- Decrease in personnel services for approximately $507 thousand (or 12.96%), is net from decrease in salaries for approximately $180 thousand, termination benefits recognized during the year for Act No. 211 for approximately $38 thousand, adjustment related to Act No. 70 increasing balance of personnel services for approximately $45 thousand, and adjustment related to the implementation of GASB Statement No. 75 that decrease personnel services for approximately $68 thousand was recognized.
- Pension costs of current year amounted approximately $1.4 million less than prior year.
- Decrease in property tax expense, mainly related to during the calendar year, the Administration used approximately $400 thousand from reserve maintained for property taxes.

<u>Non-Operating expenses:</u> Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

During the year ended June 30, 2019, the Administration implemented the GASB Statement No. 73. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for assets accumulated for purposes of providing those pensions. As result of the implementation of GASB Statement No. 73, the Administration recognized a non-operating expense for the amount of approximately $11 million.

Capital Asset: The Administration acquires, invests and or develops existing facilities, vacant business sites, unimproved land and other real estate for future development by the government or private sector. Site developed and buildings along with land held for lease, sale or future use are segregated from the capital assets being used in the Administration's operations as it is customary in the real estate industry.

The following table summarizes the capital assets of the Administration as of June 30, 2019 and 2018 (all amounts in thousands):

Description	2019	2018	Increase (Decrease)	Percentage
CAPITAL ASSETS:				
Land	$ 106	$ 106	$ -	0.00%
Building and improvements	14,928	14,928	-	0.00%
Furniture and equipment	1,291	1,277	14	1.10%
Vehicles	191	191	-	0.00%
Computer software	103	103	-	0.00%
Less: Accumulated depreciation and amortization	(12,120)	(11,357)	(763)	6.72%
	$ 4,499	$ 5,248	$ (749)	(14.27%)

Change in accumulated depreciation is due to the net effect of depreciation of buildings and improvements for approximately $679 thousand, furniture and equipment for approximately $52 thousand, vehicles for approximately $14 thousand, and computer software for approximately $18 thousand for the year ended June 30, 2019. For a detailed activity of capital assets, please refer to Note 6 of the basic financial statements.

4. COMMITMENT

The Administration serves as absolute, unconditional and irrevocable guarantor to the US Government, represented by the Department of the Navy, for an acquisition of properties made by the Local Redevelopment Authority for Naval Station Roosevelt Roads. For additional details on this commitment, please refer to Note 16 of the basic financial statements.

5. CURRENTLY KNOWN FACTS AND EVENTS

GDB Restructuring Process

On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB's Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). Under the Qualifying Modification, holders of the GDB Senior Notes and certain deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"). The GDB Restructuring Act created two special purpose entities (the GDB Debt Recovery Authority and the Public Entity Trust (the "PET")).

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA and under the Act No. 109 of August 24, 2017, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by the GDB Debt Recovery Authority and GDB transferred to PET its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets, and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interests of the PET. The assets of the PET (the "PET Assets") consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

The Administration has a claim of approximately $37 million against the PET in respect of its deposits with GDB. Such claim is payable from the revenues, if any, generated by the PET Assets. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Administration will be able to collect on its claim against the PET.

Claim to Federal Management Administration (FEMA)

During the year 2019, the Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimate its losses. Accordingly, up to December 2019, the Administration has presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). The claim is pending to be evaluated by FEMA.

Earthquake

On January 7, 2020, Puerto Rico experienced a 6.4 magnitude earthquake that shook its southern coast, which was one of the most damaging quakes that the island has seen. Puerto Rico's governor declared a state of emergency and requested direct federal assistance and emergency protective measures. The Administration identified one property with structural damages related to the events of earthquakes, this property is referred as "Antiguo Casino de Ponce" which is located in the municipality of Ponce. Refer to Note 19 for details.

Coronavirus disease ("COVID-19")

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("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 executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. Effective on March 16, 2020, a lockdown executive order was issued by the Governor or Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget (PROMB) 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.

Subsequent executive orders, including curfew directives and other protective measures have been issued in response of the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico in response to the economic distress caused by the COVID-19 pandemic.

Act No. 164 of December 30, 2020

On December 30, 2020, Act No. 164 was approved to amend the Articles 4, 7, 11, 14 and 15 of the Act No. 13 of May 16, 1962. Pursuant to this Act, the Administration is exempt from payments related to property, state or municipal taxes.

6. REQUEST FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Administration's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Land Administration, 171 Carlos Chardon Avenue, Suite 101, San Juan, Puerto Rico, 00918.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2019

ASSETS	
CURRENT ASSETS:	
Cash	$ 14,240,092
Notes, interest and other receivables, net	1,113,757
Other assets	177,266
	15,531,115
NON-CURRENT ASSETS:	
Land and properties-	
Leased under long-term contracts-	
Cataño Fuel Storage and Pier Facilities, net	2,817,919
Other properties, net	17,064,778
	19,882,697
Held-for-sale	169,197,407
Held-for-future use	18,332,914
	207,413,018
Capital assets, net	4,499,275
	211,912,293
	227,443,408
DEFERRED OUTFLOWS OF RESOURCES:	
Pension related	3,195,561
Other postemployment benefits related	84,252
	3,279,813
	$ 230,723,221

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2019

LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 1,467,190
Due to governmental entities	3,717,306
Compensated absences	232,825
Termination benefits	464,328
Total pension liability	2,243,342
Other postemployment benefits liability	84,252
	8,209,243
NON-CURRENT LIABILITIES:	
Unearned rent	1,354,015
Guaranty rent deposits	732,941
Termination benefits	1,489,087
Total pension liability	36,651,455
Other postemployment benefits liability	902,999
Deposits on sales of land and properties held-for-sale	31,967,777
	73,098,274
	81,307,517
DEFERRED INFLOWS OF RESOURCES, pension related	2,451,821
NET POSITION:	
Net investment in capital assets	4,499,275
Unrestricted	142,464,608
	$ 146,963,883

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the fiscal year ended June 30, 2019

OPERATING REVENUES:	
Land and properties sales -	
To entities, agencies or component units of the Commonwealth of Puerto Rico	$ 70,600
Less: cost of land and properties sold	(8,801)
Gain on sales of land and properties	61,799
Rental income	12,277,516
Land donation	4,800,000
	17,139,315
OPERATING EXPENSES:	
Salaries and fringe benefits	3,403,171
Pension expense	1,140,328
Professional services	579,967
Utilities	302,782
Property taxes	36,259
Insurance	316,899
Repairs and maintenance	84,648
Depreciation and amortization	996,194
Other	840,780
	7,701,028
OPERATING INCOME	9,438,287
NON-OPERATING REVENUES (EXPENSES):	
Effect of GASB Statement No. 73 adoption	(11,003,608)
Interest income	135,198
Impairment loss on deposits held in Economic Development Bank	(601)
	(10,869,011)
DECREASE IN NET POSITION	(1,430,724)
NET POSITION, beginning of year	148,394,607
NET POSITION, end of year	$ 146,963,883

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

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

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Sales of properties and rental income	$ 12,130,417
Payment to employees and related payroll costs	(4,213,963)
Payments for goods, services and taxes, substantially real property tax	(3,389,590)
Other receipts	9,463
Net cash provided by operating activities	4,536,327
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital expenditures	(13,974)
Interest collected on cash deposit accounts	134,598
Net cash provided by capital and related financing activities	120,624
NET INCREASE IN CASH	4,656,951
CASH, beginning of year	9,583,141
CASH, end of year	$ 14,240,092

Continues…

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2019

Continued…

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	9,438,287
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization of capital assets		763,175
Depreciation and amortization of properties under long-term contracts		233,020
Bad debt expense		718,793
Land donation and exchange		(4,800,000)
Loss on land and properties sold		8,802
Changes in operating assets and liabilities:		
(Increase) decrease in assets -		
Notes, interest, and other receivables		267,080
Other assets		(8,063)
(Increase) decrease in deferred ouflows of resources -		
Pension related		3,994,553
Other postemployment benefits related		(2,253)
Increase (decrease) in liabilities -		
Accounts payable and accrued liabilities		(1,922,690)
Due to governmental entities		1,895,744
Compensated absences		(252)
Termination benefits		(402,153)
Total pension liability		(3,602,725)
Other postemployment benefit liability		(65,370)
Deposits on sales of land and properties held-for-sale		93,194
Unearned rent		(577,973)
(Decrease) in deferred inflows of resources -		
Pension related		(1,494,842)
Net cash provided by operating activities	$	4,536,327

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

1) Reporting Entity:

The Puerto Rico Land Administration (the Administration) is a public corporation and a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Administration was created by Act No. 13 of May 16, 1962, as amended, to promote the welfare of the community through efforts and programs designed for the efficient utilization of public land in Puerto Rico. Among its programs, the Administration acquires, through negotiation or expropriation, parcels of land, on behalf of government entities, for future development or for reserve. The Administration is also dedicated to the rental of certain tracts of land through lease contracts for public and private use.

The Administration is exempt from the payment of Puerto Rico taxes, except real property taxes (see Note 18) and excise taxes on certain purchases.

2) Basis of Presentation and Summary of Significant Accounting Policies:

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America (US GAAP), for governments as prescribed by the Governmental Accounting Standards Board (GASB). Following is a description of the most significant accounting policies:

<u>Measurement focus basis of accounting and financial statements presentation</u> – Financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Proprietary funds present three basic financial statements, which include a statement of net position, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows. The statement of net position presents the Administration's assets and liabilities, with the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources, reported as net position. Net position may be reported in three categories:

- <u>Net investment in capital assets</u> – Consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of related debt when such debt is attributable to the acquisition, construction, or improvement of those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

- <u>Restricted component of net position</u> – Consists of restricted assets reduced by liabilities related to those assets. Restricted net assets result when constraints are placed on the use of net assets, either externally imposed by creditors, grantors, contributions, and like, or imposed by law through constitutional provisions or enabling legislation.

- <u>Unrestricted component of net position</u> – Is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. Unrestricted component of net position (deficit) often is assigned in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position (deficit) often has constraints on the use that are imposed by management, but such constraints may be removed or modified.

  When both restricted and unrestricted resources are available for use, it is the Administration's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of revenues, expenses and changes in fund net position distinguishes operating revenues and expenses from non-operating items. The operating revenues of the Administration are those generated from the activities related to the sales and rental of land and properties. Operating expenses include payroll and related-payroll benefits, depreciation and amortization, property taxes, insurance, repair and maintenance and other. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The statement of cash flows reports cash receipts, cash payments, and net change in cash resulting from operating, investing, and capital and non-capital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Use of estimates – The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes, interest and other receivables – Notes, interest and other receivables are stated net of estimated allowance for uncollectible accounts. The allowance for uncollectible amounts is maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Land and properties – Land and properties are recorded at cost, plus allocable interest, costs of appraisals, related acquisition studies and improvements, and other capitalizable costs or market value, whichever is lower. Donated land properties are stated at fair market value at date of donation.

Management of the Administration is of the opinion that the cost to appraise all land and property would represent a significant and unwarranted expense. Appraisals of certain properties were made during the fiscal year 2019, as well as current market value information of certain land and properties obtained from sales transactions and other sources were reviewed as part of the impairment evaluation. During the year ended June 30, 2019, no impairment was recognized by management.

Capital assets – Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The Administration defines capital assets as assets with an individual cost of more than $500 and a useful life of five (5) years or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Description	Useful life (In years)
Building and improvements	10-30
Furniture and equipment	5-15
Vehicles	5

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

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The amount of the impairment of these assets is determined by comparing the carrying value with the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Management understands that there are no instances of impairment of capital assets during the year ended June 30, 2019.

<u>Compensated absences</u> – Based on Act No. 26 of 2017, employees are granted for the accumulation of 1.25 days per month (15 days annually) of vacation. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and an accumulated maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed (60 days).

<u>Termination benefits</u> – The Administration accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

<u>Land and properties sales</u> – Land and properties sales are recognized when title to the land and property is conveyed to the buyer. When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date of sale, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land under the full accrual method of accounting.

<u>Rental income</u> – Consists principally of the leasing of the Cataño Fuel Storage Facilities and land parcels subject to lease contracts at varying terms. All leases have been classified as operating leases. Rental income is presented as operating revenues in the accompanying statement of revenues, expenses and changes in fund net position.

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

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

<u>Deferred Outflows/Inflows of Resources</u> – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Administration recorded as deferred outflows of resources certain pension and postemployment benefits other than pensions related items.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Administration has deferred inflows of resources related to pensions.

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

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

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined pension plan of its primary government, recognized their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The allocation percentage is based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

Accounting for Postemployment Benefits Other Than Pensions (OPEB) – The Administration follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by GASB Statement No. 85, *Omnibus 2017,* to account for its postemployment benefit other than pensions (OPEB). Also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (RES MIPC). Statement No. 75 requires liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses. As a result, the Administration recognized an OPEB liability and OPEB expenses, for the medical insurance benefits provided through the ERS MIPC.

As ERS is a multiple employer plan and the benefits are not funded by an OPEB trust, Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Commonwealth and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Administration prepare individual financial statements, a proportionate share of OPEB expense is determined for these employers. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. Only a deferred outflow has been recognized for the amount of the benefit payments made by the Administration subsequent to the measurement date, of approximately $84,000.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2017 actuarial measurement data were used for the OPEB financial reporting recognition as of and for the fiscal ended June 30, 2019.

For the purpose of applying the requirements of GASB Statement No. 75, the Administration's annual OPEB credit for the year ended June 30, 2019 amounted to approximately $68,000 and the OPEB liability as of June 30, 2019 amounted to approximately $987,000. Refer to Note 12 for additional disclosures.

GASB Statement No. 75 does not affect the way the Administration choose to fund its OPEB obligations. Governments may continue to fund their plans by calculating an actuarially determined contribution and measuring their funded status as it relates to that actuarially determined contribution. GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

<u>New adoption of accounting pronouncements</u> – The following new accounting standards were implemented during the year ended June 30, 2019:

<u>GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*</u>. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues: information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions; and timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

<u>Accounting pronouncements issued but not yet effective</u> – The following new accounting standards have been issued but are not yet effective:

- <u>GASB Statement No. 83, *Certain Asset Retirement Obligations.*</u> 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 are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

- 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 the 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 the 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 the 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. 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 the 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 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain- component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 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 (LIBOR).* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of a LIBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  This statement achieves its objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when a LIBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

  - Clarifying that the uncertainty related to the continued availability of LIBOR's does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.

  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.

  - Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended

  - Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace a LIBOR as the rate upon which variable payments depend.

  The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. 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 LIBOR's 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 a LIBOR.

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- GASB Statement No. 94*, Public Private and Public-Public Partnership.* 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 than postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

  The 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 on the Administration's basic financial statements.

3) Custodial Credit Risk:

It is the risk that in the event of a bank failure, the Administration's deposits may not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance and carrying amount of the Administration's accounts with commercial banks as of June 30, 2019 amounted to approximately $14,500,000.

Deposits maintained at the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank (EDB), are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk that in the event of GDB's or EDB's failure, the Administration may not be able to recover these deposits. GDB and EDB are component units of the Commonwealth.

The Commonwealth and its component units have not been able to repay their loans from GDB, which has significantly affected GDB´s liquidity and ability to pay its obligations. GDB crisis made many public agencies and corporations move their deposits from EDB to GDB. In addition, EDB´s operational deterioration commenced with the downgrade of the Commonwealth credit rating in 2014. This action led private entities to retire their businesses from EDB, leading EDB to the point of liquidating its entire investment portfolio.

<u>Impairment of deposits held in GDB and EDB</u> – On April 6, 2016, the Governor of the Commonwealth signed the law Act 21-2016, known as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Act 21"). The Sections 201 and Section 203 of the Act, respectively, authorize to the governor to declare a state of emergency for GDB, and to take any and all actions that are reasonable and necessary to allow GDB to continue carrying out its operations.

Pursuant to Act No. 21, on April 8, 2016, the Governor of the Commonwealth signed Executive Order EO 2016-10, declaring GDB to be in a state of emergency. In accordance with the emergency powers provided in Act No. 21, EO 2016-10 implanted a regulatory framework governing GDB's operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB. To that effect, EO 2016-10 restricts the withdrawal, payment and transfer of funds held on deposit at GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements. The procedures implemented by EO-2016-10 resulted in restrictions on the ability of the Administration to withdraw funds held on deposit at GDB. Based on the evaluation of the availability and recoverability of funds deposited in GDB, an impairment loss of approximately $36,553,000 was recognized by the Administration during the year ended June 30, 2016.

The Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) was created pursuant to Act. No. 2 of 2017. FAFAA is an independent public corporation and governmental instrumentality to assume all fiscal agency, financial advisory, and reporting functions of GDB.

On May 15, 2017, the Governor announced that FAFAA and GDB entered into a restructuring support agreement (the" RSA") with a significant portion of GDB's major stakeholders holding more than $2.45 billion in claims against GDB, including more than 300 on-island bondholders, 50 on-island credit unions, and the Ad Hoc Group of Bank's Bondholders, which holds more than $1 billion of GDB's public bonds.

On April 6, 2018, FAFAA, GDB and certain of GDB's financial creditors entered into a fourth amendment to the RSA. The RSA, as amended, is consistent with the underlying strategy of the New GDB Fiscal Plan, namely providing for a transaction resulting in an orderly wind-down of GDB's operations. The RSA also sets forth the parameters for a proposed GDB Title VI Plan under which distributable cash flows would be allocated among GDB's various financial creditors and provides greater clarity as to how GDB's operations would be wound down (the "GDB Title VI Plan").

Under the Qualifying Modification, holders of certain bond (at an upfront exchange ratio of 55%) and deposit claims against GDB exchanged their claims for bonds issued by the GDB Debt Recovery Authority and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets, and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interests of the PET. The assets of the PET (the "PET Assets") consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Administration will be able to collect on its claim against the PET.

Pursuant to Act No. 109 of 2017 (Act No. 109 of 2017), effective as of the closing date of the Qualifying Modification, the balance of liabilities owed between any government entity and GDB were automatically determined by applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB in a manner consistent with the Qualifying Modification. Furthermore, Act No. 109 of 2017 provides that all transactions effected pursuant thereto are valid and binding with respect to all government entities and that, other than as expressly provided therein or in the transaction documents, no government entity has any further rights or claims against GDB, the new issuer or the Public Entity Trust (the "PET") based, in whole or in part, on facts existing or occurring on or prior to the closing of the Qualifying Modification.

Upon the closing of the Qualifying Modification, government entities are deemed to forever waive, release and discharge GDB, the new issuer and the PET from any and all such claims. The assets of the PET consist of claims against the Commonwealth for loans with an outstanding principal balance of approximately $905 million to be asserted by the PET in the Commonwealth's Title III cases. The PET will be structured to provide priority treatment for claims arising from deposits of certain federal funds with GDB. As with the assets securing the New Bonds, certain assets to be placed in the PET are expressly subject to further diligence and recategorization.

The RSA also requires the Commonwealth's Governmental and Business-Type entities to net their debts with GDB against their deposits and investments also held by GDB. GDB ceased its operations on March 23, 2018 and is currently winding down in an orderly fashion under Title VI of PROMESA. On April 25, 2018, FAFAA and GDB resubmitted the RSA, as amended by the four amendments thereto, to the Oversight Board for recertification. On May 8, 2018, the Oversight Board recertified the RSA as compliant with the GDB fiscal plan dated April 20, 2018 and certified the RSA as a Qualifying Modification under section 601 of PROMESA. The RSA was finally executed on November 29, 2018. The Administration has a claim of approximately $36,553,000 against the PET in respect of its deposits with GDB. Such claim is payable from the revenues, if any, generated by the PET Assets.

EDB continues with its financial crisis and even thought it took several measures to control its business decline, it has not been enough. On October 23, 2018, the financial Oversight and Management Board approved the Commonwealth Fiscal Plan which, included the closure of EDB.

During the year ended June 30, 2018, the Administration recognized an impairment loss for the short-term deposits held with EDB of approximately of $1,130,000.

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4) Notes, Interest and Other Receivables, net:

As of June 30, 2019, notes, interest and other receivables had a balance of $1,113,757, net of allowance for doubtful accounts of $2,988,366. Balance is composed of the following:

Receivables from government entities:

Description	Amount
Puerto Rico Land Authority	$ 15,000
Ponce Ports Authority (formerly America's Port Authority)	609,610
Roosevelt Roads Local Redevelopment Authority	537,500
	1,162,110
Less: Allowance for doubtful accounts	(609,610)
	$ 552,500

Rent and land leases from governmental entities:

Description	Amount
Municipality of San Juan	$ 723,679
Municipality of Ponce	265,806
Municipality of Arecibo	156,429
Puerto Rico Metropolitan Bus Authority	294,744
Other governmental entities	153,265
	1,593,923
Less: Allowance for doubtful accounts	(1,524,468)
	$ 69,455

Notes, interest and other receivables are as follows:

Description	Amount
Notes and other receivables from third parties	$ 99,507
Interest receivable	10,408
Rent and land leases	1,236,175
	1,346,090
Less: Allowance for doubtful accounts	(854,288)
	491,802
Total notes, interest and other receivables, net	$ 1,113,757

5) Land and Properties:

The Administration's land and properties inventory is segregated into the following categories:

Leased under long-term contracts – Represent the investment in land and properties subject to lease contracts for varying terms. Long-term lease agreements cover initial periods of five to thirty years with renewal option periods of up to ten years. Real estate taxes, insurance and maintenance expenses are usually obligations of the lessees. Contracts provide, in certain cases, for rent increases during renewal periods to be based on fixed percentages of land market values at dates of renewal:

- Cataño Fuel Storage and Pier Facilities – The Administration owns certain fuel storage and pier facilities in Cataño, Puerto Rico. These facilities are fully depreciated and amortized. The following summarizes the Administration's investment in these facilities as of June 30, 2019:

Description	Useful life (In years)	Amount
Structures and improvements	10 -15	$ 3,603,578
Machinery, equipment and tanks	25	12,295,933
		15,899,511
Less: Accumulated depreciation and amortization		(15,899,511)
		-
Land		2,817,919
		$ 2,817,919

- Other properties – As of June 30, 2019, other properties consist of the following:

Description	Useful life (In years)	Amount
Land – Frente Portuario	-	$ 11,584,006
Project – Frente Portuario	25	2,114,375
Improvements – Finca Multeada	25	3,403,920
Plaza Isabela	18	1,596,878
		18,699,179
Less: Accumulated depreciation and amortization		(1,634,401)
		$ 17,064,778

During the year ended June 30, 2019, amortization expense of improvements amounted to approximately $153,000.

Held-for-sale – Land and properties held for sale (principally to other governmental entities) include land purchased by the Administration on behalf of other governmental entities. Land that is acquired on behalf of other governmental entities generally includes certain holding costs, which are subject to reimbursement by the acquiring entity. Funds received under this program from the acquiring governmental entities are classified as deposits on sale of land and properties held-for-sale in the accompanying statement of net position, until title is transferred to the buyer. As of June 30, 2019, the deposits received for optioned land and properties amounted to approximately $32,000,000.

Held-for-future use – This category includes undeveloped lots of land, some of which are designated for possible sale to third parties, and properties under development and/or held-for-sale to third parties. As of June 30, 2019, properties held-for-future use consist of the following:

Description	Amount
Project – San Juan Waterfront	$ 2,880,500
Project – Paramount Theater	10,652,414
Project – “Antigua Sede del Departamento de Salud”	4,800,000
	$ 18,332,914

On August 10, 2017, the Governor of the Commonwealth Dr. Ricardo Rosselló signed the Resolution No. 15-2017; which transfers possession of the "Antigua Sede del Departamento de Salud" to the Administration. Impact of hurricane Maria caused delay in the process to transfer the property to the Administration; it was executed in September 1, 2018. The Administration classified this property as property held-for-future use in its statement of net position.

6) Capital Assets, net:

During the year ended June 30, 2019, activity of capital assets is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated, land	$ 106,428	$ -	$ -	$ 106,428
Capital assets being depreciated:				
Buildings and improvements	14,927,953	-	-	14,927,953
Furniture and equipment	1,276,888	13,974	-	1,290,862
Vehicles	191,179	-	-	191,179
Computer software	102,737	-	-	102,737
	16,498,757	13,974	-	16,512,731
Less: Accumulated depreciation and amortization	(11,356,709)	(763,175)	-	(12,119,884)
	5,142,048	(749,201)	-	4,392,847
	$ 5,248,476	$ (749,201)	$ -	$ 4,499,275

7) Deferred Outflows of Resources:

As of June 30, 2019, deferred outflows of resources is composed of pension related items for approximately $3,196,000 and other OPEB related items for approximately $84,000. Refer to additional details on Notes 11 and 12, respectively.

8) Due to Governmental Entities:

Amounts due to governmental entities as of June 30, 2019, consisted of the following:

Description	Amount
Commonwealth of Puerto Rico	$ 2,161,277
Department of Natural Resources	1,054,398
"Centro de Recaudación de Ingresos Municipales (CRIM)"	467,566
Other entities	34,065
	$ 3,717,306

9) Compensated Absences:

During the year ended June 30, 2019, activity for compensated absences is as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Accrued vacations	$ 233,077	$ 141,063	$ (141,315)	$ 232,825	$ 232,825

10) Deferred Inflows of Resources:

As of June 30, 2019, deferred inflows of resources consist of the change in proportion and net difference between projected and actual earnings in pension plan investments for approximately $2,452,000. Refer to additional details on Note 11.

11) Pension Reform and Plan Description:

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

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

Act No. 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017 and 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 Plan. Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board established under Act No. 106-2017. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Act No. 106-2017, among other things, amended Act No. 447 with respect to Plan's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106-2017, Plan's Board of Trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing all of the Commonwealth's three major pension systems, including the Plan.

Defined Benefit Program

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become 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 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

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Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447* – Members – *Act* No. 447: members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 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. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below:

Date of Birth	Attained Age as of June 20, 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

(2) *Eligibility for Act No. 1 Members* - Act No. 1 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 members could retire upon (1) attainment of age 55 with 25 years of credited service, or (2) attainment of age 65 with 10 years of credited service.

Act No. 1 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.

(3) *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.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 20, 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

Service Retirement Annuity Benefits

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

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

Refer to the standalone financial statements of the Plan for further information on additional benefits.

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

As of June 30, 2019, the Administration reported a liability of approximately $38.9 million for its proportionate share of the total pension liability.

The total pension liability was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 (measurement date). The Administration's proportion of the total pension liability was based on the ratio of the Administration's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2018, the Administration's proportionate share was 0.15882%.

Actuarial Assumptions and Methods:

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018 actuarial valuation were as follows:

a) *Pre-retirement Mortality*

   For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

b) *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2019, the Administration reported a pension liability of $38,894,797 for its proportionate share of the total pension liability.

As of June 30, 2019, total pension liability was measured as of June 30, 2018 and the total pension liability was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to the measurement date of June 30, 2018. The Administration's proportion of the total pension liability was based on the ratio of each participating entity’s actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2019, the Administration's proportionate share was 0.15882%, which resulted in an increase of 0.00405% from its proportionate as of June 30, 2018 (using the measurement date as of June 30, 2018).

- Actuarial Assumptions and Methods

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

Actuarial cost method:	Entry age normal
Inflation rate:	Not applicable
Salary increases:	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

- Discount Rate

  The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

- Sensitivity of the Administration's Proportionate Share of Total Pension Liability to Changes in the Discount Rate

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

Description	1% Decrease or 2.87%	Current Discount Rate or 3.87%	1% Increase or 4.87%
Total pension liability	$ 44,258,651	$ 38,894,797	$ 34,541,015

For the year ended June 30, 2019, the Administration recognized pension expense of approximately $1,140,000. Deferred outflows and deferred inflows of resources from pension activities by source reported by the Administration in the statement of net position as of June 30, 2019, are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investments earnings on pension plan investments	$ -	$ -
Differences between actual and expected experience	-	1,176,379
Changes of assumptions	-	1,275,442
Changes in proportion	952,219	-
Benefits paid and accrued under Pay-Go System	2,243,342	-
	$ 3,195,561	$ 2,451,821

The benefits paid and accrued subsequent to the measurement date and reported as deferred outflows of resources, are related to the Pay-Go System and are due to the Commonwealth of Puerto Rico. These benefits will be recognized as a reduction of the total pension liability after June 30, 2019.

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

Years ending June 30,	Amount
2020	$ (299,920)
2021	(299,920)
2022	(299,920)
2023	(299,920)
2024	(299,921)
	$ (1,499,601)

12) Other Postemployment Benefit Plan (OPEB Plan):

The Administration participates in the OPEB plan of the Commonwealth for retired employees, through the ERS MIPC, in accordance with local law. The OPEB plan is administered on a pay-as-you-go basis.

The OPEB plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

- <u>OPEB Liability, OPEB Expense and Deferred Outflows of Resources</u>

As of June 30, 2019, the Administration reported a liability of $987,251 for its proportionate share of the OPEB liability. The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

As of June 30, 2019, the Administration's proportionate share was 0.11723%, which resulted in an increase of 0.00288% from its proportionate as of June 30, 2018 (using the measurement date as of July 1, 2017). The Administration recognized a recovery on OPEB expense for approximately $68,000, during the year ended June 30, 2019.

The deferred outflows of resources related to the OPEB plan results from the Administration's contributions subsequent to measurement date amounting to approximately $84,000 as of June 30, 2019, and will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2020. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

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- Actuarial Assumptions and Methods

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

Valuation date:	July 1, 2017
Measurement date:	June 30, 2018
Actuarial cost method:	Entry age normal
Medical trend rate:	Not applicable

Discount rate – The discount rate was of 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality – The mortality tables used for valuation were as follows:

a) *Pre-retirement Mortality*

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

b) Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

c) Post-retirement Disable Mortality

Rates vary by gender are assumed for disabled retirees based on study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Sensitivity of the Administration's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Administration at June 30, 2019 calculated using the discount rate of 3.87%, as well as the Administration's total OPEB liability if it were calculated using the discount rate of 1 – percentage point lower (2.87%) or 1 – percentage point higher (2.87%) than the current rate:

Description	1% Decrease or 2.87%	Current Discount Rate of 3.87%	1% Increase or 4.87%
Total OPEB liability	$ 1,082,815	$ 987,251	$ 906,116

13) Termination Benefits:

Voluntary termination benefits

On July 2, 2010, the Legislature of the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 47.5% to 50% of each employee's salary, as defined.

In this early retirement benefit program, the Administration will make the employee and employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one month to six months' salary, based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement, or have the age for retirement, the Administration will make the employee and employer contributions to the Retirement System for a five-year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by the Administration's management.

As of June 30, 2019, unpaid benefits on this program were discounted for employees under the Article 4b at 2.50%.

As of June 30, 2019, the present value of future incentive payments reported as a liability amounted to approximately $1,178,000. During the year ended June 30, 2019, the Administration recorded an expense for approximately $45,000, which is included in the statement of revenues, expenses and changes in fund net position and previously considered in the present value of future incentive payments computation.

From the total aggregate liability of the program as of June 30, 2019, the amount of approximately $161,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1,017,000. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

Voluntary pre-retirement program

On December 8, 2015, Act No. 211-2015 was approved to create a Voluntary Pre-retirement Program. This Act establishes that employees who have been working for the Commonwealth and enrolled in the Employees' Retirement System (ERS) before April 1, 1990 with at least 20 years of service may be eligible to participate in the payment of employer contributions on account of Social Security and Medicare; and the payment of the participant's healthcare plan during the first two years of the program. This program also provides for the employer to continue making both individual and employee contributions to the ERS. The Administration is in the process of implanting this program.

In August 2016, nine (9) employees signed an agreement to select the Voluntary Preretirement Program for a total complete program and liquidation impact of approximately $1,368,000. As of June 30, 2019, unpaid benefits on this program were discounted for employees at 2.40%. The Act No. 2011-2015 stipulate that the review and approval of Puerto Rico Office Management and Budget (PROMB) is required before implementation. On August 1, 2017, PROMB approved the program for the Administration.

During the year ended June 30, 2019, the Administration recognized expenses for approximately $1,368,000 related to this program. As of June 30, 2019, the present value of future incentive payments reported as a liability amounted to approximately $775,000. From the total aggregate liability of the program as of June 30, 2019, the amount of approximately $303,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $472,000. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

The activity for termination benefits included in the accompanying statement of net position, during the year ended June 30, 2019, is as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Termination benefits	$ 2,355,568	$ -	$ (402,153)	$ 1,953,415	$ 464,328

14) Interagency Agreements:

On April 2, 2014, the Administration entered into an agreement with the Department of Economic Development of Puerto Rico (the Department). The entity responsible to implement and execute public policy for the economic development of Puerto Rico is the Department. Based on that fact, an annual Reorganization Plan has been established. Under the agreement, the Department assists in interagency coordination, project management, strategic planning, incentive administration, legal and legislative advisors, as well as advertising, communication, promotion, travel, contracting and designations. For the year ended June 30, 2019, there were no outstanding fees related to this agreement.

On July 16, 2015, the Administration entered into a three (3) years agreement with the Port Authority of Ponce (the Authority). Under the agreement, the Administration assists in payments on behalf of the Authority for professional services. The Authority then reimburses the amount to the Administration. Total receivable for this service as of June 30, 2019, amounted to $609,610 and it is fully reserved as an uncollectible account.

15) Rental Income Commitments:

The Administration has entered into various long term rental agreements of certain land and properties available.

The Cataño Fuel Storage and Pier facilities are leased to several companies engaged in the fuel distribution industry. Lease agreements establish a minimum annual lease payment or a "thru put" fee based on a U.S. gallon of bulk petroleum products at 60^{O} F, passing through the facilities, whichever is greater. The leases' expiration dates fluctuate from March 20, 2023 through December 26, 2028. The leases contain renewal options that go from one additional ten-year period to extensions of 15 years.

The rental agreements have a quarterly rental payment that ranges from approximately $107,000 to $588,000, with an aggregate average monthly payment of approximately $658,000 as of June 30, 2019. During the year ended June 30, 2019, net rental income under these lease agreements, is as follows:

Description	Amount
Gross rental income	$ 8,072,352
Plus: Property taxes	448,695
	$ 8,521,047

Minimum annual rentals under these contracts for the years subsequent to June 30, 2019, are as follows:

Year ending June 30,	Amount
2020	$ 7,957,015
2021	8,009,802
2022	8,102,196
2023	8,143,819
2024	5,746,353
Thereafter	26,681,417
	$ 64,640,602

The rental agreements related to Other Properties have a monthly or semi-annual rental payment that ranges from $1 to $27,100, with an aggregate average monthly payment of approximately $50,000, as of June 30, 2019. For the year ended June 30, 2019, rent revenues on such rental agreements amounted to approximately $4,036,000, which are reported as part of rental income.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2019, are as follows:

Year ending June 30,	Amount
2020	$ 4,062,819
2021	3,766,326
2022	1,720,756
2023	1,578,159
2024	1,441,181
Thereafter	27,543,079
	$ 40,112,320

16) Other Commitment:

Guarantees – The Administration has entered into a purchase option agreement with the Authority for the Local Redevelopment of the Naval Station Roosevelt Roads (the Authority). Under the terms of this purchase agreement, the Administration will acquire the real estate properties located at Naval Station Roosevelt Roads. The agreement established an estimated price of $2,500,000 for such properties. As part of the purchase option, the Administration will pay a deposit of $600,000.

The purchase option agreement expired on June 30, 2016 and the Authority will have to reimburse the deposit amount to the Administration. The Authority presented a payment plan for the reimbursement of the deposit amount due to their current economic conditions and cash flows difficulties which was approved on May 4, 2017 by both parties. As of June 30, 2019, the balance due from the Authority amounted to approximately $538,000, which was recorded as part of the notes, interest and other receivables balance in the accompanying statement of net position.

17) Contingencies:

The Administration is a party in legal claims arising from land condemnations principally on behalf of other government entities. The management of the Administration, after consulting with legal counsels, is of the opinion that any liabilities arising from claims of land condemnations on behalf of others, which for the most part represent additional costs of land acquired and not yet sold, will be assumed by the governmental instrumentality that will ultimately acquire the land.

The Administration was notified in 1992 by the Environmental Protection Agency (EPA) that it was a Potential Responsible Party (PRP) under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The EPA also named other private and governmental sector PRPs. The public sector PRPs are the Municipality of Juncos and the Puerto Rico Housing Administration.

EPA alleged that the private PRPs deposited and/or arranged for disposal of hazardous substances at the Juncos Landfill. EPA also alleged that the governmental PRPs were either aware of the land and/or operations, and therefore, were responsible for part of the liability associated to the disposal of hazardous substances at the site.

According to the case file, the governmental PRPs must enter into an interagency agreement to allocate to each governmental PRP responsibility and duties, which currently include monthly maintenance activities. It was preliminarily agreed that the governmental PRPs will pay $2,000 monthly for one year to the Municipality of Juncos for the acquisition of equipment to be used in maintenance activities. The Administration argues that its share of responsibility is 10% of said amount. It should be noted, however, that the maintenance activities would, in effect, for at least 25 years. The governmental PRPs have been negotiating each one's share of liability in order to contribute accordingly. As of the date of these financial statements, the governmental PRPs have not reached an agreement.

In addition to the foregoing, the EPA was claiming $645,758 from the governmental PRPs as alleged costs incurred in the relocation of nearby residents of the condemned site. The governmental PRPs and the EPA reached an agreement on June 22, 2010 to settle the EPA's claim for $367,753. While the governmental PRPs reached jointly that agreement with the EPA, they were supposed to reach an internal agreement to allocate each other's liability in order to pay its share of the agreed amount to the EPA. The governmental PRPs were not able to reach an internal agreement on to allocate each one's liability.

The Administration decided it would pay one third ($122,584) of the amount owed to the EPA as its share in order to bring the case to an end and to avoid potential future litigation costs and additional efforts. Since the agreement with the EPA was made jointly by the governmental PRPs, in the event that there is an outstanding balance not satisfied by any of the other governmental PRPs, the EPA may still come after the Administration for collection of such balance.

The Administration is also a party in other claims arising in the ordinary course of business. Management, based on consultation with its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Administration's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $748,000 has been reflected as part of the accounts payable and accrued liabilities balance in the accompanying statement of net position.

18) Real Property Taxes:

In 2010, the Administration decided to make use of the benefits provided by Article No. 14 of Law 71 of July 2, 2010. Such Act authorized the elimination of penalties and interests on real property taxes and provided discounts to those taxpayers who pay the property tax debt in its entirety. A reserve of approximately $468,000 is included in the accompanying financial statements to cover any tax assessment on properties owned by the Administration.

19) Subsequent Events:

Claim to Federal Management Administration (FEMA) for Hurricane Maria

During the year 2019, the Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimates losses. Accordingly, up to December 2019, the Administration has presented a claim in respect to hurricane damage to the Federal Emergency Management Administration (FEMA). The claim is pending to be evaluated by FEMA.

Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to 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.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes.

On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Guánica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020 earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages ascending to $836 million.

Puerto Rico has continued experiencing aftershocks that are not expected to stop any time soon. According to a January 29, 2020, report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

The Administration identified one property with structural damages related to the events of earthquakes, this property is referred as "Antiguo Casino de Ponce" which is located in the municipality of Ponce, and it is actually under a long-term contract with the same municipality to operate the casino. During the year 2020, the Administration started a process to sign a Memorandum of Understanding (MOU), in order to FEMA considers the municipality as a subrecipient and obtain federal funds to repair damages of the property.

<u>COVID-19 Pandemic</u>

Executive Orders

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 executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Secretary of the DOT and the Executive Director of the PROMB 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.

On March 15, 2020, the Governor issued executive order EO 2020-023 ordering a curfew for all citizens requiring them to stay at home from 9 p.m. to 5 a.m., allowing them to use the public roads, within this time frame, under specific circumstances such as: (1) purchasing food, pharmaceutical and basic necessity products; (2) keeping medical appointments or visiting a hospital, laboratory, or healthcare facility; (3) commuting, for public and private employees who provide essential services; (4) returning to place of residence from an allowed activity; (5) providing assistance, care, transportation of senior citizens, children, dependents, people with disabilities or requiring medical or professional attention; and (6) visiting financial institutions, provided that all necessary precautions are taken to prevent the risk of spreading the disease.

On March 23, 2020, the Governor issued executive order EO 2020-026 to create and establish the Executive Committee of Medical Advice, also known as the COVID-19 Medical Task Force, which will perform functions jointly with the PRDOH and will be in charge of studies, research and development of strategic plans to manage the Coronavirus pandemic emergency and provide a coordinated response to the citizens of Puerto Rico.

On March 27, 2020, the Governor issued executive order EO 2020-028 to activate the National Guard Medical Unit to provide support to the DOH and any other agency providing services during the pandemic emergency.

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On March 30, 2020, the Governor issued executive orders EO 2020-029 and EO 2020-030 ordering a lockdown in Puerto Rico. The citizens of Puerto Rico are instructed to stay at their residences the 24 hours of a day for the 7 days of the week from March 31, 2020 to April 12, 2020 and only be allowed to use the public roads, during the hours between 5 a.m. and 7 p.m., under the circumstances previously allowed by EO 2020-023. Moreover, the order provides a description of the services and businesses that are allowed to operate during the emergency; informs its citizens that the collection of tolls fees will be reinstated after March 31, 2020; provides a limited window for payroll related employees to visit their employer's offices to process the payroll payments for the month of March; orders the DNER to shut down all docks to discourage the maritime traffic of recreational boats and authorizes the agency to establish a surveillance plan of the island's coasts, in coordination with the state and municipal police, to enforce compliance with the instructions provided by the executive order; establishes a mandatory 14-day quarantine for all passengers arriving to the Luis Muñoz Marin international airport as of the issue date of the executive order.

On April 12, 2020, the Governor issued executive order EO 2020-033 extending the curfew imposed on the citizens of Puerto Rico and the control measures implemented to contain the spread of the COVID-19 through the island until May 3, 2020. On May 1, 2020, the Governor issued executive order EO 2020-038, which extended the curfew and other COVID-19 control measures through May 25, 2020 but also lifted certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules. This initial reopening is limited to primary and specialist doctors and dentists, animal shelters, vehicle repair and parts services, laundromats, elevator inspections, services to ports and airports, air conditioner repair and maintenance services, notary services, and critical infrastructure services, among others. As the Government observes and assesses the results of this limited reopening, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare and safety of the people of Puerto Rico.

On May 26, 2020, the Governor issued executive order EO 2020-033 which further extended the mandatory curfew until June 15, 2020 but expanded commercial activities. Thereafter, following the recommendation of the Governments medical and economic task forces and federal guidelines continued to issue other Executive Orders which eased certain restrictions imposed or imposed more severe restrictions in order to control the spread of the COVID 19 virus thru the Island.

As of today, the Administration's management had no identified adverse effects from the COVID-19 pandemic emergency in its operational cash flows.

<u>Economic Stabilization Measures</u>

On March 23, 2020, the Oversight Board agreed with the Commonwealth to provide support to the Puerto Rican people, frontline workers, educators and students, and small businesses. The $787 million Emergency Measure Support Package consists of $500 million that had to be authorized as an incremental appropriation to the fiscal year 2020 General Fund budget in compliance with the budgetary process under PROMESA, $157 million of reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and $131 million of Federal funds. This Emergency Measures Support Package is in addition to the availability of $160 million from Puerto Rico's Emergency Reserve Fund the Oversight Board had already authorized.

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

Act No. 164 of December 30, 2020

On December 30, 2020, Act No. 164, was approved, to amend the Articles 4, 7, 11, 14 and 15 of the Act No. 13 of May 16, 1962. Pursuant to this Act, the Administration is exempt from payments related to property, state or municipal taxes.

The Administration has evaluated subsequent events from the statement of net position date through September 22, 2021, the date at which the financial statements were available to be issued, and determined that there are no additional subsequent events to be disclosed.

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PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
Fiscal years ended June 30, 2019 and 2018

Description		**2019***		2018*
Proportion of Total Pension Liability		0.15882%		0.15477%
Proportionate Share of Total Pension Liability	$	38,894,797	$	43,652,509
Covered - Employee Payroll		-		-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll		N/A		N/A

* The amounts presented have a measurement date of the previous fiscal year end.
* Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2019 was the first year that the Administration transitioned from GASB No. 68 to GASB No. 73 resulting from the enactment of Act No. 106-2017. This schedule is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL POSTEMPLOYMENT BENEFIT LIABILITY AND RELATED RATIOS (UNAUDITED)
Fiscal years ended June 30, 2019 and 2018

Description	**2019***	2018*
Proportion of Total Other Post Employment Benefit Liability	0.11723%	0.11435%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 987,251	$ 1,052,621
Covered - Employee Payroll	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A

* The amounts presented have a measurement date of the previous fiscal year end.

* Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2017 was the first year that the new requirements of GASB No. 75 were implemented at the Administration. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

1) Criteria in paragraph 4:

Act No. 106-2017 provided that the Plan would be funded on a PayGo basis and no assets would be accumulated in a pension trust the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 3.87% as of June 30, 2018.

As a result of the enactment of Act No. 106-2017, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

2) Factors that significantly affect trends in the amounts reported:

Factors that significantly affect trends in the amounts reported were identified as follows:

Determination of proportionate share – Under GASB Statement No. 73 the collective pension liability, pension expense and deferred outflows and inflows should be determined for the plan as a whole. According to GASB Statement No. 73 "the basis for the government's proportion should be consistent with the manner in which the amounts that are paid as benefits come due are determined". Actuarial' s approach to determine the proportionate share as the ratio of each entity's benefit payments to the total benefit payments during the year ending on the measurement date complies with GASB Statement No. 73. Previously under GASB Statement No. 68 each employer's proportionate share of the collective amounts was consistent with the manner in which contributions were determined and reflected that employer's projected long-term contribution effort relative to that of all employers in the plan. The change in the determination of the proportionate share is the principal difference in the calculation and allocation of pension costs in the application of GASB Statement No. 73.

Actuarial assumptions – There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the increase in the discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.