

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, 2023**

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, 2023

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Land Administration

Opinion

We have audited the financial statements of the Puerto Rico Land Administration, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2023, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Land Administration as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Puerto Rico Land Administration, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Land Administration's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Puerto Rico Land Administration's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Land Administration's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, are 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
June 7, 2024.

Stamp No. E576800 was affixed to
the original of this report.





**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023
(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, 2023. The information presented herewith should be read in conjunction with the Administration's basic financial statements and accompanying notes.

1. FINANCIAL HIGHLIGHTS

- Total assets increased by approximately \$397 thousand (or 0.12%)
- Deferred outflows of resources decreased by approximately \$1.2 million (or 16.67%)
- Cash increased by approximately \$12.4 million (or 44.46%)
- Capital assets decreased by approximately \$676 thousand (or 28.05%)
- Total liabilities decreased by approximately \$9.1 million (or 11.09%)
- Total pension liability decreased by approximately \$7.4 million (or 17.28%)
- Deferred inflows of resources decreased by approximately \$7.5 million (or 8.40%)
- Operating expenses decreased by approximately \$2.9 million (or 37.07%)
- During the year 2023 the Administration received Intergovernmental revenues for \$1.5 million.
- Non-operating revenues increased by \$900 thousand (or 95.68%)

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 plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. An 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



**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023
(UNAUDITED)**

resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where cash came 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	2023	2022	Increase (Decrease)	Percentage
ASSETS:				
Cash and restricted cash	\$ 40,429	\$ 27,987	\$ 12,442	44.46%
Notes, interest, and other receivables, net	1,038	793	245	30.90%
Accrued interest lease receivable	470	484	(14)	(2.89%)
Prepaid insurance	241	192	49	25.52%
Land and properties leased under long-term contracts	18,951	19,184	(233)	(1.21%)
Land and properties held-for- sale and held-for-future use	183,680	187,333	(3,653)	(1.95%)
Capital assets	1,734	2,410	(676)	(28.05%)
Lease receivable	79,313	87,076	(7,763)	(8.92%)
	<u>325,856</u>	<u>325,459</u>	<u>397</u>	<u>0.12%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>6,240</u>	<u>7,488</u>	<u>(1,248)</u>	<u>(16.67%)</u>
LIABILITIES	<u>73,009</u>	<u>81,942</u>	<u>(8,933)</u>	<u>(10.90%)</u>
DEFERRED INFLOWS OF RESOURCES	<u>81,448</u>	<u>88,920</u>	<u>(7,472)</u>	<u>(8.40%)</u>
NET POSITION:				
Net investment in capital assets	1,734	2,410	(676)	(28.05%)
Unrestricted	<u>175,905</u>	<u>159,675</u>	<u>16,230</u>	<u>10.16%</u>
	<u>\$ 177,639</u>	<u>\$ 162,085</u>	<u>\$ 15,554</u>	<u>9.60%</u>



**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023
(UNAUDITED)**

The Administration's net position increased by approximately \$15.5 million, mainly due to the result of operations during fiscal year ended June 30, 2023, which includes a recovery for pension for approximately \$2.6 million when compared to prior year.

Total assets and deferred outflows of resources decreased by approximately by \$852 thousand, which is net of decrease in lease receivable of approximately \$7.7 million, an increase of approximately \$12.4 million in cash, and a decrease of approximately \$234 thousand in land and properties leased under long-term contracts mainly related to the depreciation expense of the year. In addition, there was a decrease in capital assets of approximately \$676 thousand, which includes the depreciation expense for the year of approximately \$693 thousand, and a decrease of \$3.6 million in properties held for sale. Also, there was a decrease in deferred outflows of resources for approximately \$1.2 million related to pension and other postemployment benefits.

The increase in cash is related to net cash provided by operating activities for approximately \$3.9 million, and disposition of land and federal funds received of approximately \$10.4 million.

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

Description	2023	2022	Increase (Decrease)	Percentage
OPERATING REVENUES:				
Land and properties sales (net)	\$ 2,166	\$ -	\$ 2,166	100.00%
Rental income	14,179	14,724	(545)	(3.70%)
Intergovernmental	1,544	-	1,544	100.00%
	17,889	14,724	3,165	21.496%
OPERATING EXPENSES	4,938	7,814	(2,876)	(36.81%)
NON-OPERATING REVENUES	2,603	8	2,595	32,437.50%
INCREASE IN NET POSITION	\$ 15,554	\$ 6,918	\$ 8,636	124.83%

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, pensions, professional services, and depreciation and/or amortization.



**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023
(UNAUDITED)**

The Administration's strategy is focused on long-term ownership of the current resources and leased them. During the year ended June 30, 2023, the Administration remain constant in terms of operations related to the lease of land and properties.

Operating expenses decreased by approximately \$2.9 million (or 37.07%), mostly caused by the following:

- Increase in professional services for approximately \$728 thousand (or 188.57%) and increase in utilities of approximately \$173 thousand (or 69.88%).
- Pension costs of the current year were approximately \$4.5 million less than the prior year due to a change in actuarial valuation of pension liability.
- There was an increase in repair and maintenance expenses of approximately \$16 thousand, mainly related to repairs performed during the year on property and equipment.

Capital Assets – 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.

The following table summarizes the capital assets of the Administration as of June 30, 2023 and 2022, (all amounts in thousands):

Description	2023	2022	Increase (Decrease)	Percentage
CAPITAL ASSETS:				
Land	\$ 106	\$ 106	\$ -	0.00%
Building and improvements	14,928	14,928	-	0.00%
Furniture and equipment	1,341	1,336	5	0.37%
Vehicles	191	191	-	0.00%
Computer software	103	103	-	0.00%
Less: Accumulated and amortization	(14,935)	(14,254)	(681)	4.78%
	<u>\$ 1,734</u>	<u>\$ 2,410</u>	<u>\$ (676)</u>	<u>(28.05%)</u>



**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED
JUNE 30, 2023
(UNAUDITED)**

Change in accumulated depreciation is due to depreciation expense of buildings and improvements for approximately \$693 thousand, and acquisition of furniture and equipment for approximately \$18 thousand, and disposal of fully depreciated equipment by \$13 thousand for the year ended June 30, 2023. For a detailed activity of capital assets, please refer to Note 7 of the basic financial statements.

4. COMMITMENTS

Guarantees

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 19 of the accompanying basic financial statements.

Claim to Federal Management Administration (FEMA)

During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, on December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million. During the year ended June 30, 2023, the Administration has expenditures of approximately \$803 thousand related to federal funds. Refer to Note 17 of the accompanying basic financial statements.

5. 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, 2023

ASSETS

CURRENT ASSETS

Cash	\$	40,172,885
Restricted cash		255,625
Notes, interest and other receivables, net		1,038,840
Lease receivable		7,588,810
Accrued interest lease receivable		470,159
Prepaid insurance		241,256
		<hr/>
		49,767,575
		<hr/>

NON-CURRENT ASSETS

Lease receivable		<hr/>	71,724,008	<hr/>
Land and properties:				
Leased under long-term contracts—				
Cataño Fuel Storage and Pier Facilities, net			2,817,919	
Other properties, net			16,132,695	<hr/>
			18,950,614	
Held-for-sale			165,121,612	
Held-for-future use			18,558,316	<hr/>
			202,630,542	
Capital assets, net			1,734,020	<hr/>
			204,364,562	<hr/>
			325,856,145	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

Pension related		6,170,745
Other postemployment benefits related		68,900
		<hr/>
		6,239,645
		<hr/>
	\$	332,095,790
		<hr/>

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

STATEMENT OF NET POSITION
June 30, 2023

Continued...

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$	3,316,824
Due to governmental entities		1,332,301
Compensated absences		138,287
Termination benefits		246,636
Total pension liability		2,112,273
Other post-employment benefits liability		74,600
Unearned revenues — intergovernmental		255,625
Unearned rent		359,733
		<hr/>
		7,836,279
		<hr/>

NON-CURRENT LIABILITIES

Compensated absences		221,446
Termination benefits		658,566
Total pension liability		33,215,853
Other post-employment benefits liability		797,984
Guaranty rent deposits		1,080,878
Deposits on sales of land and properties held-for-sale		29,197,932
		<hr/>
		65,172,659
		<hr/>
		73,008,938
		<hr/>

DEFERRED INFLOWS OF RESOURCES

Pension related		4,156,906
Leases		77,291,501
		<hr/>
		81,448,407
		<hr/>

NET POSITION

Net investment in capital assets		1,734,020
Unrestricted		175,904,425
		<hr/>
	\$	177,638,445
		<hr/>

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, 2023

OPERATING REVENUES

Land and properties sales	\$ 6,044,168
Less: Cost of land and properties sold	(3,878,607)
	<hr/>
Gain on sales of land and properties	2,165,561
Rental income	14,061,141
Intergovernmental	1,544,033
Release of rent receivable reserve	118,631
	<hr/>
	17,889,366

OPERATING EXPENSES

Salaries and fringe benefits	3,278,421
Pension recovery	(2,578,518)
Professional services	1,854,757
Utilities	422,601
Property taxes	36,825
Insurance	407,288
Repairs and maintenance	114,267
Depreciation and amortization	926,435
Other	476,866
	<hr/>
	4,938,942

OPERATING INCOME	12,950,424
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NON-OPERATING REVENUES

Interest income on leases	1,563,825
Interest income	805,049
Other income	234,318
	<hr/>

INCREASE IN NET POSITION	15,553,616
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NET POSITION, beginning of year	162,084,829
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NET POSITION, end of year	<u><u>\$ 177,638,445</u></u>
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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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Rental income	\$ 12,849,190
Proceeds from sale of land and properties	3,274,324
Intergovernmental advances	1,799,659
Payment to employees and related payroll costs	(5,731,882)
Payments for goods and services	(2,123,359)
Net cash provided by operating activities	<u>10,067,932</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Interest income	805,049
Capital expenditures	(17,600)
Net cash provided by financing activities	<u>787,449</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income on leases	1,577,664
Interest collected on cash deposit accounts	234,319
Improvements on land and properties held-for-future use	(225,402)
Net cash provided by investing activities	<u>1,586,581</u>

NET INCREASE IN CASH	12,441,962
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CASH, beginning of year	<u>27,986,548</u>
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CASH, end of year	<u><u>\$ 40,428,510</u></u>
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PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2023

Continued...

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 12,950,424
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization of capital assets	693,414
Depreciation and amortization of properties leased under long-term contracts	233,021
Release of rent receivable reserve	(118,631)
(Increase) decrease in assets:	
Notes, interest, and other receivables	(127,390)
Lease receivables	7,763,768
Prepaid insurance	(48,868)
Properties held-for-sale	3,878,608
(Increase) decrease in deferred outflows of resources:	
Pension related	1,242,802
Other postemployment benefits related	5,700
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	1,465,773
Due to governmental entities	(324,464)
Compensated absences	(88,873)
Guaranty rent deposits	47,939
Deposits on sales of land and properties held-for-sale	(2,769,845)
Termination benefits	(135,635)
Total pension liability	(7,378,756)
Other postemployment benefits liability	(65,390)
Unearned rent	60,766
Deferred revenues	255,625
Increase (decrease) in deferred inflows of resources:	
Pension related	1,437,041
Leases	(8,909,097)
Net cash provided by operating activities	<u>\$ 10,067,932</u>
Reconciliation of cash:	
Ending cash per statement of cash flows	\$ 40,428,510
Less: amount reported as restricted cash	<u>(255,625)</u>
Ending cash per statement of net position	<u>\$ 40,172,885</u>

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

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. On December 30, 2020, Act No. 164, was approved, to amend 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 taxes.

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:

Measurement focus basis of accounting and financial statements presentation – 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 includes: (i) statement of net position, (ii) statement of revenues, expenses, and changes in fund net position, and (iii) 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 plus deferred inflows of resources, reported as net position. Net position may be reported in three categories:

- Net investment in capital assets – 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.
- Restricted component of net position – Consists of restricted assets reduced by related liabilities. Restricted net assets result when constraints are placed on the use of net assets, either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted component of net position – Is the net amount of (i) assets plus deferred outflows of resources, less (ii) liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. Unrestricted component of net position often is assigned in order to indicate that management does not consider them to be available for general operations.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

Unrestricted component of net position 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 pension expense, professional services, 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 cash came 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 US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for uncollectible receivables, lease receivable, useful life of capital assets, impairment on properties held-for-sale and held-for-future-use, total pension liability, and other postemployment benefits liability.

Restricted cash – Funds set aside from federal grants and state contributions for the payment of certain expenses in relation to properties improvements.

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.

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PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

Leases – In fiscal year 2022, the Administration adopted 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 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. During the year ended June 30, 2023, the Administration only has leasing activities as lessor. Lease collections are allocated between principal and interest. The interest is charged to the statement of activities over the lease period. All other short-term 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.

Lease receivable – The Administration's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

Land and properties leased under long-term contracts – Land and properties are purchased and/or constructed are recorded at historical cost. Donated land or properties are recorded at estimated market value at the time of donation.

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)
Structures and improvements	10-25
Machinery, equipment, and tanks	25

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

Land and properties held for sale and for future use – Land and properties held for sale and for future use 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.

The Management of the Administration is of the opinion that the cost of appraising all land and property would represent a significant and unwarranted expense. Appraisals of certain properties were made during the fiscal year 2022, 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, 2023, no impairment was recognized by management.

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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
Computer software	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 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 were no instances of impairment of capital assets during the year ended June 30, 2023.

Compensated absences – Based on Act No. 26 of 2017, employees are granted for the accumulation of 1.25 days per month (15 days annually) of vacation time. 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).

Unearned revenues – The Administration recognized revenue over time or as goods or services are delivered. When cash is received but the related goods or services are not yet provided, the amount is recorded as unearned revenue.

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Termination benefits – 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.

Land and properties sales – 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.

Risk management – 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 2023 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Non-exchange transactions – The Administration accounts for its non-exchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, which establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). 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.

Deferred Outflows/Inflows of Resources – 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 other postemployment benefits related items.

Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date.

Of the other postemployment benefits related items, only other postemployment benefits payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment benefits (OPEB) liability after the next measurement date.

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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. The pension related items include changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions; these items are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period.

In addition, the Administration has one item which is related to its activities as lessor. The deferred inflows of resources is recorded at the initiation of the lease term in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources is amortized on a straight-line basis over the term of the lease.

Accounting for pension costs – The Administration accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Under the guidance of GASB No. 73, the Commonwealth and its component units (including the Administration) are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions made subsequent to the measurement date.

Accounting for other post-employment benefits OPEB – The Administration accounts for OPEB costs under the provisions of the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Qualified retired employees of the Administration participate in the Other Postemployment Plan of the Commonwealth for Retired Participants of the Employee's Retirement System (the OPEB Plan). The OPEB Plan is an unfunded, multi- employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis. Therefore, in accordance with GASB Statement No. 75, the Administration reports its proportionate share of OPEB liability and the related OPEB amounts.

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

- GASB Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
 - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

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- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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- GASB Statement No. 100, *Accounting Changes and Error Corrections*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The Statement does not apply to benefits that are within the scope of Statement No. 47, *Accounting for Termination Benefits*, as amended. This statement supersedes Statement No. 16, *Accounting for Compensated Absences*; Implementation Guide No. 2015-1, Questions 5.255.1, Z.16.1, and Z.16.2; Implementation Guide No. 2016-1, Implementation Guidance Update—2016, Question 5.37; Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Questions 4.20 and 4.21; and Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting), Questions 4.18, 4.19, and 4.496. This Statement amends NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, paragraphs 42, 43, and 158; Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, paragraph 119; Statement No. 68, Accounting and Financial Reporting for Pensions, paragraphs 123, 126-128, 132, and 133; 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, paragraphs 102, 105-107, 111, and 112; Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, paragraphs 10 and 63 and footnote 6; Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, paragraphs 8, 230, 233-235, 239, 240, and 246 and footnote 5; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, paragraph 14; Implementation Guide 2015-1, Question 7.22.4; Implementation Guide 2017-2, Question 4.22; and Implementation Guide 2017-3, Question 4.20.

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The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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

3) Deposits Placed with Bank

The Administration is authorized to deposit funds in the custody of financial institutions approved by the Commonwealth. The Commonwealth's regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount in excess of the federal insurance coverage.

Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Administration may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2023, cash in commercial banks have a carrying amount of approximately \$40.4 million and a depository bank balance of approximately \$40.6 million.

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4) Claim receivable from Public Entity Trust

On August 10, 2018, the Government Development Bank for Puerto Rico (GDB) commenced an action to restructure certain of its indebtedness pursuant to a Qualifying Modification (the Qualifying Modification) under Title VI of PROMESA. The United States District Court for the District of Puerto Rico approved GDB's proposed restructuring on November 6, 2018, and the Qualifying Modification went effective on November 29, 2018.

Pursuant to Act 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Administration, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (i.e., November 29, 2018) (the Closing Date), the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the Administration (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included the Administration, received their pro rata share of interests on the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. As a result of the execution of the Qualifying Modification the Administration received beneficial units of the PET amounting to \$36,553,000 in exchange for the deposits held at GDB. The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim).

The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

The Administration's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case. As a result, as of June 30, 2023, units received from the PET were fully reserved.

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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2023

5) Notes, Interest and Other Receivables, net

As of June 30, 2023, notes, interest, and other receivables had a balance of approximately \$1.0 million, net of allowance for doubtful accounts of approximately \$2.5 million. 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	414,500
Other	6,508
	<u>1,045,618</u>
Less: Allowance for doubtful accounts	<u>(615,610)</u>
Net receivables from governmental entities	<u>\$ 430,008</u>

Refer to Note 13 for further description of the interagency agreement maintained with the Ponce Ports Authority.

Rent and land leases from governmental entities:

Description	Amount
Municipality of San Juan	\$ 700,655
Municipality of Ponce	19,650
Municipality of Arecibo	156,429
Other governmental entities	75,694
	<u>952,428</u>
Less: Allowance for doubtful accounts	<u>(898,280)</u>
Net rent and land leases from governmental entities	<u>\$ 54,148</u>

Continues...

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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2023

Continued...

Notes, interest, and other receivables:

Description	Amount
Notes and other receivables from third parties	\$ 126,510
Interest receivable	10,408
Rent and land leases	1,364,743
	1,501,661
Less: Allowance for doubtful accounts	(946,977)
Net notes, interest and other receivables	\$ 554,684
Total notes, interest and other receivables, net	\$ 1,038,840

6) 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, 2023:

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		(15,899,511)
		-
Land		2,817,919
Cataño fuel storage and pier facilities, net		\$ 2,817,919

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NOTES TO BASIC FINANCIAL STATEMENTS
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Other properties – As of June 30, 2023, other properties consist of the following:

Description	Useful life (In years)	Amount
Land – Frente Portuario	-	\$ 11,584,006
Project – Frente Portuario	25	2,114,376
Improvements – Finca Multeada	25	3,403,920
Plaza Isabela	18	1,596,878
		18,699,180
Less: Accumulated depreciation and		(2,566,485)
Other properties, net		<u>\$ 16,132,695</u>

During the year ended June 30, 2023, depreciation and amortization expense of improvements amounted to approximately \$233 thousand.

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, 2023, properties held-for-sale and deposits received for optioned land and properties amounted to approximately \$165 million and \$29 million, respectively. During the year ended June 30, 2023, the Administration sold a property and recognize a gain on sales of land and properties for approximately \$2.2 million.

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, 2023, 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
Project – Baños de Coamo	225,402
	<u>\$ 18,558,316</u>

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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2023

7) Capital Assets, net

During the year ended June 30, 2023, 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	1,336,176	17,600	(12,695)	1,341,081
Vehicles	191,179	-	-	191,179
Computer software	102,737	-	-	102,737
	<u>16,558,045</u>	<u>17,600</u>	<u>-</u>	<u>16,562,950</u>
Less: Accumulated depreciation and amortization -				
Buildings and improvements	(12,702,711)	(677,863)	-	(13,380,574)
Furniture and equipment	(1,288,820)	(15,551)	12,695	(1,291,676)
Vehicles	(172,124)	-	-	(172,124)
Computer software	<u>(90,984)</u>	<u>-</u>	<u>-</u>	<u>(90,984)</u>
	<u>(14,254,639)</u>	<u>(693,414)</u>	<u>-</u>	<u>(14,935,358)</u>
	<u>\$ 2,409,834</u>	<u>\$ (675,814)</u>	<u>\$ -</u>	<u>\$ 1,734,020</u>

8) Deferred Outflows of Resources

As of June 30, 2023, deferred outflows of resources are composed of pension related items for approximately \$6.2 million and other OPEB related items for approximately \$69 thousand. Refer to additional details on Notes 15 and 16.

9) Deferred Inflows of Resources

As of June 30, 2023, deferred inflows of resources consist of the changes in proportion and assumptions and net difference between projected and actual earnings in pension plan investments for approximately \$4.2 million (refer to additional details on Note 15). In addition, it includes the deferred portion related to the GASB No. 87 Leases for approximately \$77 million (refer to Note 14 for details).

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NOTES TO BASIC FINANCIAL STATEMENTS

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10) Due to Governmental Entities

Amounts due to governmental entities as of June 30, 2023, consisted of the following:

Description	Amount
Commonwealth of Puerto Rico	\$ 1,233,910
Other entities	98,391
Total due to governmental entities	\$ 1,332,301

11) 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 40% 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, 2023, unpaid benefits on this program were discounted for employees under the Article 4b at 3.30%. As of June 30, 2023, the present value of future incentive payments reported as a liability amounted to approximately \$658 thousand. During the fiscal year ended June 30, 2023, the Administration recorded a recovery on expense for approximately \$16 thousand as resulted of the increase in the discount rate, which is included in the statement of revenues, expenses and changes in net position and previously considered in the present value of future incentive payments computation.

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NOTES TO BASIC FINANCIAL STATEMENTS **Fiscal Year Ended June 30, 2023**

From the total aggregate liability of the program as of June 30, 2023, the amount of approximately \$125 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$533 thousand. 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 Act No. 2011-2015 stipulate that the review and approval of Puerto Rico Office Management and Budget (PROMB) is required before implementation.

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 \$1.4 million. On August 1, 2017, PROMB approved the program for the Administration.

As of June 30, 2023, unpaid benefits on this program were discounted for employees at 3.50%. As of June 30, 2023, the present value of future incentive payments reported as a liability amounted to approximately \$247 thousand. From the total aggregate liability of the program as of June 30, 2023, the amount of approximately \$122 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$125 thousand.

12) Non-current Liabilities

The summarized activity on non-current liabilities for the fiscal year ended June 30, 2023, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Compensated absences	\$ 448,606	\$ 147,506	\$ (236,379)	\$ 359,733	\$ 138,287
Termination benefits	1,040,837	102,654	(238,289)	905,202	246,636
Total pension liability	42,706,882	-	(7,378,756)	35,328,126	2,112,273
Other post-employment benefits liability	937,974	-	(65,390)	872,584	74,600
	<u>\$ 45,134,299</u>	<u>\$ 250,160</u>	<u>\$ (7,918,814)</u>	<u>\$ 37,465,645</u>	<u>\$ 2,571,796</u>

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13) Interagency Agreement

On July 16, 2015, the Administration entered into a three (3) years agreement with the Ponce Ports Authority (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, 2023, amounted to \$609 thousand, which is fully reserved as an uncollectible account.

14) Leases

Cataño Fuel Storage and Pier facilities

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 "thruput" fee based on a U.S. gallon of bulk petroleum products at 60° F, passing through the facilities, whichever is greater. The leases' expiration dates fluctuate from December 9, 2024 through December 25, 2035. The leases contain renewal options that cover from one additional ten-year period to extensions of 15 years. The rental agreements have a quarterly rental payment that ranges from approximately \$105 thousand to \$699 thousand, with an aggregate monthly payment of approximately \$670 thousand as of June 30, 2023. As of June 30, 2023, lease receivable and deferred inflows of resources on these lease agreements are as follows:

Description	Lease receivable	Deferred inflows of resources
Lease agreement BP – Commenced on July 1, 2021 and calls for quarterly installments of \$699,851 up to March 20, 2028 at 1.70% of interest rate.	\$ 12,273,297	\$ 11,993,892
Lease agreement TP – Commenced on July 1, 2021 and calls for quarterly installments of \$596,167 up to December 25, 2035 at 1.95% of interest rate.	27,928,419	27,088,172
Lease agreement TPR – Commenced on July 1, 2021 and calls for quarterly installments of \$105,952 up to December 9, 2024 at 1.20% of interest rate.	1,135,092	1,116,650
	41,336,908	\$ 40,198,714
Less: Current portion	(4,975,287)	
Long-term portion	\$ 36,361,621	

During the fiscal year ended June 30, 2023, net rental income under these lease agreements amounts to approximately \$6.5 million. Interest income on the above lease agreements amounts to approximately \$816 thousand.

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Minimum annual rentals under these lease contracts for the years subsequent to June 30, 2023, are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 4,975,286	\$ 734,058	\$ 5,709,344
2025	5,089,886	646,830	5,736,716
2026	4,822,498	558,654	5,381,152
2027	4,809,627	472,822	5,282,449
2028	3,477,930	388,337	3,866,267
2029-2033	11,798,501	1,254,970	13,053,471
2034-2038	6,363,180	156,509	6,519,689
	<u>\$ 41,336,908</u>	<u>\$ 4,212,180</u>	<u>\$ 45,549,088</u>

Rental of land and properties

The Administration has entered into various other long-term rental agreements of certain land and properties available. The leases' expiration dates fluctuate from September 1, 2022 through July 14, 2062. The Administration classifies these long-term agreements based on the following billing terms: (i) annual rental payments; (ii) quarterly rental payments; and (iii) annual rental payments. The discounted interest rate used to evaluate these leases ranged from 1.15% to 8.53%. The Administration has entered into various other long-term rental agreements of certain land and properties available. The leases' expiration dates fluctuate from January 1, 2024 through July 19, 2062. As of June 30, 2023, lease receivable and deferred inflows of resources for those leases are approximately \$37.9 million and 37.0 million, respectively. Minimum annual rentals under these contracts for the years subsequent to June 30, 2023, are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 2,613,524	\$ 723,949	\$ 3,337,473
2025	2,179,147	683,536	2,862,683
2026	2,024,869	643,460	2,668,329
2027	1,500,268	607,344	2,107,612
2028	1,255,712	577,591	1,833,303
2029-2033	6,564,220	2,502,605	9,066,825
2034-2038	6,633,848	1,857,835	8,491,683
2039-2043	5,237,533	1,239,128	6,476,661
2044-2048	3,894,670	816,117	4,710,787
2049-2053	1,835,775	517,652	2,353,427
2054-2058	2,221,275	328,291	2,549,566
2059-2063	2,015,069	97,630	2,112,699
	<u>\$ 37,975,910</u>	<u>\$ 10,595,138</u>	<u>\$ 48,571,048</u>

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For the fiscal year ended June 30, 2023, rent revenues on such rental agreements amounted to approximately \$3.3 million, which are reported as part of rental income.

The Administration has entered into various short-term rental agreements of certain land and properties available. Those agreements call for rental payments that range from monthly payments of approximately \$1 to annual rental payments of approximately \$326 thousand. For the fiscal year ended June 30, 2023, rent revenues on such rental agreements amounted to approximately \$4.2 million, which are reported as part of rental income.

15) Pension 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. Also, pursuant to Act No. 106-2017, the Plan 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, 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 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.

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.

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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 on 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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NOTES TO BASIC FINANCIAL STATEMENTS **Fiscal Year Ended June 30, 2023**

Service Retirement Eligibility Requirements

- *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, and (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:

<u>Date of Birth</u>	<u>Attained Age as of June 20, 2013</u>	<u>Retirement Eligibility Age</u>
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

- *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.

- *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.

<u>Date of Birth</u>	<u>Attained Age as of June 20, 2013</u>	<u>Retirement Eligibility Age</u>
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

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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 thousand 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.

- *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

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

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

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

- *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

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

Special Benefits

(1) Minimum Benefits

- Past Ad Hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124, approved on June 8, 1973, and Act No. 23, approved on September 23, 1983.

- Minimum Benefits for Members who retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).

- Coordination Plan Minimum Benefit

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

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

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since in 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member who was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month, received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007). Effective March 15, 2022, cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated.

(3) Special "Bonus" Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December, provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July, provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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

As of June 30, 2023, the Administration reported a liability of approximately \$35 million for its proportionate share of the total pension liability. The total pension liability was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (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, 2023, the Administration's proportion was 0.15948%, which resulted in a increase of 0.00238% from its proportion as of June 30, 2022 (measurement date).

Actuarial Methods and Assumptions

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

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Discount Rate

The discount rate for June 30, 2022 (measurement date) was 3.54%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (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, 2022 actuarial valuation were as follows:

- *Pre-retirement Mortality*

For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 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 127-1958.

- *Post-retirement Retiree Mortality*

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

- *Post-retirement Disabled Mortality*

The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Other assumptions as of June 30, 2022

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:	No compensation increases are assumed effectively March 15, 2022.

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 3.54%, 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 (2.54%) or one percentage point higher (4.54%) than the current rate:

Description	1% Decrease or 2.54%	Current Discount Rate or 3.54%	1% Increase or 4.54%
Total pension liability	\$ 39,521,615	\$ 35,328,126	\$ 31,841,077

For the year ended June 30, 2023, the Administration recognized pension recovery of approximately \$2.5 million. 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, 2023, are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected	\$ 443,195	\$ 749,081
Changes of assumptions	2,851,378	2,779,233
Changes in proportion	763,899	628,592
Benefits paid and accrued subsequent to measurement date	2,112,273	-
	\$ 6,170,745	\$ 4,156,906

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The benefits paid and accrued subsequent to the measurement date and reported as deferred outflows of resources, are related to the PayGo 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, 2023.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions as of June 30, 2023, will be recognized in pension expense in future years, as follows:

<u>Years ending June 30, (measurement date)</u>	<u>Amount</u>
2023	\$ (892,140)
2024	793,695
	<u>\$ (98,445)</u>

The previous amounts do not include the Administration's specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by the Administration over the average of the expected remaining service lives of all plan members, which is 2 years for 2022.

16) Other Postemployment Benefit Plan (OPEB Plan)

In addition to the pension benefits described in Note 15, the Administration participates in the OPEB Plan of the Commonwealth for Retired Participants of the Employee's Retirement System. The OPEB is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be the one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

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. 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.

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OPEB Liability, OPEB Expense and Deferred Outflows of Resources

As of June 30, 2023, the Administration reported a liability of approximately \$873 thousand for its proportionate share of the OPEB liability. The total OPEB liability as of June 30, 2023, was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date).

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

As of June 30, 2023, the Administration's proportion was 0.12544%, which resulted in an increase of 0.00792% from its proportion as of June 30, 2022 (measurement date). The Administration recognized an OPEB benefit for approximately \$59 thousand, during the fiscal year ended June 30, 2023.

The deferred outflows of resources related to the OPEB plan results from the benefits paid subsequent to measurement date amounting to approximately \$69 thousand as of June 30, 2023, and will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2023. 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.

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, 2021
Measurement date:	June 30, 2022
Actuarial cost method:	Entry age normal
Medical trend rate:	Not applicable

Discount rate – The discount rate was 3.54%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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

- *Pre-retirement Mortality*

For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 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 127-1958.

- *Post-retirement Mortality*

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

- *Post-retirement Disabled Mortality*

The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

NOTES TO BASIC FINANCIAL STATEMENTS **Fiscal Year Ended June 30, 2023**

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 as of June 30, 2023 calculated using the discount rate of 3.54%, as well as the Administration's total OPEB liability if it were calculated using the discount rate of 1 – percentage point lower (2.54%) or 1 – percentage point higher (4.54%) than the current rate:

Description	1% Decrease or 2.54%	Current Discount Rate of 3.54%	1% Increase or 4.54%
Total OPEB liability	\$ 949,017	\$ 872,584	\$ 806,786

17) Federal grants revenues

During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, in December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million, of which as of June 30, 2023 the Administration received \$1.7 million. During the year ended June 30, 2023, the Administration had expenditures of approximately \$1.5 million related to federal funds. Revenues from federal grants were recorded as intergovernmental revenues in the accompanying statement of revenues, expenses, and changes in fund net position.

As of June 30, 2023, the Administration has recognized unearned revenues for unexpended federal grants for approximately \$255 thousand, which were also included as part of the restricted cash in the accompanying statement of net position.

Funds received from federal funded programs are subject to financial and compliance audits in accordance with the provisions of Title 2 of the U.S. Code of Federal Regulation, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance) or to compliance audits by the corresponding federal agencies and pass-through entities, as applicable. The Uniform Guidance requires compliance audits for entities expending federal financial assistance in excess of \$750 thousand in the aggregate in a single year. Related compliance reports are required to be submitted to the corresponding federal agencies. Since the Administration received and expended federal financial assistance in excess of \$750 thousand, it is subject to compliance audits under the Uniform Guidance for the fiscal year ended on June 30, 2023. Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Administration may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

18) Contributions from the Commonwealth of Puerto Rico

Governmental contributions, included in intergovernmental income in the statements of revenues, expenses and changes in net position for the year ended June 30, 2023. During the year ended June 30, 2023, the Administration received conditional contributions from the Commonwealth of Puerto Rico amounting to approximately \$256 thousand for rental properties improvements. As of June 30, 2023, the \$256 thousand has not been used yet for the designated purpose and thus, are included as part of restricted cash and unearned revenues in the accompanying statement of net position for the year then ended.

19) Commitments

- A. Guarantees – The Administration has entered into a purchase option agreement with the Roosevelt Roads Local Development Authority (Roosevelt Roads). 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 \$2.5 million for such properties. As part of the purchase option, the Administration will pay a deposit of \$600 thousand.

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 were approved on May 4, 2017 by both parties. As of June 30, 2023, the balance due from the Authority amounted to approximately \$415 thousand, which was recorded as part of the notes, interest, and other receivables balance in the accompanying statement of net position.

- B. Claim to Federal Emergency Management Administration (FEMA) – During fiscal year 2019, Management reevaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, in December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million. During the year ended June 30, 2023, the Administration have expenditures related to federal funds of approximately \$803 thousand.
- C. Claim for Earthquakes – 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, and it is actually under a long-term contract with the same municipality to operate the casino. As of June 30, 2023, the Administration is in the process of signing a Memorandum of Understanding (MOU), in order to FEMA to consider the municipality as a subrecipient and obtain federal funds to repair damages of the property.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

20) Contingencies

Legal Claims

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 would 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 approximately \$646 thousand 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 approximately \$368 thousand. 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.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2023

The Administration is also a party to 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 of approximately \$1.0 million has been reflected as part of the accounts payable and accrued liabilities balance in the accompanying statement of net position.

21) Subsequent Events

On January 9, 2024, the Administration received funds amounting to approximately \$45,300 from the Federal Emergency Management Agency (FEMA). These funds were awarded to support recovery efforts and mitigate damage from Hurricane Fiona that occurred in September 14, 2022. The receipt of these funds is considered a non-recognized subsequent event for the financial statements dated June 30, 2023, as the event prompting the receipt occurred after the balance sheet date.

The Administration has evaluated subsequent events through June 7, 2024, the date which the financial statements were available to be issued and determined that no other events require adjustment or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PUERTO RICO LAND ADMINISTRATION
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**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION PLAN BENEFIT
AND RELATED RATIOS (UNAUDITED)
Years Ended June 30, 2023, 2022, 2021, 2020, 2019, and 2018**

Description	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.15948%	0.15710%	0.15658%	0.16284%	0.15882%	0.15477%
Proportionate Share of Total Pension Liability	\$ 35,328,126	\$ 42,706,882	\$ 43,980,996	\$ 40,466,505	\$ 36,894,797	\$ 43,652,509
Covered - Employee Payroll	-	-	-	-	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

*Covered payroll is no longer applicable since Act No. 105-2017 eliminated the contributions which are no longer based on payroll.

Fiscal year 2019 was the first year that the Administration transitioned from GASB Statement No. 68 to GASB Statement No. 73, as a result of the enactment of Act 106-2017 (PayGo implementation). This schedule is required to illustrate ten (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 notes to Required Supplementary Information and Independent Auditors' Report.

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

**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL POSTEMPLOYMENT BENEFIT
AND RELATED RATIOS (UNAUDITED)**
Years Ended June 30, 2023, 2022, 2021, 2020, 2019, and 2018

Description	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.12544%	0.11752%	0.11881%	0.12210%	0.11723%	0.11435%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 872,584	\$ 2,331,117	\$ 1,039,119	\$ 1,016,149	\$ 987,251	\$ 1,052,621

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

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

Fiscal year 2017 was the first year that the new requirements of GASB 75 were implemented at the Administration. This schedule is required to illustrate ten (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 notes to Required Supplementary Information and Independent Auditors' Report.

PUERTO RICO LAND ADMINISTRATION
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
Years Ended June 30, 2023 2022, 2021, 2020, 2019, and 2018

Changes and Assumptions

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No. 106-2017 established the pay-as-you-go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

Changes in 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 decrease in the discount rate as follows:

In the revised June 30, 2022 actuarial valuation, there was an increase relating to the discount rate from 2.16% in 2021 to 3.54% in 2022.

In the revised June 30, 2021 actuarial valuation, there was a decrease relating to the discount rate from 2.21% in 2020 to 2.16% in 2021.

In the revised June 30, 2020 actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019 actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

In the revised June 30, 2018 actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017 actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2016 to 3.58% in 2017.

Also, the postretirement and preretirement mortality assumptions were revised on June 30, 2021 valuation, as follows:

The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public experience. For healthy retirees and beneficiaries prior the member's death, the postretirement mortality rates were revised to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disabled retiree mortality table for males and females, respectively. For beneficiaries after the retirees' death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
Years Ended June 30, 2023 2022, 2021, 2020, 2019, and 2018

The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.

In addition, the projected mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.