PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary Information and Independent Auditors' Report

For the year ended June 30, 2021

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2021

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INDEPENDENT AUDITORS' REPORT

Hon. Eileen Vélez Vega, Secretary
Department of Transportation and Public Works

Report on the Financial Statements

We have audited the accompanying basic financial statements of Puerto Rico Metropolitan Bus Authority (the Authority) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

The beginning balance of inventory was qualified in the prior year audit and consequently, we were unable to determine whether any adjustments were necessary in the statements of revenue, expenditures, and changes in net position, or cash flows.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of June 30, 2021, and the respective changes in net position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Schedule of the Authority's Proportionate Share of the Total Pension Liability and Related Ratios on page 38, and the Schedule of the Authority's Proportionate Share of Total OPEB Liability on page 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider 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.

Valdes, Garcia, Marin & Martinez, LLP

San Juan, Puerto Rico
January 17, 2023

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The following Management's Discussion and Analysis (MD&A) provides an introduction and a narrative overview and analysis of the financial activities of the Puerto Rico Metropolitan Bus Authority ("the Authority") for the fiscal year ended June 30, 2021. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2021

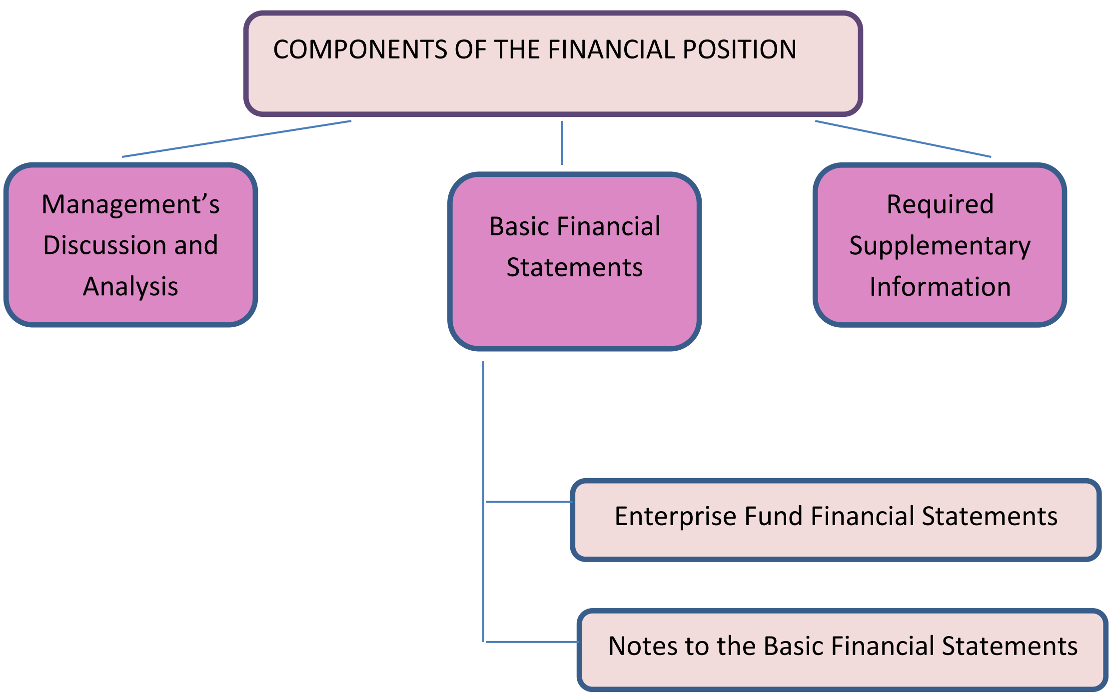
- Net position deficiency totalized approximately $332.4 million at June 30, 2021.
- Net position deficiency decreased by approximately $11.1 million in 2021, as compared to a decrease of approximately $5.9 million in 2020.
- Capital assets, net totalized approximately $23.9 million at June 30, 2021.
- Net investment in capital assets increased by approximately $3.3 in 2021, as compared to the balance as of June 30, 2020.
- Total operating expenses increased by approximately $1.7 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) statement of net position, (2) statement of revenue, expenses, and changes in net position, (3) statement of cash flows, (4) notes to the financial statements, and (5) required supplementary information. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.



Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity and classified as current (convertible into cash within one year) and non-current. The focus of the statement of net position is to show a picture of the liquidity and health of the Authority's net position as of the end of the year.

The Authority's net position is reported in the following categories:

- Investment in Capital Assets – this component of net position consists of all capital assets, reduced by the outstanding balance of any bonds, notes, or borrowings that are attributable to the acquisition, construction, or improvement of those assets. The resources required to repay this debt must be provided annually from operations and from operating grants allocated annually by the Commonwealth of Puerto Rico (the Commonwealth), since the capital assets themselves cannot be used to liquidate liabilities.

- Unrestricted – this component includes all net position that do not meet the definition of net position invested in capital assets.

Statement of Revenue, Expenses and Changes in Net Position

The statement of revenue, expenses, and changes in net position includes operating revenue, which consists of passenger and cargo revenues and equipment and property rentals, and operating expenses, such as salaries and employees' benefits, depreciation of capital assets, repairs and maintenance and other general administrative expenses, and non-operating revenue and expenses, such as the operating grants from the Commonwealth, interest and investment income, and interest expense. The focus of the statement of revenue, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash flows

The statement of cash flows discloses net cash provided by or used in operating activities, investing activities, non-capital financing activities, and from capital and related financial activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and provide detailed information about significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, pension plan, and commitments and contingencies. The reader is encouraged to review the notes in conjunction with management's discussion and analysis and the financial statements.

Required Supplementary Information

The basic financial statements and notes are followed by the required supplementary information that includes the schedules related to pension and OPEB liabilities as required by GASB No. 73 and GASB No. 75, respectively.

Financial Analysis of the Authority's Business-Type Activities

Statement of Net Position

The following table reflects a condensed summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Authority as of June 30, 2021, and 2020:

	June 30,		Change	
	2021	2020, as restated	In Dollars	Percent
Current assets	$ 15,347,855	$ 17,295,090	$ (1,947,235)	-11%
Capital assets, net	23,915,642	20,596,311	3,319,331	16%
Total assets	39,263,497	37,891,401	1,372,096	4%
Deferred outflow of resources related to pension and total OPEB	47,687,057	21,479,289	26,207,768	122%
Total assets and deferred outflows of resources	$ 86,950,554	$ 59,370,690	$ 27,579,864	46%
Current liabilities	$ 123,457,973	$ 136,495,322	$ (13,037,349)	-10%
Non-current liabilities	273,421,080	243,453,476	29,967,604	12%
Total liabilities	396,879,053	379,948,798	16,930,255	4%
Deferred inflows of resources related to pension	22,518,992	22,963,231	(444,239)	-2%
Total liabilities and deferred inflows of resources	419,398,045	402,912,029	16,486,016	4%
Net position				
Investment in capital assets	23,915,642	20,596,311	3,319,331	16%
Deficit	(356,363,133)	(364,137,650)	7,774,517	-2%
Total net poisiton (deficit)	(332,447,491)	(343,541,339)	11,093,848	-3%
Total liabilities, deferred inflows of resources and net position (deficit)	$ 86,950,554	$ 59,370,690	$ 27,579,864	46%

The net decrease in current assets of 11% or $1,947,235, was mainly due to the net result of an increase in cash and a decrease in accounts receivable from federal government.

Deferred outflows increased by approximately $26.2 million as of June 30, 2021, when compared with the fiscal year 2020, mainly due to the recognition of the Authority's portion related to pension and total OPEB, as required by the provisions of GASB No. 73 and GASB No. 75.

Net investment in capital assets increased by approximately $3.3 as of June 30, 2021 when compared with June 30, 2020. During the year 2021, capital additions were approximately $7.0 million and depreciation expense for the year amounted to approximately $3.7 million. Capital assets are funded with the proceeds from operations and operating and capital grants from the Commonwealth of Puerto Rico. In addition, the Authority is a recipient of certain funds under Federal program 20.507 "Federal Transit Administration Formula Grants" granted by the U.S. Federal Transit Administration, which is used to finance the acquisition and maintenance of capital assets.

Current liabilities decreased 10% to an amount of approximately $123.5 million as of June 30, 2021. Non-current liabilities had an increase of approximately $30 million due mainly to an increase in the total pension liability.

Deficit decreased 3% to a net deficiency amount of approximately $332 million as of June 30, 2021. The decrease was the net result of an excess of income (operating and non-operating) over expenses (operating and non-operating), capital grants of approximately $27 million and Commonwealth's grants received of approximately $37 million. The largest portion of the Authority's net position represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

The following table reflects a condensed summary of the revenue, expenses, and changes in net position for the years ended June 30, 2021, and 2020:

	For the year ended June 30,		Change	
	2021	**2020**	**In Dollars**	**Percent**
Operating revenue	$ 1,486,813	$ 2,128,884	$ (642,071)	-30%
Operating expenses	(52,578,199)	(50,899,527)	(1,678,672)	3%
Operating loss	(51,091,386)	(48,770,643)	(2,320,743)	5%
Non-operating reveunue				
Operating grants, contributions and other revenue	63,689,241	55,996,419	7,692,822	14%
Interest and other financing expenses	(1,504,007)	(1,293,751)	(210,256)	16%
Total non-operating revenue, net	62,185,234	54,702,668	7,482,566	14%
Change in position	11,093,848	5,932,025	5,161,823	87%
Net position (deficit) at beginning of year as restated	(343,541,339)	(349,473,364)	5,932,025	-2%
Net position (deficit), at end for year	$ (332,447,491)	$ (343,541,339)	$11,093,848	-3%

Operating revenue, which consisted principally of fares for transportation and other services, decreased 30% to an amount of approximately $1.5 million for the year ended June 30, 2021. Revenue decrease was due to suspension of some operations imposed by the government closure and other restrictions as response for the COVID-19 pandemic.

Operating expenses, which consisted principally of salaries and employee benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative increased 3% to an amount of approximately $53 million for the year ended June 30, 2021. The change is the net effect of an increase in pension expense of $4.8 million, decrease in salaries and employee benefits of $5.5 million and increase of $1.6 million in materials, spare parts and repairs and maintenance expenses.

Non-operating revenue consisted principally of operating grants from the Commonwealth and Federal Government. The operating grants from the Commonwealth are annual appropriations from the general fund. The amount appropriated annually depends on the approved budget of the Commonwealth.

In addition, the Authority receives operating and capital contributions from the U.S. Federal Transit Administration, which are restricted to the acquisition and repairs of certain capital assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2021, the Authority had invested approximately $23.9 million in capital assets (net of related depreciation) including transportation equipment, land, building and improvements, and machinery and equipment used in the Authority's operations. During the year ended June 30, 2021, the Authority invested approximately $7 million in capital assets.

The following table presents the components of the capital assets during fiscal years 2021 and 2020:

	June 30,		Change	
	2021	**2020**	**In Dollars**	**Percent**
Assets not being depreciated:				
Land and improvements	$ 2,500,000	$ 2,500,000	$ -	0%
Construction in progress	-	2,885,000	(2,885,000)	-100%
	2,500,000	5,385,000	(2,885,000)	-54%
Assets being depreciated:				
Buidings and improvements	24,884,156	24,414,660	469,496	2%
Terminals	5,657,811	5,655,431	2,380	0%
Transportation equipment	60,732,086	55,817,468	4,914,618	9%
Machinery and equipment	32,487,789	27,918,230	4,569,559	16%
Total	123,761,842	113,805,789	9,956,053	9%
Less: accumulated depreciation and amortization	102,346,200	98,594,478	3,751,722	4%
Capital assets being depreciated, net	21,415,642	15,211,311	6,204,331	41%
Total capital assets, net	$ 23,915,642	$ 20,596,311	$ 3,319,331	16%

Debt Administration

Long-term debt of the Authority consist of a note payable to a commercial bank, compensated absences, voluntary termination benefits, total pension and OPEB liabilities, and legal liabilities. The increase of 7% was mainly due to an increase in the total pension liability.
Following is a summary of the Authority's long-term debt as of June 30, 2021 and 2020:

	June 30,		Change	
	2021	**2020**	**In Dollars**	**Percent**
Note payable to commercial bank	$ 28,254,666	$ 28,254,666	$ -	0%
Compensated absences	2,697,052	2,406,292	290,760	12%
Voluntary termination benefits	6,172,047	7,784,979	(1,612,932)	-21%
Total pension liability	269,120,992	245,071,779	24,049,213	10%
Total OPEB liability	8,443,526	8,159,999	283,527	3%
Legal liability	546,772	2,414,865	(1,868,093)	-77%
Other long-term liabilities	2,550,735	2,550,735	-	0%
Totals	$317,785,790	$ 296,643,315	$ 21,142,475	7%

Subsequent to the audit date, Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) entered into a settlement agreement on behalf of the Authority with the commercial bank for the full satisfaction of the note payable to commercial bank.

Current Known Facts

The Authority has several operational projects for the future years. One of the initiatives is the replacement of the bus fleet including the acquisition of four electrical buses with federal grant award funds. Also, there are several projects directed to the improvements of bus terminals and four hundred stops. The bus stop improvement project includes structural matters and signage improvement for enabling stops with elements for blind and deaf people. Maps and the distance and duration of the routes would also be placed.

Subsequent to the audit date, the Authority reached various agreements with other parties to settle certain debts. One of the agreements released the Authority from an obligation of approximately $348,000 with the Puerto Rico Land Administration related with rental charges of one bus terminal. In addition, Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) entered into a settlement agreement on behalf of the Authority for a loan payable to a commercial bank of approximately $28 million. After negotiations, on February 7, 2022, FAFAA and the commercial bank reached a settlement agreement that provides for a $4 million cash payment in full and final satisfaction of all of the Authority's and the Commonwealth's obligations under the credit agreement. During fiscal year 2022-2023, the Authority also reached an agreement with a third party for the payment of a debt amounting to approximately $2,522,000 related to employees' medical insurance contributions. As a result of this transaction the Authority will recognize a gain of approximately $522,000.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, investors, creditors, and the general public with a general overview of the Puerto Rico Metropolitan Bus Authority's finances and how it uses the economic resources that it receives. If you have questions about this report or need additional financial information, contact the Administration Office at Puerto Rico Metropolitan Bus Authority, #37 Diego Avenue, San Juan, Puerto Rico.

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position
June 30, 2021

Assets		
Current assets:		
Cash	$	5,816,947
Accounts receivable, net		4,399,452
Inventory, net		5,131,456
Total current assets		15,347,855
Non-current assets:		
Capital assets, net of accumulated depreciation and amortization		23,915,642
Deferred outflows of resources:		
Pension related		47,032,057
Other post-employment benefits related		655,000
Total deferred outflows of resources		47,687,057
Total assets and deferred outflows of resources	$	86,950,554
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	13,046,626
Due to:		
Commonwealth		47,092,750
Other governmental entities		18,953,887
Note payable to commercial bank		28,254,666
Compensated absences		1,040,526
Voluntary termination benefits payable		1,280,553
Total pension liability		12,691,466
Total other post-employment benefits liability		655,000
Other liabilities		442,499
Total current liabilities		123,457,973
Non-current liabilities:		
Compensated absences		1,656,526
Voluntary termination benefits payable		4,891,494
Legal liability		546,772
Total pension liability		256,429,526
Total other post-employment benefits liability		7,788,526
Other liabilities		2,108,236
Total non-current liabilities		273,421,080
Deferred inflows of resources:		
Pension related		22,518,992
Total liabilities and deferred inflows of resources		419,398,045
Net Position		
Investment in capital assets		23,915,642
Deficit		(356,363,133)
Total net position (deficit)	$	(332,447,491)

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Position
For The Year Ended June 30, 2021

Operating revenue:	
Passenger fares	$ 514,568
Advertising and other	972,245
Total operating revenue	1,486,813
Operating expenses:	
Salaries and employees benefits, including voluntary termination benefits	27,611,051
Pension expense	10,633,954
Other post-employment benefits expense	298,403
Diesel, gasoline, oil and lubricants	1,691,211
Depreciation and amortization	3,751,721
Materials, spare parts and repairs and maintenance	4,021,763
Utilities	918,498
Professional services	1,397,765
General and administrative	2,253,833
Total operating expenses	52,578,199
Operating loss	(51,091,386)
Non-operating revenue (expenses):	
Operating grants:	
Commonwealth of Puerto Rico	36,956,054
U.S. Federal Transit Administration	26,731,870
Miscellaneous income	1,317
Interest and other financing expenses, net	(1,504,007)
Total non-operating revenue, net	62,185,234
Change in net position	11,093,848
Net position (deficit), at beginning of year as restated	(343,541,339)
Net position (deficit), at of end of year	$ (332,447,491)

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For The Year Ended June 30, 2021

Cash flows from operating activities:	
Cash collected from customers and passengers	$ 1,472,212
Cash payments to suppliers for goods and services	(10,677,886)
Cash payments to employees for services	(48,228,645)
Net cash used in operating activities	(57,434,319)
Cash flows from non-capital and related financing activities:	
Operating grants received from:	
Commonwealth of Puerto Rico	36,956,054
Federal grants	33,574,742
Others	1,317
Interest paid	(406,890)
Net cash provided by non-capital and related financing activities	70,125,223
Cash flows from capital and related financing activities:	
Acquisition of capital assets and net cash used in capital and related financing activities	(7,071,053)
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	205
Net increase in cash	5,620,056
Cash at beginning of the year	196,891
Cash at end of the year	$ 5,816,947

(Continues)

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For The Year Ended June 30, 2021

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(51,091,386)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		3,751,721
Bad debt expense		57,757
Changes in operating assets and liabilities:		
Increase in accounts receivable		(72,358)
Decrease in inventories		739,020
Increase in deferred outflows of resources		(26,207,768)
Increase in accounts payable, accrued expenses and other liabilities		15,832,934
Decrease in deferred inflows of resources		(444,239)
Net cash used in operating activities	$	(57,434,319)

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

Note 1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Puerto Rico Metropolitan Bus Authority (the Authority) is a public corporation created by Act No. 5 of May 11, 1959, as amended, to provide, develop, manage, and maintain a public low-cost transportation system for citizens within the Metropolitan Area including the following municipalities: San Juan, Bayamon, Carolina, Guaynabo, Cataño, Loiza, Toa Baja and Trujillo Alto. The Authority is governed by the Secretary of the Department of Transportation and Public Works of the Commonwealth of Puerto Rico (the Commonwealth).

The Authority's operations are financed by operating grants from the Commonwealth and Federal Government, transfers of certain gasoline and diesel excise taxes collected by the Commonwealth, and passenger fares. Act 123-2014 created the Puerto Rico Integrated Transit Authority (PRITA) with the purpose of implementing a uniform policy on collective, road and maritime transportation and provided for the integration of the Authority's operations into PRITA. However, as of June 30, 2021, the Authority's operations, assets, rights, obligations and funds had not been transferred to PRITA. The Authority is a component unit of the Commonwealth, and accordingly is included in its general-purpose financial statements.

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

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

Summary of Significant Accounting Policies

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to government entities.

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

Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund. Enterprise funds are accounted using the flow of economic resources measurement focus and follow the accrual basis of accounting. Under this basis, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

Cash

The Authority maintains cash on deposits with high rated financial institutions. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Deposit Insurance Corporation. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of the estimated allowance for uncollectible accounts. The allowance for doubtful accounts is the amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable, past collection experience, and current economic conditions. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Inventories

Inventories, consisting of fuel, spare parts, materials and supplies are valued at cost (using the weighted average method) or market.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Capital assets are defined by the Authority as assets with an initial cost of more than $500 and an estimated useful life of more than one year. Depreciation and amortization is computed on a straight-line method over the estimated useful life of the respective asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is charged to operations.

The estimated useful lives of the capital assets follow:

Buildings and improvements	40 years
Transportation equipment	5-12 years
Terminals	20 years
Machinery and equipment	5-10 years

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment of capital assets was identified during the year ended June 30, 2021.

Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part 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 67 and 68* and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.*

Compensated Absences

Employees accumulate vacation at a rate of 1.25 days per month up to an annual amount of 15 days. Vacation time is fully vested by the employee from the first day of work up to a maximum of 60 days. Employees accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. After the enactment of Act 26-2019, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are not liquidated upon employment termination.

Voluntary Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the Authority recognizes a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

Accrual for Legal Claims

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

Accounting for Pension Costs

The Authority 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 67 and 68* which requires that employers report a net pension liability and related pension accounts. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension and pension expense, the balances have been determined on the same basis as reported by the Plan.

Other Post-Employment Benefits

The Authority accounts for other post-employment benefits obligation under the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. As required by the accounting pronouncement, OPEB transactions should be accounted for based on its proportional share of the collective OPEB liability, OPEB expense, and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring the OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, the balances have been determined on the same basis as reported by the Plan and as reported by the ERS. The Authority’s contribution for the OPEB is included in the PayGo charges billed on a monthly basis by the ERS.

Net Position

Net position is classified in the following two components in the accompanying statements of net position:

<u>Investment in Capital Assets</u>

This component of net position consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds, at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component.

<u>Unrestricted</u>

Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets.

Operating Revenue and Expenses

The Authority distinguishes between operating and non-operating revenue and expenses in its Statement of Revenue, Expenses, and Changes in Net Position. The principal revenue of the Authority is received from patrons for the transportation services provided. The Authority also recognizes as operating revenue advertising charges to customers and other related transportation services. Operating expenses for the Authority include the costs of operating the transportation facilities, administrative expenses, and depreciation and amortization of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Operating Grants

The Authority receives operating and capital grants from the Commonwealth. These grants, which are subject to annual appropriations, are used to finance the Authority's operations and the acquisition of capital assets. Amounts received under these grants are recorded as revenue in the period stated in the grant.

In addition, the Authority receives federal funds under grants from the U.S. Federal Transit Administration (FTA) exclusively for the acquisition and repairs of certain capital assets with certain matching funds provided by the Commonwealth. Capital grants of the Authority are reported as non-operating revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Capital funding provided under these grants is considered earned as the related allowable expenditure is incurred in the period in which all eligibility requirements and/or time and purposes restrictions are met.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the last three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Pronouncements Issued but Not Yet Effective

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as revised by GASB Statement No.95.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this

Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as revised by GASB Statement No. 95. Earlier application is encouraged.

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

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

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

- *GASB Statement No. 92, Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as revised by GASB Statement No. 95. Earlier application is encouraged.

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

  This statement achieves its objective by:

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

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

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

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

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

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

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

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

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

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

- *GASB Statement No. 98, The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

- 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 requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. 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.

- GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. 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. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

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

Note 2. Cash and Cash Equivalents

The Authority's cash and cash equivalents as of June 30, 2021 consist of the following:

	Book Balance	Depository Bank Balance	Amount uninsured and uncollateralized
Cash deposited in commercial bank	$ 5,816,947	$ 6,132,119	$ -

Note 3. Deposits Claim Receivable

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

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

The Authority held deposits at GDB of $216,089. A custodial credit risk loss on these deposits was recorded in prior years for the full balance. As of June 30, 2021, the deposits balance and the custodial credit risk allowance were reclassified to deposits claim receivable from the PET and into an allowance for doubtful accounts, respectively, with a carrying amount of zero. As a result of the GDB Qualifying Modification, the Authority's recovery on this claim will depend upon the recovery ultimately received by the PET on account of its assets.

Note 4. Accounts Receivable

Accounts receivable as of June 30, 2021, consist of:

Operating and capital grants:	
Federal Transit Administration (FTA)	$ 4,290,904
Puerto Rico Highways and Transportation Authority	4,210,187
Others	584,967
	9,086,058
Less: Allowance for doubtful accounts	(4,686,606)
Account receivable, net	$ 4,399,452

Accounts receivable from FTA consist principally of operating grants pending to be received at June 30, 2021. The account receivable from the Puerto Rico Highways and Transportation Authority (PRHTA) consists of amounts due under a certain agreement with PRHTA in which the Authority provides transportation services to passengers using the urban train system. Under the terms of the contract, PRHTA will reimburse the Authority certain amounts for each passenger served. The amount outstanding of $4,210,187 represents the amounts billed to PRHTA for services provided as of June 30, 2021.

Note 5. Inventory

Inventory as of June 30, 2021 consists of:

Spare parts	$ 4,999,410
Diesel and gasoline	190,671
Supplies	143,165
	5,333,246
Less: Allowance for obsolete inventory	(201,790)
Total inventory, net	$ 5,131,456

Note 6. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2021:

	Balance at June 30, 2020	Increases/ Reclass	Decreases/ Reclass	Balance at June 30, 2021
Assets not being depreciated:				
Land and improvements	$ 2,500,000	$ -	$ -	$ 2,500,000
Construction in progress	2,885,000	-	2,885,000	-
	5,385,000	-	2,885,000	2,500,000
Assets being depreciated:				
Buidings and improvements	24,414,660	469,496	-	24,884,156
Terminals	5,655,431	2,380	-	5,657,811
Transportation equipment	55,817,468	4,914,618	-	60,732,086
Machinery and equipment	27,918,230	1,684,559	2,885,000	32,487,789
Total	113,805,789	7,071,053	2,885,000	123,761,842
Less: accumulated depreciation and amortization	98,594,479	3,751,721	-	102,346,200
Capital assets being depreciated, net	15,211,310	3,319,332	2,885,000	21,415,642
Total capital assets, net	$ 20,596,310	$ 3,319,332	$ -	$ 23,915,642

Note 7. Due to Commonwealth

Amount due to Commonwealth at June 30, 2021 consists of the following:

Income tax withholdings of employees and service providers	$ 33,141,490
PayGo charges	13,236,093
Pension withholdings and other related liabilities	122,867
Other	592,300
Total	$ 47,092,750

Note 8. Due to Other Governmental Entities

Amount due to governmental entities at June 30, 2021 consists of the following:

State Insurance Fund Corporation	$ 9,441,822
PR Electric Power Authority	8,431,387
Others	1,080,678
	$ 18,953,887

Note 9. Long-Term Debt:

Long-term debt at June 30, 2021 consists of:

	Balance at 2020	Increases	Decreases	Balance at 2021	Current Portion
Note payable to commercial bank	$ 28,254,666	$ -	$ -	$ 28,254,666	$ 28,254,666

The loan was payable in monthly principal installments of $208,574, plus interest through March 2015 when it matured. Interest on the outstanding balance is based on margin over LIBOR rate based on the debt rating given to the Commonwealth's general obligations by Moody's Corporation and Standard & Poor's Financial Services LLC, as defined in the agreement (4.12% at June 30, 2020). The note was secured by the assignment of the cigarette tax revenues allocated by the Commonwealth. On November 30, 2015, the Governor of the Commonwealth issued Executive Order No. 2015-046, which among other measures, addressed the economic and fiscal crisis of the Commonwealth, and canceled the transfer of the cigarette tax revenues to the Authority.

On July 2015, the Authority executed a sixth amendment to its loan facility with the bank whereby the local commercial bank agreed to extend the maturity date of the Authority's loan form July 17, 2015 to September 25, 2015. As part of the sixth amendment, the monthly principal amortization payment was increased by $5,000 per month for the months of August and September 2015.

On October 1, 2015, the Authority executed a seventh amendment to its loan facility with the bank whereby the maturity date was further extended through March 30, 2016. As part of the seventh amendment, the monthly principal amortization payment was increased by $5,000 per month for the months from October 2015 to March 2016.

Currently, the Authority does not have sufficient liquid financial resources to meet its obligations when they come due. Due to this fact, the Authority has not been paying the monthly installment related to this loan since October 2015. Based on the above, the bank has presented a lawsuit against the Authority for collection of money. Subsequent to audit date, Puerto Rico Fiscal Agency and Financial Advisory Authority entered into a settlement agreement on behalf of the Authority with the commercial bank for the full satisfaction of the obligations under the credit agreement. Refer to Note 17.

Note 10. Other Non-Current Liabilities:

Changes in other non-current liabilities as of June 30, 2021 are summarized as follows:

	Balance at 2020	Net Change	Balance at 2021	Current Portion
Compensated absences	$ 2,406,292	$ 290,760	$ 2,697,052	$ 1,040,526
Other liabilities	2,550,735	-	2,550,735	442,499
Total	$ 4,957,027	$ 290,760	$ 5,247,787	$ 1,483,025

Other liabilities consist mainly of a reserve established by management for possible claims of a federal agency related with certain costs of capital assets disposed of before they were fully depreciated.

Note 11. Restatement of Net Positon

On September 7, 2022 the Authority received a notification of a cancellation of debt from the Board of Retirement of the Government of Puerto Rico (the Board). As notified by the Board, based on Article 2.5 of the Act 106-2017, known as “Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees”, the amount due to the Retirement System prior to June 30, 2017 was cancelled with the payments made to the PayGo system. The impact of the related adjustment to the beginning net position is as follows:

Net position(deficit) at July 1, 2020, as previously reported	$(387,931,594)
Overstatement of accounts payable	44,390,255
Net position (deficit) at July 1, 2020, as restated	$(343,541,339)

Note 12. Retirement Plan

Plan Description

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

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

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

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

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

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

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

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

- *Act No. 1 of February 16, 1990* (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

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

Employees under Act No. 447 and Act No. 1 are participants of a cost-sharing multiple employers defined benefit plan. Act No. 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective July 1, 2013, Act No. 3 of 2013 (Act No. 3) amends the provisions of the different benefits structures under the ERS. Act No. 3 moves all participants (employees) under the defined benefit pension plans (Act No. 447 and Act No. 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act No. 447 and Act No. 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.

<u>Benefits provided before July 1, 2017</u>

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

(i) Service Retirements

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

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

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

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

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

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

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

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below.

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

(d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(ii) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

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

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

On July 14, 2022, an audited report was issued for the year ended June 30, 2020, in accordance with GASB Statement No. 73, providing information about pension amounts by employer and the corresponding employer allocation percentage. The Authority disclosed the below mentioned information based on this audited data reported by ERS and the ERS Actuarial Valuation Report.

As of June 30, 2021, the Authority reported a liability of $269,120,992 for its proportionate share of the total pension liability. The collective total pension liability which amounts to approximately $28.1 billion was determined by an actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021 (measurement date as of June 30, 2020). The Authority's proportion of the total pension liability was based on the ratio of the Authority'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, 2021, the Authority's proportion was 0.95876%.

For the year ended June 30, 2021, the Authority recognized pension expense of $10,633,954. Pension expense represents the change in the total pension liability during the measurement period.

As of June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	5 years	$ 555,101	$ 6,058,159
Changes in assumptions	5 years	33,785,490	4,619,651
Changes in proportion	5 years	-	11,841,182
Audited amount as reported by ERS		34,340,591	22,518,992
Benefits paid subsequent to measurement date		12,691,466	-
Balance as of June 30, 2021		$ 47,032,057	$ 22,518,992

For the fiscal year 2021 there were benefits paid after the measurement date amounting to $12.7 million reported as deferred outflows of resources, since for fiscal year 2021 the retirement systems operate on a pay-as-you-go basis.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2021, will be recognized in the pension expense as follows:

Year ending June 30,	Amount
2021	$ 2,955,400
2022	2,955,400
2023	2,955,400
2024	2,955,399
Total	$ 11,821,599

Actuarial methods and assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Discount Rate

The discount rate for the fiscal year ended June 30, 2020, was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2020, actuarial valuation are as follows:

a) *Pre-retirement Mortality*

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

b) *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2020

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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

The following presents the net pension liability as of June 30, 2021, calculated using the discount rate of 2.21%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percent-point level lower (1.21%) or 1 percent-point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Total pension liability	$ 308,705,248	$269,120,992	$237,201,851

Note 13. Other Postemployment Benefits

Plan Description

The Authority participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the OPEB Plan). The OPEB Plan 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 No. 75). Under the guidance of GASB No. 75, 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 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 OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer monthly for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

Total OPEB Liability

As of June 30, 2021, the Authority reported a liability of approximately $8.4 million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date). As of June 30, 2021, the Authority's proportion was 0.96539%.

OPEB Expense (Benefit)

For the year ended June 30, 2021, the Authority recognized an OPEB expense of $298,403.

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

GASB No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. 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 date. However, as of June 30, 2021, $655 thousand reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2021.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Discount Rate

The discount rate for June 30, 2020 (measurement date) was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

a) Pre-retirement Mortality — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree’s death, beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

   100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

b) *Post-retirement Healthy Mortality* — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy 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 suing MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality* — Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The following presents the Authority's proportionate share of total OPEB liability calculated using the discount rate of 2.21%, as well as what the Authority's proportionate share of total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current discount rate (in thousands).

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	$ 9,308,957	$8,443,526	$7,712,355

Note 14. Voluntary Termination Benefits

On July 2, 2010, 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 the employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and the 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 credit service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

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 or credit service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

On December 8, 2015, the Commonwealth enacted another program based on provisions established on Act No. 211. All eligible employees may retire from employment in exchange for an early pension and other benefits. Furthermore, the Act No. 211 provides that eligible employees may retire from employment in exchange for an early pension and other benefits. Act No. 211 only applies to employees with twenty years or more participating in the ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

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

Voluntary termination benefits, as detailed below, are discounted at a rate of 0.95%:

	Beginning balance	Net change	Ending balance	Current portion
Act No. 70	$ 2,675,930	$ (629,682)	$ 2,046,248	$ 395,530
Act No. 211	5,109,049	(983,250)	4,125,799	885,023
	$ 7,784,979	$ (1,612,932)	$ 6,172,047	$ 1,280,553

Note 15. Commitments and Contingent Liabilities

Litigations

The Authority is involved in litigations arising in the normal course of operations. Management believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Authority’s financial condition and results of operations. Due to uncertainties in the settlement process, it is at least reasonably possible that management’s view of the outcome of these claims will change in the near term. Based on advice of legal counsel, management has recorded an estimated legal liability of $546,772 as of June 30, 2021.

Federal Assistance Programs

The Authority is a subrecipient of a federal financial assistance program. The program is subject to audits in accordance with provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards or to compliance audits by grantor agencies. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Note 16. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued Executive Order (EO) 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The EO authorizes the Secretary of the Department of Treasury and the Executive Director of the Office of Management and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Most of the Authority activities, such as the administrative and services provided to customers, have been affected by the lockdown.

As a result of the COVID-19 pandemic, and the state of emergency decreed by the government of Puerto Rico in March 2020 on the island, the Authority faced a series of situations that essentially affected the administrative operations and the transportation services for several months.

Note 17. Subsequent Events

The Authority has evaluated all transactions occurring subsequent to the statement of financial position as of June 30, 2021 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through January 17, 2023, the date the accompanying financial statements were available to be issued. The following events were noted:

a. As of June 30, 2021, the Authority owes Puerto Rico Land Administration (the Administration) the amount of approximately $348,000 for rental charges of one the Authority's bus terminals. On February 7, 2022, the Authority, the Department of Transportation and Public Works (the Department), and the Administration signed an agreement to settle the debt. As part of the agreement, the Department transferred two real estate properties to the Administration in exchange for the property leased by the Administration to the Authority as bus terminal. In addition, based on the agreement the Authority was released from any obligation or debt with the Administration and will continue with the usufruct of the property where the bus terminal is located. The Department issued a lease agreement to the Authority for a monthly fee of one dollar as a nominal payment in perpetuity or while the facility is used as a public bus terminal.

b. As of June 30, 2021, the Authority has a loan payable to a commercial bank in the amount of approximately $28 million. The loan was secured by the assignment of the cigarette tax revenues allocated by the Commonwealth. Refer to Note 9. The loan was included in the Title

III Joint Plan of Adjustment of the Commonwealth and subsequent to the audit date the Financial Oversight and Management Board authorized Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) to enter into a settlement agreement on behalf of the Authority with the commercial bank.

After negotiations, on February 7, 2022, FAFAA and the commercial bank reached a settlement agreement that provides for a $4 million cash payment in full and final satisfaction of all of the Authority's and the Commonwealth's obligations under the credit agreement.

c. On February 10, 2022, the Authority reached an agreement with a third party for the payment of a debt amounting to approximately $2,522,000 related to employees' medical insurance contributions. The Authority agreed to pay $2,000,000 under the following terms:

   a. $500,000 on or before March 31, 2022; and
   b. six monthly payments of $250,000 starting on or before April 30, 2022.

As a result of this transaction the Authority will recognize a gain of approximately $522,000.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

Description	**2021***	**2020***	**2019***	**2018***
Proportion of Total Pension Liability	0.99876%	*0.98619%*	0.99154%	1.02985%
Proportionate Share of Total Pension Liability	$269,120,992	$245,071,779	$242,823,282	$290,465,865

*The amounts presented have a measurement date of the previous fiscal year end.
*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.
* No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2019 was the first year that the Authority transitioned from GASB No. 68 to No. GASB 73, as a results of the PayGo system implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying notes are an integral part of this required supplementary information.

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF TOTAL OPEB LIAIBLITY (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

Description	**2021***	**2020***	**2019***	**2018***
Proportion of Total Other Post Employment Benefit Liability	0.96539%	0.98050%	0.99858%	0.98752%
Proportionate Share of Total Other Post Employment Benefit Liability	$8,443,526	$8,159,999	$8,409,577	$9,090,327

*The amounts presented have a measurement date of the previous fiscal year end.
*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.
*No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented by the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying notes are an integral part of this required supplementary information.

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

2. The information presented in the schedules relates solely to the Authority and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, as a whole.

3. The data provided in the schedules is based as of the measurement date of the total pension liability and total other post-employment benefits liability, which is as of the prior fiscal year ended June 30th.