Puerto Rico Maritime Shipping Authority

(A Component Unit of the
Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

With Independent Auditors' Report

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

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CERTIFIED PUBLIC ACCOUNTANTS, PSC
NAVARRO MORGADO

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Maritime Shipping Authority:

Report on the Basic Financial Statements

We have audited the accompanying financial statements of the governmental activities, General Fund and Debt Service Fund of Puerto Rico Maritime Shipping Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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.

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority'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 basic financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the General Fund and the Debt Service Fund of the Authority as of June 30, 2019; and the respective changes in their financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in note 3 to the financial statements, effective July 1, 2015, the Legislature of the Commonwealth of Puerto Rico did not appropriate the funds to pay the debt service on the bonds outstanding for fiscal year 2017, 2018 and 2019. Therefore, the Authority has not been able to make the required debt service payment since fiscal year 2017. The repayment of the bonds outstanding is derived from Commonwealth's appropriations, which are dependent on the availability of funds from the Commonwealth's annual budget and its legislative approval. The repayment of the bonds outstanding is also dependent on the ability of the Authority to extend, renew or restructure such bonds. The legislative approval to appropriate the funds required for the debt service of the bonds and the Authority's ability to secure some type of extension, renewal or restructuring on such bonds are uncertain. This raises substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9, and Schedules of the Authority' Proportionate Share of the Net Pension Liability and the Schedule of the Authority's Contributions to the Employees' Pension Plan on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

October 11, 2021

NMA Certified Public Accountants, PSC
License No. 3
San Juan, PR
Expiration Date: December 1, 2023

Stamp No. E455816 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report

PO Box 23063 San Juan PR 00931-3063.Phone 787-758-8234. fax 787-758-8334

This section represents the management's discussion and analysis of the Puerto Rico Maritime Shipping Authority (the "Authority") financial performance for the fiscal year ended June 30, 2019 and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

On June 16, 1993, the Governor of Puerto Rico issued Executive Order OE-1993-25, formally recommending efforts be initiated to facilitate the sale of the Authority's operations. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to addressing the remaining legal requirements related to its former operations, and to service the repayment of principal and interest on the Authority's debt, which is payable solely from Commonwealth of Puerto Rico (Commonwealth) appropriations.

On July 30, 2021, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), as representative of the Commonwealth in its Title III case, filed a joint Title III plan of adjustment for the Commonwealth, the Employee Retirement Systems ("ERS"), and Puerto Rico Public Buildings Authority ("PBA") (the "Seventh Amended Plan"). The Seventh Amended Plan provides that claims against the Commonwealth arising from or related to indebtedness only payable from appropriations of the Commonwealth Legislature under existing loans or legislative resolution shall not receive any recovery under the Seventh Amended Plan and all such claims shall be discharged under the Plan.

1. Financial Highlights

- The Authority's deficit in net position increased by approximately $12.2 million during fiscal year 2019. The Authority does not have operations, but it has debt outstanding of approximately $132 million. There were no debt service payments during fiscal year 2019 because the approved budget of the Commonwealth did not include appropriations for such purpose. The current financial situation of the Commonwealth is precarious and it is unlikely that available resources will be accessible to cover the Authority's debt in the near future.

- Total assets and deferred outflows of resources of the Authority amounted to approximately $8 million and total liabilities and deferred inflows of resources amounted to approximately $166 million at June 30, 2019, for a net deficit of approximately $158 million.

- The Authority has debt outstanding related to bonds issued by Puerto Rico Public Finance Corporation (PFC), a component unit of GDB, with an outstanding balance of approximately $132 million. Interest expense on bonds payable was approximately $6.8 million during the fiscal year 2019. Also, approximately $1.1 million of amortization of deferred loss for debt refunding was recorded during the fiscal year 2019.

- The Commonwealth's implemented GASB Statement No. 73 for the accounting and financial reporting of pensions and related assets. During the year ended June 30, 2019, the Authority recorded its proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources and pension expense.

2. Financial Statements Overview

The financial statements include the management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements. The Authority's basic financial statements comprise three components: a) government-wide financial statements, b) fund financial statements, and c) notes to the basic financial statements.

3. Required Financial Statements

The statement of net position provides information about the nature and amounts of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the net balance representing its net position. Revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Authority's operations during the reporting period.

Governmental funds financial statements present the financial position and results of operations of governmental fund types using a current financial resources measurement focus. The statement of revenue, expenditures, and changes in fund balances can be used to determine, for example, whether and how the Authority met its debt service requirements for the year.

4. Government-Wide Financial Analysis

The statement of net deficit and the statement of activities report information about the Authority's activities in a way that will help determine whether the Authority is better or worse financially as a result of this year's activities. Both statements present the net position of the Authority and the changes in them. Over time, increases or decreases in the Authority's net deficit are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Condensed statements of net deficit are presented below (in thousands):

	June 30,		Change	
	2019	**2018**	**Amount**	**Percent**
Assets-Current assets	$ 14	$ 15	$ (1)	-6.67%
Deferred Outflows of Resources	7,582	8,762	(1,180)	-13.47%
Liabilities				
Current liabilities	27,900	20,830	7,070	33.94%
Non-current liabilities	137,533	133,583	3,950	2.96%
Total Liabilities	165,433	154,413	11,020	7.14%
Deferred Inflows of Resources	360	325	35	10.77%
Net Deficit	$ (158,197)	$ (145,961)	$ (12,236)	8.38%

The activities of the Authority are limited to accounting for the resources contributed by the Commonwealth for the payment of principal and interest of outstanding bonds. Increase in current liabilities was due to an increase in accrued interest payable on the bonds payable of approximately $6.8 million as no interest payments were made during the year. There was no principal payment scheduled for the fiscal year 2019.

The decrease in deferred outflow of resources was due to the scheduled amortization of the deferred loss on refunding of debt for fiscal year 2019.

Increase in non-current liabilities and deferred inflows of resources is related to the Commonwealth's implementation of Governmental Accounting Standard Board Statement (GASB) No. 73 for the accounting and financial reporting of pensions and related assets. During year ended June 30, 2019, the Authority recorded its proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. Under GASB No. 73 net pension liability is equal to the total pension liability, as opposed to total pension liability minus fiduciary net position under GASB Statement No. 68. Refer to Notes 2, 9, 10 and 11.

Condensed program revenues, expenses, and change in net deficit are presented below (in thousands):

	Year Ended June 30,		Change	
	2019	2018	Amount	Percent
GOVERNMENTAL ACTIVITIES				
Program Revenues - Contribution from				
Commonwealth of Puerto Rico	$ 7	$ 15	$ (8)	(53.33)%
Expenses:				
Interest on bonds payable	7,889	7,889	-	-
Other income or loss on impairment	(37)	47	(84)	(178.72)%
Provision for uncollectible accounts receivable	-	202	(202)	100.00 %
Pension expense and other postemployment benefits	4,382	-	4,382	100.00 %
Other expenses	9	101	(92)	(91.09)%
Total expenses	12,243	8,239	(4,004)	(48.60)%
Loss from governmental activities	(12,236)	(8,224)	(4,012)	48.78 %
Genereral Revenues - Interest income	-	1	(1)	
Changes in net position	(12,236)	(8,223)	(4,013)	48.80 %
Net Deficit, Beginning of year, as restated	(145,961)	(137,738)	(8,223)	5.97 %
Net Deficit, End of year	$ (158,197)	$ (145,961)	$ (12,236)	8.38 %

Comparative statements of net deficit show the change in financial position of the Authority, and the statements of activities provides guidance as to the nature and source of these changes. The net deficit increased by approximately $12.2 of which $7.9 million are due to the net effect of interest expense of approximately $6.8 million for which no appropriation from the Commonwealth was received during fiscal year 2019 and approximately $1.1 million of amortization of deferred loss for debt refunding during the fiscal year 2019.

Increase in pension and other postemployment benefits expense by approximately $4.4 million is related to the Commonwealth's implementation of GASB Statement No. 73 for the accounting and financial reporting of pensions and related assets, as explained in previous section.

During last year, the Authority identified various errors, including the adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than pensions, which resulted in a restatement to the beginning net deficit of the Authority.

5. Governmental Fund Financial Statements Analysis

The Authority has two governmental funds: the general fund and the debt service fund both of which are major funds. Governmental funds are used to account for essentially the same functions reported as government-wide financial statements. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The governmental fund deficit as of June 30, 2019 and June 30, 2018 amounted to $27.9 million and $20.5 million, respectively due to the aggregated effect of interest expense of approximately $6.8 million and approximately $1.1 million of amortization of deferred loss for debt refunding during the fiscal year 2019.

6. Debt Administration

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable solely from Commonwealth appropriations. There were no debt service payments during fiscal year 2019, as previously discussed. In addition, as discussed above, the Seventh Amended Plan provides that claims against the Commonwealth arising from or related to indebtedness only payable from appropriations of the Commonwealth Legislature under existing loans or legislative resolution shall not receive any recovery under the Seventh Amended Plan and all such claims shall be discharged under the Plan. Accordingly, any obligation of the Commonwealth to appropriate funds for the repayment of principal and interest on the Authority's debt will be discharged if the Seventh Amended Plan is approved and implemented.

7. Currently Known Facts and Events

Coronavirus Pandemic

On March 11th, 2020, the World Health Organization (WHO) declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, GovernorVáquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

PayGo Pension Reform

On June 27, 2017, the Puerto Rico Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act No. 106 of 2017 (Act 106-2017), which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, ERS's board of trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement Systems (TRS).

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. ERS' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities and retraining program for public workers.

Proposed Title III Joint Plan of Adjustment for the Commonwealth, ERS and Public Building Authority (PBA)

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed the Seventh Amended Plan [ECF No. 17629] and a corrected disclosure statement related thereto [ECF No. 17628] (the Seventh Amended Disclosure Statement). The Seventh Amended Plan incorporates the terms of (i) a plan support agreement (the 2021 PSA), dated February 22, 2021, between the Oversight Board, certain Commonwealth general obligation bondholders and PBA bondholders; (ii) a restructuring support agreement with the Retiree Committee (the Retiree Committee RSA), in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,500, as well as freezes in pension benefits for teachers and judges; (iii) the HTA/CCDA Related Plan Support Agreement, dated May 5, 2021, between the Oversight Board, Assured Guaranty Corp. and National Public Finance Guarantee Corporation (the HTA/CCDA PSA); and (iv) the PRIFA Related Plan Support Agreement, dated as of July 27, 2021, by and among the Oversight Board and the and the various creditor groups that are parties thereto (the PRIFA-Related PSA); and (iv) the ERS Stipulation, entered into on April 2, 2021, by the Oversight Board and certain ERS bondholders.

The Government has not yet determined whether it will support the 2021 PSA, the HTA/CCDA PSA, the PRIFA-Related PSA, the ERS Stipulation, and the Seventh Amended Plan given its view that the Government pensioners must be protected and must not receive additional cuts to their pension benefits. The Seventh Amended Plan remains subject to future amendments and Title III Court approval. It is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan or any further amended plan.

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

Request for Information

This financial report is designed to provide all interested parties with a general overview of the Authority's finances. If you have questions about this report or need additional information, contact the Puerto Rico Maritime Shipping Authority, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIT
JUNE 30, 2019

Assets and Deferred Outflows of Resources		
Current assets:		
Accounts receivable	$	13,723
Total current assets		13,723
Deferred Outflows of Resources		
Loss on bonds refundings		7,213,083
Pension related		359,675
Other postemployment benefits		9,450
Total deferred outflows of resources		7,582,208
Total assets and deferred outflows of resources		7,595,931
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued liabilities		16,511
Due to Commonwealth of Puerto Rico		535,177
Accrued interest payable		27,348,676
Total current liabilities		27,900,364
Non-Current liabilities		
Total pension liability		5,718,013
Total other postemployment liability		120,145
Bonds payable		131,694,000
Total Non-current liabilities		137,532,158
Total liabilities		165,432,522
Deferred Inflows of Resources		
Pension related		360,448
Total deferred inflows of resources		360,448
Total liabilities and deferred inflows of resources		165,792,970
Net Deficit - unrestricted	$	(158,197,039)

See accompanying notes to basic financial statements

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues, Operating Grants and Contributions	Net Expenses and Change in Net Deficit
Governmental Activities:			
Contributions from GDB	$ -	$ 7,500	$ 7,500
Interest on bonds payable	7,889,308	-	(7,889,308)
Other expenses	9,450		(9,450)
Pension and other postemployment benefits expenses	4,382,120	-	(4,382,120)
Other income	(36,615)	-	36,615
Total governmental activities	$ 12,244,263	7,500	(12,236,763)
General Revenues:			
Interest income			522
Change in Net Deficit			(12,236,241)
Net Deficit, Beginning of year			(145,960,798)
Net Deficit, End of year			$ (158,197,039)

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Accounts receivable	$ 13,723	$ -	$ 13,723
Total assets	$ 13,723	$ -	$ 13,723
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable and other liabilities	$ 16,511	$ -	$ 16,511
Due to Commonwealth of Puerto Rico	535,177		535,177
Accrued interest payable	-	27,348,676	27,348,676
Total liabilities	551,688	27,348,676	27,900,364
Fund Balances (Deficit)			
Unassigned	(537,965)	(27,348,676)	(27,886,641)
Total Fund balances	(537,965)	(27,348,676)	(27,886,641)
Total Liabilities and Fund Balances	$ 13,723	$ -	$ 13,723

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET DEFICIT – GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Total fund balances (deficit) - governmental funds:	$	(27,886,641)
Amounts reported for governmental activities in the statement of net deficit are different because:		
Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements; however, such loss is deferred and amortized over the remaining life of the refunded bonds		7,213,083
Deferred outflows of resources do not constitute current financial resources and, therefore, are not reported in the funds		
Other postemployment benefits		9,450
Pension Related		359,675
Liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		
Total pension liability		(5,718,013)
Total other postemployment liability		(120,145)
Deferred inflows of resources is not reported as revenue in the governmental fund financial statements, therefore, are not reported in the funds financial statements		(360,448)
Bonds and notes payable are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(131,694,000)
Net deficit of governmental activities	$	(158,197,039)

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT – GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Contributions from GDB	$ 7,500	$ -	$ 7,500
Interest income	522	-	522
Total revenues	8,022	-	8,022
Expenditures			
Interest on bonds payable	-	6,837,169	6,837,169
Other income	(36,615)	-	(36,615)
Other expenses	544,626	-	544,626
Total expenditures	508,011	6,837,169	7,345,180
Net Change in Fund Balances	(499,989)	(6,837,169)	(7,337,158)
Fund Balances (Deficit), Beginning of year	(37,976)	(20,511,507)	(20,549,483)
Fund Balances (Deficit), End of year	(537,965)	(27,348,676)	(27,886,641)

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT - GOVERNMENTAL FUNDS AND STATEMENT OF ACTIVITIES- GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net changes in fund balances - total governmental funds:	$	(7,337,158)
Amounts reported for governmental activities in the statement of activities are different because:		
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(3,846,944)
The amortization of bond loss on bond defeased do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(1,052,139)
Change in net deficit of governmental activities	$	(12,236,241)

See accompanying notes to basic financial statements.

1. REPORTING ENTITY

The Puerto Rico Maritime Shipping Authority (Authority) is a component unit of the Commonwealth of Puerto Rico (Commonwealth), created by Act No. 62 of the Legislature of the Commonwealth on June 10, 1974 (the "Act 62"), and an affiliate of the Government Development Bank for Puerto Rico (GDB or Bank), another component unit of the Commonwealth.

On March 23, 2018, the Bank ceased its operations and management initiated an orderly wind down process. The wind down process involved, among other things, a comprehensive restructuring of substantially all of GDB's obligations pursuant to the Title VI Qualifying Modification. The United States District Court for the District of Puerto Rico approved GDB's proposed restructuring on November 6, 2018, and the Qualifying Modification went effective on November 29, 2018.

On June 16, 1993, the Governor of Puerto Rico issued the Executive Order OE-1993-25, formally recommending efforts be initiated conducive to the sale of the Authority's operations. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt.

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable solely from Commonwealth appropriations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to Accounting Principles Generally Accepted in the United States of America (GAAP) for governments, as prescribed by the Governmental Accounting Standards Board (GASB). Specifically, the Authority has adopted GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment— the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature if the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Following is a description of the more significant accounting policies followed by the Authority:

Government-Wide Financial Statements—The statement of net deficit and the statement of activities report information on all activities of the Authority. Only governmental activities are presented in the Authority's financial statements. Governmental activities are financed through intergovernmental revenue and occasionally other financing sources.

Following is a description of the Authority's government-wide financial statements.

- The statement of net deficit presents the Authority's assets and liabilities, with the difference reported as net deficit.

- The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues often include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund's Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All of the financial activities of the Authority have been classified as governmental and all funds are reported in separate columns in the fund financial statements.

Fund balances for each governmental fund may be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable — amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned — amounts that are available for any purpose.

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

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

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

The statement of net position (deficit) presents the Authority assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position (deficit).

Net position (deficit) is reported in three categories:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. The Authority has no investment in capital assets.

- Restricted – results when constraints placed on net position use are either externally imposed by creditors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and the unrestricted resources when they are needed.

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

Governmental Fund's Financial Statements—The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are to be collected within 60 days after the end of the current fiscal year-end. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due, including principal and interest due on July 1 of the following fiscal year, if resources are available for its payment as of June 30, 2019.

The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- ***General Fund*** **–**The general fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.

- ***Debt Service Fund–***The debt service fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

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

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

Restricted Assets—Funds set aside for the payment and guarantee of bonds and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of net deficit 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 deficit that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net deficit 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 deficit and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Long-Term Debt—The liabilities reported in the government-wide financial statements include the Authority's outstanding debt, which consist of notes that, together with notes of department, agencies, instrumentalities and public corporations, serve as the sole source of repayment of bonds issued by PFC, a component unit of GDB. As a result of the issuance of the PFC 2012 Series A Bonds and the refunding of certain PFC bonds with the proceeds of the 2012 Series A Bonds, the Authority recognized during June 2012, $131.7 million of outstanding bonds liability. The PFC 2012 Series A Bonds bear interest from 3.10% to 5.35% and interest is payable on a monthly basis starting on August 1, 2012.

Bond Issue Costs and Premium/Discount on Bonds—Premium (discounts) on bonds are amortized in a systematic manner over the life of the debt in the government-wide financial statements. Premium (discounts) are recognized in the period when the related long-term debt is issued in the governmental funds' financial statements, and therefore are not accounted for in subsequent periods. Bond issue costs are expensed as incurred in both government-wide and governmental fund financial statements.

Interfund Transactions—Transfers represent flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers.

Refundings—Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded on the statement of net deficit as either a deferred inflow or deferred outflow of resources.

Accounting for Pensions and adoption of Governmental Accounting Standard Board Statement GASB 73, Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB Statement No. 68 and Amendments to certain provisions of GASB Statements No. 67 and No.68

The GASB released new accounting standards for governments postretirement benefit programs and the employers that sponsor them. The Commonwealth administered the Employee Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) to provide pensions and other benefits to retired employees of the Commonwealth, its public corporations and municipalities, including the Authority, as a component unit of the Commonwealth. The Commonwealth accounts for pensions based on actuarial valuations measured as of the beginning of the year. Prior to July 1, 2018, the retirement plans of the Commonwealth were administered as trusts and followed guidance in GASB Statement No. 68. On August 23, 2017, the Commonwealth of Puerto Rico approved Act No. 106 to implement, among other things, a Pay-Go System that eliminated all employer contributions for the payment of pensions. Also, pursuant to Act No. 106, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the Pay-Go System, ERS 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.

The GASB Statement No. 73 is for accounting and financial reporting for pensions that are not within the scope of GASB Statement No. 68. GASB 73 applies to pension plans, both defined benefit and defined contribution, that either do not have any dedicated assets associated with them or have assets that are not in the trust meeting the requirements specified above.

The Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefit pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage is based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

Management concluded that pursuant implementation of Act No. 106, ERS falls under GASB 73 because ERS does not have dedicated assets within a trust, and the net pension liability is equal to the total pension liability, as opposed to total pension liability minus fiduciary net deficit under GASB No. 68. Also, management is of the opinion that pensions and pensions administered through trusts were no different, except for restrictions on assets, therefore the accounting is essentially the same as required under GASB No. 68. Therefore, the effect of the implementation of GASB No. 73 was recorded in statement of activities during the year ended June 30, 2019.

Please refer to Note 10 for disclosures and further information.

Other Postemployment Benefits—The Authority accounts for other post-employment benefits

(OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

Encumbrances—Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately.

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have an effective date after June 30, 2019. However, GASB No.95, *Postponement of the effective dates of Certain Authoritative Guidance,* postponed by one year or eighteen months in certain instances, the implementation of several pronouncements. Refer to GASB 95 below in this section:

- **GASB Statement No. 83 *Certain Asset Retirement Obligations***. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

- **GASB Statement No. 84 *Fiduciary Activities***. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for fiscal years beginning after December 15, 2018. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

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

- **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this

Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

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

- **GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*.** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

- **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. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

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

- **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. It was amended by Governmental Accounting Standard Board Statement No. 95, see below.

This statement achieves its objective by:

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

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

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

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

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

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

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

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

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

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

The requirements of this Statement are effective immediately.

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

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

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

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

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

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

3. GOING CONCERN

The Authority has outstanding a debt related to notes and bonds issued by PFC, a component unit of GDB for which repayment of interest and principal would come from Commonwealth's budget appropriations. The Commonwealth current financial situation is precarious and is unlikely that available resources will be accessible to cover debt service payments on the debt. The Commonwealth 2019 budget did not include appropriations for the debt service payments on the bonds to PFC. Also, the Commonwealth budget ultimately approved for fiscal years 2020 and 2021 did not include appropriations to pay the bonds. On May 18, 2018, the PFC Bonds trustee, filed a proof of claim in the Commonwealth's Title III proceeding under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) with respect to the notes and bonds. There have been no further proceedings related to this claim as of June 30, 2019. See further information regarding the bonds payable in Note 8.

Also, the Authority maintained all its cash and deposits with GDB. GDB ceased its operations and determined to restructure certain of its indebtedness pursuant to a Qualifying Modification (the Qualifying Modification) under Title VI of PROMESA. Therefore, deposits held by the Authority at GDB were subject to strict restrictions and limitations and management determined that a custodial credit risk loss existed in prior years for the entire balances of deposits held at GDB. As of June 30, 2019, the deposits balance and the custodial credit loss were reclassified to deposits claim receivable from PET and into an allowance for doubtful accounts, respectively, with a net carrying amount of zero.

Because of the above, management believes that there is substantial doubt about the Authority's ability to continue as a going concern.

4. CLAIM RECEIVABLE FROM PUBLIC ENTITY TRUST (PET)

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

Pursuant to Act No. 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Authority, were exchanged for beneficial units in the Public Entity Trust created pursuant to the GDB

Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification, *i.e.*, November 29,2018 (the Closing Date), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, 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 Government Entity may have had against GDB.

The Authority held deposits at GDB of approximately $1.2 million, a custodial credit loss on these deposits was recorded in previous years resulting in a reserve for the entire balance as of June 30, 2018. As a result of the execution of the Qualifying Modification, the Authority received beneficial units of the PET amounting to $1.2 million in exchange for the deposits held at GDB.

The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately $578 million against the Commonwealth (the "PET Claim"), which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. The Authority's recovery of the PET units will depend from the payment of the claim filed in the Commonwealth's Title III case. As result units received from the PET are fully reserved

PET claim receivable as of June 30, 2019 is explained as follows:

	Claim Balance	Allowance	Carrying Amount
PET Claim Receivable	$ 1,232,149	$ (1,232,149)	$ -

5. DUE TO COMMONWEALTH

The Commonwealth has made PayGo pension related and other postemployment benefits payments on behalf of the Authority amounting to approximately $515,747 and $19,430, respectively. Accordingly, a due to Commonwealth has been recorded in the fund financial statements because amounts were due and payable as of June 30, 2019.

6. RELATIONSHIP WITH FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY (FAFAA)

The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016 (the Moratorium Act), as amended, created the Fiscal Agency and Financial Advisory Authority (FAFAA) as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth and its instrumentalities. Act No. 2 of 2017 subsequently repealed and replaced the provisions of the Moratorium Act regarding FAFAA. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant PROMESA. During the year ended June 30, 2019, FAFAA provided certain management and administrative services to the Authority at no cost.

In addition, FAFAA has assumed the cost of certain professional services, including the annual fees for the external audit of the Authority that have been accounted for as contributions from the Commonwealth.

7. OTHER INCOME

The Authority had an account payable for amounts due to former bondholders of approximately $37,000 related to bonds defeased in prior years. The trustee of the bonds returned the unclaimed amounts due to the Authority, which were deposited at GDB and a liability was recorded. As a result of the GDB Qualifying Modification a custodial credit risk loss was recorded in prior years for the entire balance deposited, but the liability side remained unclaimed. During the year ended June 30, 2019, management recorded as other income the unclaimed amount.

8. BONDS PAYABLE

On September 27, 1994, the Legislature of the Commonwealth approved Act No. 113 (Act 113), which authorized the Authority to refinance its outstanding debt and required deposits to reserve accounts, for an amount not to exceed $310 million.

Act No. 113 also provides that the Commonwealth will honor the payment of principal and interest on the refinanced debt, and that the Director of the Office of Management and Budget will include annually in the budget of the Commonwealth to be submitted to the Legislature an amount sufficient to cover principal and interest on the restructured debt and related expenses.

During June 2012, the Authority refinanced and defeased $114 million of its outstanding debt through the proceeds of bonds issued by PFC, a component unit of GDB. As a result of the issuance of the PFC 2012 Series A Bonds, and the refunding of certain PFC bonds with the proceeds of the 2012 Series A Bonds, the Authority recognized during June 2012, $131.7 million of outstanding bonds liability. The PFC 2012 Series A Bonds bear interest from 3.10% to 5.35%, and interest is payable on a monthly basis starting in August 1, 2012.

Changes in bonds payable for the year ended June 30, 2019, are summarized as follows (in thousands):

Description	Balance as of June 30, 2018	Additions	Deductions	Balance as of June 30, 2019	Due Within One Year
Bonds payable					
2012 Series A Bonds	$ 131,694	$ -	$ -	$ 131,694	$ -

As of June 30, 2019, the outstanding bonds debt service requirements are as follow:

Year Ending June 30,	Principal	Interest	Total
2020 (including balance in arrears)	$ -	$ 34,185,845	$ 34,185,845
2021	-	6,837,169	6,837,169
2022	-	6,837,169	6,837,169
2023	-	6,837,169	6,837,169
2024	27,999,000	5,647,212	33,646,212
2025-2030	55,385,000	16,461,857	71,846,857
2031-2032	48,310,000	5,599,934	53,909,934
	$ 131,694,000	$ 82,406,355	$ 214,100,355

The "PFC Bonds" are limited obligations of PFC payable solely from the proceeds of payments of principal of and interest on certain promissory notes (the "Notes") issued to PFC by certain departments, agencies, instrumentalities and public corporations (the "Authorized Debtors") of the Commonwealth, which Notes are in turn payable solely from budgetary appropriations approved annually by the Legislature of Puerto Rico pursuant to certain legislation (the "Appropriation Acts"). The Authority is one of the Authorized Debtors under the Notes.

The Appropriation Acts require the Office of Management and Budget of the Commonwealth ("OMB") to include the amounts required to pay debt service on the Notes in the proposed annual budget of the Commonwealth that is submitted by the Governor to the Legislature of Puerto Rico. However, the Legislature of Puerto Rico is not legally required to appropriate funds for such payments. The non-appropriation of funds for payments on the Notes resulted in a lack of proceeds available under the Notes to pay the principal and interest due on the PFC Bonds. The debt service payments of the PFC Bonds are payable solely from the proceeds of the Notes, and the PFC Bonds are limited obligations of PFC and not of any Commonwealth entity. Therefore, in the event of a non-appropriation of funds and the resulting lack of payment of the PFC Bonds, bondholders have no recourse to other assets of the Authorized Debtors or of PFC, nor do they have recourse against the Legislature of Puerto Rico, the Commonwealth or other governmental entities of the Commonwealth.

In addition, as discussed above, the Seventh Amended Plan provides that claims against the Commonwealth arising from or related to indebtedness only payable from appropriations of the Commonwealth Legislature under existing loans or legislative resolution shall not receive any recovery under the Seventh Amended Plan and all such claims shall be discharged under the Plan. Accordingly, any obligation of the Commonwealth to appropriate funds for the repayment of the PFC Bonds will be discharged if the Seventh Amended Plan is approved and implemented.

Due to the non-appropriation of funds for the payment of the Notes in the annual budget for prior fiscal years, none of the payments on the Notes, nor the corresponding payments on the PFC Bonds that have come due and payable in prior and current years have been made in full. As publicly disclosed by GDB and PFC following the approval of the annual budget for prior fiscal years, the non-appropriation of the necessary funds to make the payments on PFC Bonds reflects the reality of the Commonwealth's current liquidity situation and its fiscal challenges, in combination with the balance of the Commonwealth's obligations to its creditors while continuing to provide essential services to the citizens of Puerto Rico. On May 18, 2018, the PFC Bonds trustee, filed a proof of claim in the Commonwealth's Title III proceeding under PROMESA with respect to the Notes. There have been no further proceedings related to this claim as of June 30, 2019.

The debt service requirements referred to in the table above includes the missed interest payment from fiscal years 2016 to 2019 totaling $27,348,676 as it is currently uncertain when such payments will be appropriated, if at all, or how the obligations under the Authority's Note will be affected by the Commonwealth's Title III proceeding under PROMESA.

9. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Changes in deferred outflows and inflows of resources for the year ended June 30, 2019, are summarized (in thousands) as follows:

Deferred outflows of resources	Balance as of June 30, 2018	Additions	Reductions	Balance as of June 30, 2019
Loss on bonds refundings	$ 8,265	$ -	$ (1,052)	$ 7,213
Pension related	487	260	(387)	360
Other postemployment benefits	10	-	(1)	9
Total	$ 8,762	$ 260	$ (1,440)	$ 7,582
Deferred inflows of resources				
Pension related	$ 325	$ 360	$ (325)	$ 360
Total	$ 325	$ 360	$ (325)	$ 360

10. EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

Plan Description

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

Pension Benefits

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

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

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

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013), froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

***(a)* Service Retirement Eligibility Requirements**

(1) *Eligibility for Act No. 447 Members – Act No. 447 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, 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 (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), 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 members who attained 30 years of credited service by December 31, 2013, are eligible to retire at any time.*

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

Date of birth	Attained age as of June 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 of the table above, Act No. 447 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.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (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 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 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.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. 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 otherwise.

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 otherwise.

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

(4) *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.

(b) **Compulsory Retirement**

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

(c) **Service Retirement Annuity Benefits**

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

(1) Accrued Benefit as of June 30, 2013, for Act No. 447 Members – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member, all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

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

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

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

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

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

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

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

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

(d) Special Benefits

(1) Minimum Benefits

- Past Ad Hoc Increases

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

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

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

- Coordination Plan Minimum Benefit

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

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

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

(3) Special "Bonus" Benefits

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

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

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

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

Total Pension Liability Allocation Methodology

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

Total Pension Liability and Actuarial Information

The total pension liability was approximately $244 billion from which $5.7 million are the proportionate share of the Authority as of June 30, 2018. The total pension liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019).

(a) Actuarial Methods and Assumptions

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

Discount Rate

The discount rate for June 30, 2019 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index,which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2019 actuarial valuation were as follows:

— *Pre-retirement Mortality*

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

One hundred percentage of deaths while in active service are assumed to be occupational for members covered underAct 127.

— *Post-retirement Healthy Mortality*

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

— *Post-retirement Disabled Mortality*

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

Other Assumptions as of June 30, 2019

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.

(b) **Sensitivity of the Total Pension Liability to Changes in the Discount Rate**

The following presents the total pension liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using the discount rate of one percentage point lower (2.87%) or one percentage-point higher (4.87%) than the current rate (dollars in thousands):

		1% Decrease or (2.87%)	Current discount rate of (3.87%)	1% Increase or (4.87%)
Net pension liability	$	6,506,986	5,718,013	5,078,282

Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2019.

Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience in measuring total pension liability	$ —	$ 172,942
Changes in assumptions	99,552	187,506
Employer contributions made subsequent to the measurement date	260,123	—
Total	$359,675	$360,448

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2019, will be recognized in pension expense (benefit) in future years as follows:

	Amount
Year ending June 30:	
2019	$ (52,180)
2020	(52,180)
2021	(52,180)
2022	(52,180)
2023	(52,178)
Total	$ (260,898)

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2019.

Pension Expense

The components of allocable pension expense for the year ended June 30, 2019, are as follows:

	Amount
Service cost	$ 16,983
Interest on total pension liability	217,402
Effect of Plan changes	(357,942)
Recognition (amortization) of deferred inflows/outflows of resources:	
Effect of economic/demographic gains (losses)	(207,541)
Changes in assumptions	(225,018)
Pension expense	(556,116)

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

OPEB Liability Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit).The employer allocation percentage are based on the ratio of each participating entity's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date.

Total OPEB Liability and Actuarial Information

The total OPEB liability was approximately $842 million, of which $120,145 is the proportionate share of the Authority as of June 30, 2019. The total OPEB liability as of June 30, 2019, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial Assumptions

Discount Rate

The discount rate for June 30, 2019 was 3.87%. This represents the municipal bond return rate as chosenby 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

Pre-retirement Mortality

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

One hundred percentage of deaths while in active service are assumed to be occupational for members covered under

Act 127 *Post-retirement Healthy Mortality*

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

MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan at June 30, 2019, calculated using the discount rate of 3.87%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

		1% Decrease or (2.87%)	Current discount rate of (3.87%)	1% Increase or (4.87%)
Total OPEB Liability	$	131,807	120,145	110,298

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share arerecognized immediately during the measurement year.

OPEB Expense (Benefit)

The components of OPEB expense (benefit) for the year ending June 30, 2019 are as follows:

		Amount
Interest on total OPEB liability	$	4,526
Effect on economic/demographics gains and losses		(2,206)
Effect of assumptions changes or inputs		(3,521)
OPEB expense (benefit)	$	(1,201)

12. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 11, 2021 to determine if any such events should either be recognized or disclosed in the 2019 basic financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Authority. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality.

Bonds Payable

As described in Note 8, there was no appropriation for the payment of the Notes in the annual budget for fiscal years 2020 to 2021. As such, none of the payments on the Notes, nor the corresponding payments on the PFC Bonds, that have come due and payable on subsequent fiscal years have been made in full as of the date hereof.

Commonwealth Plan of Adjustment

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and PBA in their respective Title III cases—filed its initial joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement), which was founded upon the pre-COVID-19 economic assumptions contained in the Commonwealth fiscal plan as certified by the Oversight Board on May 9, 2019. The Initial Plan incorporated the terms of a restructuring support agreement with the Retiree Committee (the Retiree Committee RSA), in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,200, as well as freezes in pension benefits for teachers and judges.

On February 9, 2020, the Oversight Board announced that it entered into the 2020 PSA with certain Commonwealth general obligation bondholders and PBA bondholders (collectively, the PSA Creditors), which would require revisions to the Initial Plan. On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] and an amended disclosure statement related thereto [ECF No. 11947] (the Amended Disclosure Statement), which revised the Initial Plan to conform to the 2020 PSA while retaining the terms of the Retiree Committee RSA. However, due to the national economic shut down caused by the global spread of COVID-19 that has had substantial negative effects on the people and businesses in Puerto Rico, the Oversight Board decided to pause discussion and prosecution of the plan, including re-evaluation of the 2020 PSA.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of the Proportionate Share of Collective Total Pension Liability and Related Ratios
(Unaudited)
June 30, 2019

Description	2019*	2018*
Proportion of Total Pension Liability	0.02335%	0.22293%
Proportionate Share of Total Pension Liability	$ 5,718,013	$ 6,465,979
Covered - Employee Payroll	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A

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

Fiscal year 2019 was the first year that the Company transitioned from GASB No. 68 to No. GASB 73, as resulted of the PayGo 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.

See accompanying notes to required supplemetary information and independent auditors' report.

The Schedule of Changes in Net Pension Liability presents the changes in total pension liability for the Authority at June 30, 2019:

		2019
Total pension liability:		
Service cost	$	16,983
Interest		217,402
Effect of plan changes		(357,942)
Effect of economic/demograhic gains(losses)		(207,541)
Effect of assumptions changes or inputs		(225,018)
Benefit payments		(191,561)
Net change in total pension liability	$	(747,677)
Total pension liability-beginning		6,465,979
Total pension liability-ending	$	5,718,302

Notes:
The Commonwealth's total pension liability as of June 30, 2019 was measured as of June 30, 2018, and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation with beginning of year census data as of July 1, 2017 that was updated to roll forward the total pension liability to June 30, 2018 and assuming no gains or losses.

Schedules are intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Proportionate Share of Total Other Postemployment Benefit Liability and Related Ratios (Unaudited)
June 30, 2019

Description	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.01427%	0.01391%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 120,154	$ 128,069
Covered - Employee Payroll	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A

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

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

See accompanying notes to required supplementary information and independent auditors' report.

The Schedule of Changes in the Total Other Postemployment Benefits Liability presents the changes in the liability for the Authority at June 30, 2019:

		2019
Total other postemployment benefits liability:		
Service cost	$	-
Interest on total OPEB liability		4,526
Effect of plan changes		-
Effect of economic/demograhic gains (losses)		(2,206)
Effect of assumptions changes or inputs		(3,521)
Benefit payments		(6,725)
Net change in total other postemployment benefits liability		(7,925)
Total other postemployment benefits liability-beginning	$	128,069
Total other postemployment benefits liability-ending	$	120,144

Notes:
The schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

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