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Financial Statements and Report of Independent Certified Public Accountants

Puerto Rico Maritime Shipping Authority

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2020

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

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Kevane Grant Thornton

Kevane Grant Thornton LLP
33 Bolivia Street
Suite 400
San Juan, Puerto Rico 00917-2013

T + 1 787 754 1915

F + 1 787 751 1284

E kgt@pr.gt.com

linkedin.com/company/kevane-grant-thornton
facebook.com/kevanegrantthornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, the General Fund and the Debt Service Fund of the **Puerto Rico Maritime Shipping Authority** (the "Authority") as of and for the year ended June 30, 2020, 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.

Auditors' 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 opinions.

Kevane Grant Thornton

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, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Authority'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 basic financial statements, the Authority has been practically inactive since 1995 and its role limited only to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt. Effective July 1, 2015, the Legislature of the Commonwealth of Puerto Rico discontinued appropriating funds to pay the debt service on the bonds outstanding issued by the Public Finance Authority (PFC). Therefore, the Authority has not been able to make the required debt service payment on its underlying notes since fiscal year 2017. The Authority also has no cash balance as of June 30, 2020, and only has a claim of $1.2 million against the Public Entity Trust (PET), which recovery is contingent on the realization of certain underlying assets of the PET. The ultimate realization of the PET assets is 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 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico,
March 30, 2022.

Kevane Grant Thornton LLP

CERTIFIED PUBLIC ACCOUNTANTS
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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 30,2020 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.

1. Financial Highlights

- The Authority's deficit in net position increased by approximately $8 million during fiscal year 2020. The Authority does not have operations, but it has debt outstanding of approximately $132 million. The increase in net deficit is mostly attributed to interest accrued during the year on such debt. There were no debt service payments during fiscal year 2020 because the certified 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 $0 and $6.7 million, respectively, and total liabilities and deferred inflows of resources amounted to approximately $172.4 million and $510,000 as of June 30, 2020, respectively, for a net deficit of approximately $166.2 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 2020. Also, approximately $1.1 million of amortization of deferred loss for debt refunding was recorded during the fiscal year 2020. The Eighth Amended Plan of Adjustment does not affect any claims or rights of the trustee related to the PFC bonds.

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 deficit. 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 fiscal year's activities. Both statements present the net position of the Authority as of the fiscal year ended June 30, 2020 and the changes from the prior year. 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):

	2020	2019	Amount	Percent
Assets-Current assets	$ -	$ 14	$ (14)	(100.00)%
Deferred Outflows of Resources	6,691	7,582	(891)	(11.75)%
Liabilities				
Current liabilities	35,266	27,900	7,366	26.40%
Non-current liabilities	137,132	137,533	(401)	(0.29)%
Total Liabilities	172,398	165,433	6,965	4.21%
Deferred Inflows of Resources	510	360	150	41.67%
Net Deficit	$ (166,217)	$ (158,197)	$ (8,020)	5.07%

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 2020.

The decrease in deferred outflow of resources was principally due to the scheduled amortization of the deferred loss on refunding of debt for fiscal year 2020.

The Authority recognizes its proportionate share of the total pension liability, total postemployment liability, deferred outflows of resources, deferred inflows of resources and pension and other postemployment benefits expenses.

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

	Year Ended June 30,		Change	
	2020	2019	Amount	Percent
GOVERNMENTAL ACTIVITIES				
Program Revenues - Contribution from Commonwealth of Puerto Rico	$ 3	$ 7	$ (4)	(57.14)%
Expenses:				
Interest on bonds payable	7,889	7,889	-	0.00%
Other income	-	(37)	37	(100.00)%
Pension and other postemployment benefits	164	4,382	(4,218)	(96.26)%
Other expenses	8	9	(1)	(11.11)%
Total expenses	8,061	12,243	4,182	34.16 %
Loss from governmental activities	(8,058)	(12,236)	4,178	(34.15)%
General Revenues - Interest income	-	-	-	
Changes in net position	(8,058)	(12,236)	4,178	(34.15)%
Net Deficit, Beginning of year, as restated	(158,159)	(145,961)	(12,198)	8.36 %
Net Deficit, End of year	$ (166,217)	$ (158,197)	$ (8,020)	5.07 %

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 $8 million 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 2020 and approximately $1.1 million of amortization of deferred loss for debt refunding during the fiscal year 2020.

The decrease in pension expense and other postemployment benefits by approximately $4.2 million is related to the Authority's implementation of Governmental Accounting Standard Board Statement (GASB) No. 73 for the accounting and financial reporting of pensions and related assets during last year. As the change to the PayGo system was caused by the impact of legislation not under the Authority's management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively in the statement of activities for the year ended June 30, 2019; an impact that did not recur during the year ended June 30, 2020.

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, 2020, and June 30, 2019, amounted to approximately $35 million and $27.9 million, respectively, an increased caused the aggregated effect of interest expense of approximately $6.8 million during the fiscal year 2020.

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 2020, as previously discussed.

In addition, as discussed above, the Eighth Amended Plan, as defined and discussed below, 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 Eighth Amended Plan; however, such claims will not be discharged. For further information, refer to Note 12 to the basic financial statement.

7. Currently Known Facts and Events

Bonds Payable

There was no appropriation for the payment of the Notes in the Commonwealth's annual budget for fiscal years 2021 to 2022. 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.

Title III Joint Plan of Adjustment for the Commonwealth, ERS, and PBA

On July 30, 2021, the Oversight Board— as representative of the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628] (the Seventh Amended Disclosure Statement). The Seventh Amended Plan incorporated 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, 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 (the Monthly Benefit Modification), as well as freezes in pension benefits for teachers and judges; (iii) the HTA/CCDA Related Plan Support Agreement (the HTA/CCDA PSA), dated May 5, 2021, between the Oversight Board, Assured Guaranty Corp. and National Public Finance Guarantee Corp. (together, the Settling Monoline Insurers); and (iv) a stipulation between the Oversight Board and System bondholders, dated April 2, 2021 (the ERS Stipulation), which set forth an agreement on the economic terms upon which the System bondholders would support a plan of adjustment.

On October 26, 2021, the Governor signed into law Act No. 53 of 2021, known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of the Monthly Benefit Modification in an amended version of that plan.

On November 3, 2021, the Oversight Board filed *its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Ric, et al*. [ECF No. 19053] (*the Eighth Amended Plan*). The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1]. On January 18, 2022, the Title III Court entered its Findings of Fact and Confirmation Order. Accordingly, the Eighth Amended Plan has been confirmed by the Title III Court, but remains subject to the occurrence of various conditions—which the Oversight Board and Government are actively pursuing—before the Effective Date of the plan can occur. It is not certain when the Eighth Amended Plan will become effective.

The Eighth 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 Eighth Amended Plan; however, such claims will not be discharged under the Eighth Amended Plan. Instead, they are expected to be resolved through a Title VI restructuring under PROMESA consistent with the terms of the PFC RSA (see Note 11).

For further information, refer to the final versions of the Eighth Amended Plan, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

Puerto Rico Public Finance Corporation's Restructuring Support Agreement

On January 20, 2022, the Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

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, 2020

Assets and Deferred Outflows of Resources	
Deferred Outflows of Resources	
Loss on bonds refundings	6,160,944
Pension related	521,427
Other postemployment benefits	8,800
Total deferred outflows of resources	6,691,171
Total assets and deferred outflows of resources	6,691,171
Liabilities and Deferred Inflows of Resources	
Current liabilities:	
Accounts payable and accrued liabilities	7,500
Due to Commonwealth of Puerto Rico	804,141
Accrued interest payable	34,185,845
Total pension liability	260,200
Total other postemployment liability	8,800
Total current liabilities	35,266,486
Non-Current liabilities	
Total pension liability	5,332,801
Total other postemployment liability	105,187
Bonds payable	131,694,000
Total Non-current liabilities	137,131,988
Total liabilities	172,398,474
Deferred Inflows of Resources	
Pension related	509,608
Total deferred inflows of resources	509,608
Total liabilities and deferred inflows of resources	172,908,082
Net Deficit - unrestricted	$ (166,216,911)

See accompanying notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues, Operating Grants and Contributions	Net Expenses and Change in Net Deficit
Governmental Activities:			
Contributions from Commonwealth	$ -	$ 2,790	$ 2,790
Interest on bonds payable	7,889,308	-	(7,889,308)
Other expenses	7,500	-	(7,500)
Pension and other postemployment benefits expenses	164,088	-	(164,088)
Total governmental activities	$ 8,060,896	2,790	(8,058,106)
Change in Net Deficit			(8,058,106)
Net Deficit, Beginning of year**, as restated**			(158,158,805)
Net Deficit, End of year			$ (166,216,911)

See accompaying notes to the basic financial statements.

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

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
None	$ -	$ -	$ -
Total assets	$ -	$ -	$ -
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable and other liabilities	$ 7,500	$ -	$ 7,500
Due to Commonwealth of Puerto Rico	804,141	-	804,141
Accrued interest payable	-	34,185,845	34,185,845
Total liabilities	811,641	34,185,845	34,997,486
Fund Balances (Deficit)			
Unassigned	(811,641)	(34,185,845)	(34,997,486)
Total Fund balances	(811,641)	(34,185,845)	(34,997,486)
Total Liabilities and Fund Balances	$ -	$ -	$ -

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, 2020

Total fund balances (deficit) - governmental funds:	$	(34,997,486)
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		6,160,944
Deferred outflows of resources do not constitute current financial resources and, therefore, are not reported in the funds		
Other postemployment benefits		8,800
Pension Related		521,427
Liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		
Total pension liability		(5,593,001)
Total other postemployment liability		(113,987)
Deferred inflows of resources are not reported as revenue in the governmental fund financial statements, therefore, are not reported in the funds financial statements		(509,608)
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	$	(166,216,911)

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, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Contributions from Commonwealth	$ 2,790	$ -	$ 2,790
Total revenues	2,790	-	2,790
Expenditures			
Interest on bonds payable	-	6,837,169	6,837,169
Other expenses	7,500	-	7,500
Pension and other postemployment benefits	268,966	-	268,966
Total expenditures	276,466	6,837,169	7,113,635
Net Change in Fund Balances	(273,676)	(6,837,169)	(7,110,845)
Fund Deficit, Beginning of year	(537,965)	(27,348,676)	(27,886,641)
Fund Deficit, End of year	$ (811,641)	$ (34,185,845)	$ (34,997,486)

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 TO THE STATEMENT OF ACTIVITIES- GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

Net changes in fund deficit - total governmental funds:	$	(7,110,845)
Amounts reported for governmental activities in the statement of activities are different because:		
Some expenses (benefit) 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		104,878
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	$	(8,058,106)

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 (Act 62), and an affiliate of the Government Development Bank for Puerto Rico (Bank or GDB), another component unit of the Commonwealth.

On March 23, 2018, GDB ceased its operations and management initiated an orderly wind down process, which included a restructuring of GDB's debts pursuant to a Qualifying Modification under Title VI of PROMESA. On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB's Title VI Qualifying Modification, which became 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's 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, 2020.

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.

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. On the government-wide financial statements, there are three major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) pension related items and (iii) other postemployment benefit related items. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt and the amortization recognized as a component of interest expense in a systematic and rational manner. Of the pension related items (further disclosed in Note 10), changes in assumptions are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants, while changes in proportion are recognized over the average of the expected remaining service lives of all plan members, which is 6 years for 2019 (measurement date). Pension benefit payments made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. Of the other postemployment benefit related items (further disclosed in Note 11), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the other postemployment benefit liability after the next measurement date.

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. On the government-wide financial statements, there is one major caption that qualifies for reporting in this category, which consists of pension related items. With respect to the pension related items (further disclosed in Note 10), changes in assumptions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

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.

Accounting for Pensions Cost— Effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* (GASB Statement 68) to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, it was necessary to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements No. 67 and 68* (GASB Statement 73). Statement No. 73 maintains the "accrual basis" model under Statement 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system while the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, the Authority recognizes since then a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. Further details on the accounting for pension costs are disclosed in Note 10.

The Central Government 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. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019, actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Authority's pension expense for the year ended June 30, 2020 amounted to approximately \$161,000 and the Total Pension Liability as of June 30, 2020, amounted to approximately \$5.6 million. Disclosures required under GASB Statement No. 73 can be found in Note 10.

Other Postemployment Benefits— The Authority accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as amended by GASB Statement No. 85, Omnibus 2017*, which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 11.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of the Authority subsequent to the measurement date, of approximately \$8,800.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019, actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Authority's annual OPEB expense for the year ended June 30, 2020, amounted to approximately \$3,000 and the OPEB liability as of June 30, 2020, amounted to approximately \$114,000. Disclosures required under GASB Statement No. 75 can be found in Note 11.

GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

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.

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New Accounting Standards Adopted and Accounting Pronouncements Issued But Not Yet Effective

New Accounting Standards Adopted

During the fiscal year ended on June 30, 2020, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Authority.

Accounting Pronouncements Issued But Not Yet Effective

GASB Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, Postponement of the effective dates of Certain Authoritative Guidance, which allowed for a one-year postponement of its effective date. This statement did not have an impact on the basic financial statements.

- 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 June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for an eighteen-month postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify 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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and* AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- 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. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, Postponement of the effective dates of Certain Authoritative Guidance, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- 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 (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) 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 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. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR).

  As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative* Guidance, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB

Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. 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 Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. 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.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should 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. This Statement also requires that the financial burden criterion in paragraph 7 of GASB Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

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 GASB Statement 67 or paragraph 3 of GASB Statement 74, respectively, are effective immediately.

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

Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

3. GOING CONCERN

As described in Note 1, the operations of the Authority have been practically inactive since 1995 and its role limited only to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt.

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 2020 budget did not include appropriations for the debt service payments on the bonds to PFC. Also, the Commonwealth budget ultimately approved for fiscal years 2021 and 2022 did not include appropriations to pay the bonds.

The Authority has no cash balance as of June 30, 2020. The Authority held deposits at GDB of approximately $1.2 million and a custodial credit loss on these deposits was recorded in previous years resulting in a reserve for the entire balance. As a result of the execution of the Qualifying Modification of GDB, the Authority received beneficial units of the PET amounting to $1.2 million in exchange for the deposits held at GDB. The units received and the custodial credit loss were reclassified to deposits claim receivable from PET and into an allowance for doubtful accounts, with a net carrying amount of zero. The Authority's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case. See further information in Note 5.

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

4. RESTATEMENT – CORRECTION OF ERROR

During 2020, the Authority identified an error related to the prior year financial statements which resulted in a restatement of the beginning net deficit of the Authority's government wide- financial statements. The error was related to additional payments identified made by the Commonwealth on behalf of the Authority of $38,234 that should have been recognized in prior year financial statements as deferred outflow of resources for pension contributions made after the measurement date. The net deficit as of July 1, 2019 has been restated to $158,158,805 from the net deficit previously reported of $158,197,039 in the 2019 the Authority's government wide- financial statements.

5. 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 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 PET created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification, *i.e.*, November 29,2018 (the Closing Date), the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the 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, 2019. 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 on 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, 2020, is explained as follows:

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

6. DUE TO COMMONWEALTH

The Commonwealth has made PayGo pension related and other postemployment benefits payments on behalf of the Authority amounting to approximately $775,911 and $28,230, respectively. Accordingly, a due to Commonwealth has been recorded in the fund financial statements because amounts were due and payable as of June 30, 2020.

7. 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, 2020, 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.

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. 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.

Changes in bonds payable for the year ended June 30, 2020, are summarized as follows (in thousands):

Description	Balance as of June 30, 2019	Additions	Deductions	Balance as of June 30, 2020	Due Within One Year
Bonds payable					
2012 Series A Bonds	$ 131,694	$ -	$ -	$ 131,694	$ -

As of June 30, 2020, the outstanding bonds debt service requirements are as follow:

Year Ending June 30,	Principal	Interest	Total
2021 (including balance in arrears)	$ -	$ 41,023,014	$ 41,023,014
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	16,095,000	4,725,183	20,820,183
2026-2030	39,290,000	14,321,260	53,611,260
2031-2032	48,310,000	3,015,349	51,325,349
	$ 131,694,000	$ 82,406,356	$ 214,100,356

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.

On November 3, 2021, the Oversight Board filed *its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (*the Eighth Amended Plan*). The Eighth 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 Eighth Amended Plan and all such claims shall be discharged upon the effective date. Accordingly, any obligation of the Commonwealth to appropriate funds for the repayment of the PFC Bonds will be discharged if the Eighth Amended Plan becomes effective.

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, 2020. Under the Eighth Amended Plan, the PFC Bonds trustee claims have been reserved. Related subsequent events with respect to the PFC Bonds have been disclosed in Note 12.

The debt service requirements referred to in the table above includes the missed interest payment from fiscal years 2016 to 2020 totaling $34,185,845 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, 2020, are summarized (in thousands) as follows:

Deferred outflows of resources	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020
Loss on bonds refundings	$ 7,213	$ -	$ (1,052)	$ 6,161
Pension related	360	298	(137)	521
Other postemployment benefits	9	9	(9)	9
Total	$ 7,582	$ 307	$ (1,198)	$ 6,691
Deferred inflows of resources				
Pension related	$ 360	$ 150	$ -	$ 510
Total	$ 360	$ 150	$ -	$ 510

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.

Pursuant to a settlement incorporated into the Eighth Amended Plan, on the effective date of the Eighth Amended Plan, all participants in the System 2000 Program will receive a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program will be discharged.

(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 with10 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 ofJune 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).

Under the Eighth Amended Plan, these COLAs will be eliminated from and after the Effective Date. As of the date hereof, the Effective Date has not yet occurred. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

(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 Commonwealth's total pension liability was approximately $24.9 billion of which $5.6 million are the proportionate share of the Authority as of June 30, 2019. The total pension 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).

(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, 2020, was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index,which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2020, actuarial valuations 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-2019 from the 2006 base year and projected forward using MP-2019 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-2019 from the 2006 base year and projected forward using MP-2019 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 ofthe 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-2019 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2020

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

(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 3.50%, as well as what it would be if it were calculated using the discount rate of one percentage point lower (2.50%) or one percentage-point higher (4.50%) than the current rate (dollars in thousands):

	1% Decrease or (2.50%)	Current discount rate of (3.50%)	1% Increase or (4.50%)
Total pension liability	$ 6,361,076	5,593,001	4,970,516

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, 2020.

Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience in measuring total pension liability	$ –	$ 189,619
Changes in assumptions	181,619	144,594
Changes in proportion	79,642	175,395
Employer contributions made subsequent to the measurement date	260,166	–
Total	$521,427	$509,608

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) at June 30, 2020, will be recognized in pension expense (benefit) in future years as follows:

		Amount
Year ending June 30:		
2021	$	(38,154)
2022		(38,154)
2023		(38,154)
2024		(38,132)
Total	$	(152,594)

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. The deferred outflows of resources related to benefit payments made by the Authority subsequent to the measurement date, which amounted to $260,166, is also not included in the table above.

Pension Expense

The pension expense of the Authority for the year ended June 30, 2020 was of $160,796.

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 OPEBbenefits 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 Commonwealth's total OPEB liability was approximately $832 million, of which $113,987 is the proportionate share of the Authority as of June 30, 2020. The total OPEB liability as of June 30, 2020, 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, 2020, was 3.50%. 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-2019 from the 2006 base year and projected forward using MP-2019 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-2019 from the 2006 base year and projected forward using MP-2019 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 No. 127.

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-2019 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-2019 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, 2020, calculated using the discount rate of 3.50%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1% Decrease or (2.50%)	Current discount rate of (3.50%)	1% Increase or (4.50%)
Total OPEB Liability	$ 125,053	113,987	104,641

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

The OPEB expense of the Authority for the year ended June 30, 2020 was of $3,292.

12. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 30, 2022 to determine if any such events should either be recognized or disclosed in the 2020 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 Commonwealth's annual budget for fiscal years 2021 and 2022. 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 July 30, 2021, the Oversight Board— as representative of the Commonwealth, ERS, and PBA in their respective Title III cases—filed the Seventh Amended Plan and the Seventh Amended Disclosure Statement. The Seventh Amended Plan incorporated the terms of (i) the 2021 PSA; (ii) a restructuring support agreement with the Retiree Committee, 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 (the Monthly Benefit Modification), as well as freezes in pension benefits for teachers and judges; (iii) the HTA/CCDA PSA; and (iv) the ERS Stipulation, which set forth an agreement on the economic terms upon which the System bondholders would support a plan of adjustment.

On October 26, 2021, the Governor signed into law Act No. 53 of 2021, known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of the Monthly Benefit Modification in an amended version of that plan.

On November 3, 2021, the Oversight Board filed the Eighth Amended Plan. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1]. On January 18, 2022, the Title III Court entered its Findings of Fact and Confirmation Order. Accordingly, the Eighth Amended Plan has been confirmed by the Title III Court, but remains subject to the occurrence of various conditions—which the Oversight Board and Government are actively pursuing—before the Effective Date of the plan can occur. It is not certain when the Eighth Amended Plan will become effective.

Under the Eighth Amended Plan, all claims against the Commonwealth arising from or related to indebtedness payable from appropriations of the Commonwealth Legislature are classified as "CW Appropriation Claims" and treated in Class 63 of the Plan. CW Appropriation Claims include, among other things, "all notes from the Commonwealth or its agencies or instrumentalities held by PFC for the repayment of PFC indebtedness." CW Appropriations Claims will not receive a distribution pursuant to the Eighth Amended Plan and each such CW Appropriations Claim is deemed discharged by the Eighth Amended Plan. The Confirmation Order further provides that "all laws, rules, and regulations giving rise to obligations of the Debtors discharged by the Plan and [the] Confirmation Order pursuant to PROMESA are preempted by PROMESA and such discharge shall prevail over any general or specific provisions of territory laws, rules, and regulations . Such preempted laws include, without limitation, laws enacted prior to June 30, 2016, that provide for transfers or other appropriations after the enactment of PROMESA, including transfers from the Commonwealth or one of its instrumentalities to any agency or instrumentality, whether to enable such agency or instrumentality to pay or satisfy indebtedness or for any other purpose, to the extent inconsistent with the Plan's discharge of the Debtors' obligations." Accordingly, upon the effective date, all such preempted laws are not enforceable to the extent they are inconsistent with the Plan's discharge of the Commonwealth's obligations.

Although the Eighth Amended Plan does not grant a release of the Authority's PFC Notes, as a result of the Eighth Amended Plan's discharge and preemption provisions, there will not be future appropriations related to the PFC indebtedness. As a result, the contingency that would trigger the Authority's contingent obligation to pay the PFC indebtedness once it receives appropriations will not occur.

For further information, refer to the final versions of the Eighth Amended Plan, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

Puerto Rico Finance Corporation's Restructuring Support Agreement

On January 20, 2022, FAFAA, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

Upon the effective date of the PFC RSA, the outstanding debt of the Authority described in Note 8 will be cancelled and considered extinguished.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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, 2020

Description	2020*	2019*	2018*
Proportion of Total Pension Liability	0.02251%	0.02335%	0.22293%
Proportionate Share of Total Pension Liability	$ 5,593,001	$ 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	N/A

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

Fiscal year 2019 was the first year that the 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.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Change in Proportionate Share of Total Pension Liability (Unaudited)
June 30, 2020

The Schedule of Changes in Total Pension Liability presents the changes in total pension liability for the Authority at June 30, 2020:

		2020		2019
Total pension liability:				
Service cost	$	14,729	$	16,983
Interest		208,188		217,402
Effect of plan changes		(206,255)		(357,942)
Effect of economic/demograhic gains(losses)		(70,330)		(207,541)
Effect of assumptions changes or inputs		227,013		(225,018)
Benefit payments		(298,357)		(191,850)
Net change in total pension liability	$	(125,012)	$	(747,966)
Total pension liability-beginning		5,718,013		6,465,979
Total pension liability-ending	$	5,593,001	$	5,718,013

Notes:
The Commonwealth's total pension liability as of June 30, 2020 was measured as of June 30, 2019, 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, 2018 that was updated to roll forward the total pension liability to June 30, 2019 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, 2020

Description	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.01370%	0.01427%	0.01391%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 113,987	$ 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	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, 2020:

	2020	2019
Total other postemployment benefits liability:		
Service cost	$ -	$ -
Interest on total OPEB liability	4,284	4,526
Effect of plan changes	(4,799)	-
Effect of economic/demograhic gains (losses)	660	(2,206)
Effect of assumptions changes or inputs	3,147	(3,521)
Benefit payments	(9,450)	(6,724)
Net change in total other postemployment benefits liability	(6,158)	(7,925)
Total other postemployment benefits liability-beginning	$ 120,145	$ 128,070
Total other postemployment benefits liability-ending	$ 113,987	$ 120,145

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.