

Puerto Rico Telephone Authority
(A Component Unit of the Commonwealth of Puerto Rico)

*BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION*

Year Ended December 31, 2018

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Telephone Authority:

Report on the Basic Financial Statements

We have audited the accompanying statement of net position of the Puerto Rico Telephone Authority (the "Authority") as of December 31, 2018 and the statements of revenues, expenses and changes in net deficit, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2018, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

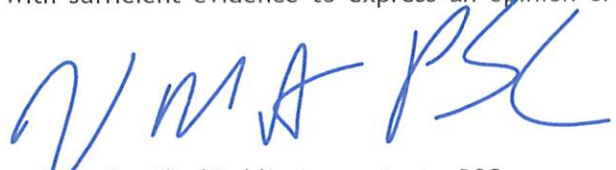
Other Matters

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

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, In June 2015, the Board of Directors GDB ratified Resolution 9231 approved on November 19, 2009 (the "Resolution 9231") which order to implement the Authority's liquidation process in a orderly fashion. However, in order to implement the liquidation a law should be enacted to complete this process. 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 that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



August 24, 2021

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

Stamp No. E455790 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report



PUERTO RICO TELEPHONE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of Puerto Rico Telephone Authority (the "Authority") for the year ended December 31, 2018. The MD&A is intended to serve as an introduction to the Authority basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities, and (c) identify changes in the Authority's financial position and identify individual issues or concerns. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Authority's financial condition, the basic financial statements and notes should be reviewed in the entirety.

(1) Financial Highlights

- The Authority's total assets increased from approximately \$1 thousand or 400% during the year ended December 31, 2017 to approximately \$5 thousand during the year ended December 31, 2018. The Authority's total liabilities increased from approximately \$10 thousand or 50% during the year ended December 31, 2017 to approximately \$15 thousand during the year ended December 31, 2018.
- In June 2015, the Board of Directors of Government Development Bank for Puerto Rico ("GDB") ratified Resolution 9231 approved on November 19, 2009 (the "Resolution 9231"). Resolution 9231 authorizes GDB's management to prepare and arrange for legislation to commence the Authority's liquidation process in an orderly fashion. Currently, GDB's management is working on such legislation.

(2) Overview of the Financial Statements

This report includes the management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Authority. The basic financial statements also include notes that explain in more detail information pertinent to the basic financial statements.

(3) Required Financial Statements

The basic financial statements of the Authority report information using accounting methods similar to those used by private sector entities. These statements offer short and long-term financial information about the activities of the Authority.

The first required financial statement is the statement of net position. This statement presents all of the Authority's assets and liabilities, providing information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

The second required financial statement is the statement of revenues, expenses and changes in net position. This statement presents the Authority's revenues, expenses and change in net position. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs from the revenues it has generated.

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

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

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DECEMBER 31, 2018

(4) Net Deficit and Change in Net Deficit

The Authority condensed financial information from the statements of net deficit as of December 31, 2018 and 2017, is as follows (in thousands):

	December 31,		Change	
	2018	2017	Amount	Percent
ASSETS				
Cash	\$ -	\$ 1	\$ (1)	-100%
Accounts receivable	5	-	5	100%
Total assets	<u>5</u>	<u>1</u>	<u>4</u>	<u>400%</u>
LIABILITIES				
Account Payable and accrued liabilities	15	10	5	50%
Total liabilities	<u>15</u>	<u>10</u>	<u>5</u>	<u>50%</u>
Net deficit	<u>\$ (10)</u>	<u>\$ (9)</u>	<u>\$ (1)</u>	11%

The Authority's condensed financial information of the statements of revenues, expenses, and changes in net deficit for the years ended December 31, 2018 and 2017, is as follows (in thousands):

	December 31,		Change	
	2018	2017	Amount	Percent
Operating expenses:				
Professional services and other	\$ (5)	\$ (41)	\$ 36	-88%
Total operating expenses	<u>(5)</u>	<u>(41)</u>	<u>36</u>	<u>-88%</u>
Non-operating revenues (expenses):				
Custodial Credit Loss	(1)	6	(7)	-117%
Contributions	5	-	5	100%
Total non-operating revenues (expenses)	<u>4</u>	<u>6</u>	<u>(2)</u>	<u>-33%</u>
Change in net deficit	<u>\$ (1)</u>	<u>\$ (35)</u>	<u>\$ 34</u>	<u>-97%</u>

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DECEMBER 31, 2018

While the statement of net deficit shows the change in financial position, the statement of revenues, expenses, and changes in net deficit provides answers as to the nature and source of these changes.

During 2018, the change in net deficit decrease by approximately \$34 thousand or 97% when compared to the prior year mainly related to a decrease in professional services and other amounting to \$36 thousand or 88% when compared to prior year.

(5) Contacting the Authority's Financial Management

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Telephone Authority, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

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STATEMENT OF NET DEFICIT
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS:

Due from Government Development Bank	\$ <u>5,500</u>
	<u>5,500</u>

LIABILITIES

Accounts payable and accrued liabilities	<u>15,255</u>
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NET DEFICIT	\$ <u>(9,755)</u>
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See accompanying notes to basic financial statements.

PUERTO RICO TELEPHONE AUTHORITY
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2018

EXPENSES AND OPERATING LOSS

Professional services and other	\$ (5,017)
	<u>(5,017)</u>

NON-OPERATING REVENUES(EXPENSES)

Contributions received from Government Development Bank	5,500
Custodial Credit Risk Loss	<u>(1,459)</u>
Total non-operating revenues(expenses)	<u>4,041</u>

CHANGE IN NET DEFICIT (976)

NET DEFICIT - Beginning of year (8,779)

NET DEFICIT - End of year \$ (9,755)

See accompanying notes to basic financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOW FROM INVESTING ACTIVITIES	
Custodial Credit Risk Loss	\$ (1,459)
	<u>(1,459)</u>
Net cash used in investing activities	<u>(1,459)</u>
NET CHANGE IN CASH	(1,459)
CASH - Beginning of year	<u>1,459</u>
CASH - End of year	<u>\$ -</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (5,017)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Increase in accounts payable and accrued liabilities	<u>5,017</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ -</u>

See accompanying notes to basic financial statements.

PUERTO RICO TELEPHONE AUTHORITY
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NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. REPORTING ENTITY

Puerto Rico Telephone Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created originally for the purpose of acquiring, developing, and operating telephone, telegraph, radio, cable, or other communication systems. The Authority was engaged in this business through its wholly owned subsidiaries, Puerto Rico Telephone Company, Inc. and Celulares Telefónica, Inc., businesses which were sold to a third party. The Authority is ascribed to Government Development Bank for Puerto Rico ("GDB"). GDB is also a component unit of the Commonwealth.

In June 2015, the Board of Directors GDB ratified Resolution 9231 approved on November 19, 2009 (the "Resolution 9231") which order to implement the Authority's liquidation process in a orderly fashion. However, in order to implement the liquidation a law should be enacted to complete this process.

Joint Resolution 209 relieved the Authority from making the in-lieu tax payments to the Commonwealth as required under the provision of Authority's enacting law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Authority are presented in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), for governments as prescribed by the Governmental Accounting Standards Board ("GASB").

The accompanying basic financial statements present the financial position and the results of operations of the Authority as a whole.

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

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

Measurement Focus and Basis of Accounting – The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flow.

The statement of net position presents the Authority's assets and liabilities, with the difference reported as net position. Net position may be reported in two categories:

- (a) Restricted component- consists of restricted assets reduced by liabilities related to those assets. Restrictions are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- (b) Unrestricted component- consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified

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The statement of revenues, expenses and changes in net position demonstrates the degree to which the operating expenses are offset by operating revenues.

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

Revenue and Expenses – The Authority distinguishes operating items from non-operating items. There was no operating income during 2018. Operating expenses are those incurred in the administration of the Authority. All other revenue and expenses are reported as non-operating.

Accounts Receivable - are mainly composed of non-exchange transactions which are recognized when a enforceable legal claim arise or resources are received whichever is first. Accounts receivable is stated net of estimated allowance for uncollectible accounts. The allowance is based on management's evaluation of the risk characteristics of the receivable, including such factors as past collection experience, sources of repayment, adverse situation that may affect the customer's ability to repay, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Accounting Pronouncements Issued but Not Effective for Year 2018-The following new accounting standards have been issued but are not effective for year 2018:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after June 15, 2018 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.
- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2018 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.
- 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

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of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2019 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

- **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after June 15, 2018 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

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

- **GASB Statement No. 90, *Majority Equity Interests*.** 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 components units. It defines a majority equity interest

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and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2018 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

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

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

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. Earlier application is encouraged. The requirements of the Statement are effective for reporting periods after December 15, 2020 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

- *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

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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. The requirements of the Statement are effective for reporting periods after June 15, 2020 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

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

This statement achieves its objective by:

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

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

The requirements of the Statement are effective for reporting periods after June 15, 2020 as amended by Government Accounting Standard Board No. 95-Postponement of the effective dates of Certain Authority Guidance.

- ***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

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arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

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

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

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

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

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

The requirements of this Statement are effective immediately.

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

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

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

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

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

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

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

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

3. CLAIM RECEIVABLE FROM PUBLIC ENTITY TRUST (PET)

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

Pursuant to Act No. 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Authority, were exchanged for beneficial units in the Public Entity Trust created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (the Closing Date), *i.e.*, November 29, 2018, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB.

The Authority held deposits at GDB of approximately \$17.2 million, a custodial credit loss on these deposits was recorded in previous years resulting in a reserve of the entire balance as of June 30, 2018.

Since the Authority only had cash in GDB amounting to \$17.2 million and as a result of the execution of the Qualify Modification the Authority received beneficial units of the PET amounting to approximately \$600 thousand in exchange for the amount of deposits held at GDB. The difference amounting to \$16.6 million between the units exchanged for beneficial units in the PET and cash in GDB was written off during the year ended December 31, 2018. Pursuant to Article 702 of the GDB Restructuring Act, all transactions effected pursuant thereto are valid and binding with respect to all government entities, including the Authority, and no government entity shall have any further claim against GDB, the GDB Debt Recovery Authority or the GDB Public Entity Trust with respect to the aforementioned. As such, accounts corresponding to PRTA are considered to be in full satisfaction of GDB's indebtedness to the Authority and there are no available remedies to recover additional claims from GDB or any other entity.

The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

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The Authority's recovery of the PET units will depend from the payment of the claim filed in the Commonwealth's Title III case. As result units received from the PET are fully reserved.

As of December 31, 2018, the carrying amount of this deposit claim is as follows:

Description	Balance	Allowance for Doubtful Accounts	Net Carrying Amount
Claim Receivable	\$632,545	(\$632,545)	\$ -

4. DUE FROM GOVERNMENT DEVELOPMENT BANK

Due from GDB amounting to \$5,500 is mainly related to a contribution approved for subsequent fiscal years for the payment of audit fees.

5. ACCOUNT PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is mainly related to accrued audit fees amounting to \$15,525.

6. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 24, 2021, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2018 basic financial statements.