



Puerto Rico Telephone Authority
(A Component Unit of the Government Development Bank for
Puerto Rico)

*BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION*

Year Ended December 31, 2020

(With Report of Independent Certified Public Accountants
Thereon)

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1-2
Required Supplementary Information (Unaudited):	
Management's Discussion and Analysis	3-4
Basic Financial Statements:	
Statement of Net Deficit	5
Statement of Revenues, Expenses, and Changes in Net Deficit	6
Statement of Cash Flows	7
Notes to Basic Financial Statements	8-17

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Puerto Rico Telephone Authority:

Report on the Basic Financial Statements

We have audited the accompanying statement of net deficit of the **Puerto Rico Telephone Authority** (the “Authority”) as of December 31, 2020, 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.

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](https://www.linkedin.com/company/kevane-grant-thornton)
[facebook.com/kevanegrantthornton](https://www.facebook.com/kevanegrantthornton)



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, 2020, 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.

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 inactive for many years and since 2015 with an approval from the Board of Directors of the Government Development Bank for Puerto Rico to implement its process of liquidation in an orderly manner. However, in order to implement such liquidation, a law should be enacted to complete this process. 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 and 4 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
November 22, 2022.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
LICENSE 217
EXPIRES DECEMBER 1, 2022.
STAMP E497360
OF THE PUERTO RICO SOCIETY OF
CPAS WAS AFFIXED TO THE FILE
COPY OF THIS REPORT

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020. 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

In June 2015, the Board of Directors of Government Development Bank for Puerto Rico (GDB) ratified Resolution 9231 approved on November 19, 2009 (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 report of Independent Certified Public Accountants, 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(deficit). 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(deficit). This statement presents the Authority's revenues, expenses and change in net position(deficit). 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 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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

(4) Net Deficit and Change in Net Deficit

The Authority condensed financial information from the statements of net deficit as of December 31, 2020 and 2019, is as follows (in thousands):

	December 31,		Change	
	2020	2019	Amount	Percent
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8	\$ 10	\$ (2)	-20%
Total liabilities	8	10	(2)	-20%
Net deficit	\$ (8)	\$ (10)	\$ 2	-20%

Decrease in account payable is mainly related to a decrease in audit fees owed as of December 31, 2020.

The Authority's condensed financial information of the statements of revenues, expenses, and changes in net deficit for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	December 31,		Change	
	2020	2019	Amount	Percent
Operating expenses:				
Professional services and other	\$ 3	\$ 5	\$ (2)	-40%
Total operating expenses	3	5	(2)	-40%
Non-operating revenues:				
Contributions received from				
Government Development Bank	5	5	-	0%
Total non-operating revenues	5	5	-	0%
Change in net deficit	2	-	2	100%
Beginning Net Deficit	(10)	(10)	-	0%
Ending Net Deficit	\$ (8)	\$ (10)	\$ 2	-20%

There was a decrease in the Net deficit of \$2 thousand due to a decrease in operating expenses.

(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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

STATEMENT OF NET DEFICIT
DECEMBER 31, 2020

ASSETS

None	\$ -
	<hr/>
Total Assets	<u>\$ -</u>

LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 7,600</u>
NET DEFICIT	<u>\$ (7,600)</u>

See accompanying notes to basic financial statements.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2020

EXPENSES AND OPERATING LOSS

Professional services and other	\$ 2,600
Operating loss	<u>2,600</u>

NON-OPERATING REVENUES

Contribution from Government Development Bank for Puerto Rico	<u>4,755</u>
Total non operating revenues	<u>4,755</u>

CHANGE IN NET DEFICIT

2,155

NET DEFICIT - Beginning of year

(9,755)

NET DEFICIT - End of year

\$ (7,600)

See accompanying notes to basic financial statements.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash paid for professional services	<u>\$ (4,755)</u>
-------------------------------------	-------------------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contribution from Government Development Bank for Puerto Rico	<u>4,755</u>
---	--------------

Net change in cash	-
--------------------	---

Balance beginning of year	-
---------------------------	---

Balance end of year	<u>\$ -</u>
---------------------	-------------

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED
IN OPERATING ACTIVITIES:**

Operating loss	\$ (2,600)
----------------	------------

Adjustment to reconcile operating loss to net cash used in operating activities:	
---	--

Decrease in due from Government Development Bank for Puerto Rico	242
--	-----

Decrease in accounts payable and accrued liabilities	<u>(2,397)</u>
--	----------------

NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (4,755)</u>
--	--------------------------

See accompanying notes to basic financial statements.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. REPORTING ENTITY

Puerto Rico Telephone Authority (the Authority) is a component unit of the Government Development Bank for Puerto Rico (GDB) 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.

In June 2015, the Board of Directors of GDB ratified Resolution 9231, approved on November 18, 2009 (Resolution 9231), which ordered to implement the Authority's liquidation process in an orderly fashion. However, 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, the results of operations and the cash flows 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.

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

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 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 2020. Operating expenses are those incurred in the administration of the Authority. All other revenue and expenses are reported as non-operating.

During the fiscal year ended on December 31, 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 Effective for Year 2020-The following new accounting standards have been issued but are not effective for year 2020:

- **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 fiscal years 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***. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as 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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

- **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 during 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, 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. 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 *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of *Statement No. 84, Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as 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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

- **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 GASB Statement No. 53, as amended.
- Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95. 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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

- **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 in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

The following requirements of this Statement are effective immediately: (1) exemption of 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

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limitation on 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.

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

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

- **GASB Statement No. 98, *The Annual Comprehensive Financial Report***- This Statement establishes the term *annual comprehensive financial report* and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

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.

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

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

- **GASB Statement No. 100, *Accounting Changes and Error Corrections*** - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

That preferability should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

3. GOING CONCERN

As described in Note 1 to the basic financial statements, the Authority has been inactive for many years and in June 2015, the Board of Directors of GDB ratified Resolution 9231, approved on November 19, 2009 (Resolution 9231), which ordered to implement the Authority's liquidation process in an orderly fashion. However, to implement the liquidation, a law should be enacted to complete this process.

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

4. DEPOSIT 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.

Since the Authority only had cash in GDB amounting to approximately \$600 thousand 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 deposits held at GDB. 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.

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.

PUERTO RICO TELEPHONE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

As of December 31, 2020, the carrying amount of this claim is as follows:

<u>Description</u>	<u>Balance</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Carrying Amount</u>
Deposit Claim Receivable	\$ 632,545	\$ (632,545)	\$ -

5. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 22, 2022, 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 2020 basic financial statements.