PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT,
BASIC FINANCIAL STATEMENTS AND
OTHER SUPPLEMENTARY INFORMATION

For the fiscal year ended June 30, 2020

[WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE]

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Jorge Aquino Barreto, CPA, CVA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Report on the Financial Statements

We have audited the accompanying financial statements of the of the *Public Buildings 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America requires that the Management's Discussion and Analysis, Schedule of Changes in the Authority Total Pension Liability and Related Ratios, Schedules of Changes in the Authority Total OPEB Liabilities and Related Ratios, on pages 6 to 15 and pages 71 and 72, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedules of bond sinking funds accounts and operating rental revenues on pages 75 and 76 respectively, are presented for purposes of additional analysis and are not required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on page 77, and is also not a required part of the basic financial statements.

The schedules of bond sinking funds accounts, operating rental revenues and expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the bond sinking funds accounts, operating rental revenues and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Carolina, Puerto Rico
June 29, 2022

Aquino, De Córdova, Alfaro & Co., LLP
by Eduardo González-Green
Lic. # 3171

Stamp number E475275
of Puerto Rico CPA Society
has been affixed to the original report

Introduction

The following management's discussion and analysis (MD&A) of the financial performance of the Public Buildings Authority (the Authority) provides an overview of the Authority's activities for the fiscal years ended June 30, 2020. Its purpose is to provide explanations and insights into the information provided in the basic financial statements and required supplementary information. This MD&A is intended to be read in conjunction with the Authority's basic financial statements for the fiscal year ended June 30, 2020 taken as a whole.

Financial Highlights

- The Authority's deficit increased by $322.6 million or 17% during the year ended June 30, 2020, as compared to the prior fiscal year ending June 30, 2019.

- For the year ended June 30, 2020, the Authority reported a decrease in net rental income of $8.9 million as compared to the prior fiscal year. All rent receivable other than those amounts subsequently collected after June 30, 2020 are reserved as uncollectible.

- The Authority's operating loss decreased from approximately $136.4 million for the fiscal year ended June 30, 2019 to an operating loss of $76.6 million for the year ended June 30, 2020.

- The Authority's non-operating expenses increased from $163.4 million for the fiscal year ended June 30, 2019 to $245.9 million for the fiscal year ended June 30, 2020.

- Over the past decade, the Commonwealth has been in a midst of a profound fiscal and economic crisis, the culmination of many years of significant governmental deficits, an economic recession that has persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. On May 5, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Governor of the Commonwealth of Puerto Rico, commenced a Title III case for the Commonwealth. Thereafter, on September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority.

- As further discussed in Note 19 to the basic financial statement, on January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth and the Authority each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment eliminated PBA's bonds and reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth's future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Oversight Board would approve the future financing needs of the Authority.

- Notwithstanding the budgetary constraints and historical liquidity risks faced by the Commonwealth and the Authority, and other circumstances existing on June 30, 2020, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Authority's ability to continue as a going concern as of the date of these basic financial statements.

Overview of the Basic Financial Statements
The Authority's basic financial statements consist of: MD&A, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information and Other Supplementary Information.

Management's Discussion and Analysis

This MD&A provides an analysis to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

Statement of Net Position - This statement presents financial information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases in assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

Statement of Revenues, Expenses and Changes in Net Positions - This statement presents information showing how the Authority's net position changed during the reporting period. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Reclassifications – Certain reclassifications to current year account balances were done to conform with prior year's financial statements.

Statement of Cash Flows - This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital, and related financing activities, investing activities, and non-cash items.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

Other Supplementary Information - In addition to the basic financial statements, accompanying notes, and the required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis - As noted above, net position over time may serve as a useful indicator of a government's financial position. In the case of the Authority, its net deficit position as of June 30, 2020 and June 30, 2019, amounted to approximately $2,222.9 and $1,900.3 million, respectively.

Statement of Net Position

Following is condensed financial information of the Authority's statements of net position:

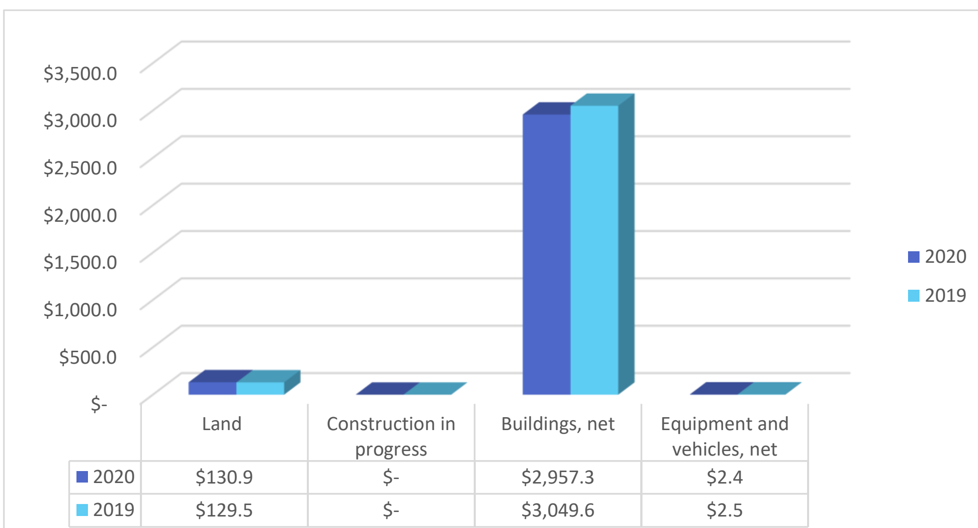
	June 30,			
	2020	2019	Change in amount	Change
Assets				
Current assets	$ 70,177,717	$ 56,433,419	$ 13,744,298	24%
Capital assets	3,090,558,873	3,181,678,532	(91,119,659)	-3%
Other non-current assets	51,793,662	54,149,987	(2,356,325)	-4%
Total assets	3,212,530,252	3,292,261,938	(79,731,686)	-2%
Deferred outflows of resources	114,028,888	107,643,708	6,385,180	6%
Total assets and deferred outflows of resources	3,326,559,140	3,399,905,646	(73,346,506)	-2%
Liabilities				
Current liabilities	1,308,899,527	993,689,568	315,209,959	32%
Non-current liabilities	4,206,287,665	4,273,187,582	(66,899,917)	-2%
Total liabilities	5,515,187,192	5,266,877,150	248,310,042	5%
Deferred Inflows of Resources	34,266,488	33,349,412	917,076	3%
Total liabilities and deferred inflows of resources	5,549,453,680	5,300,226,562	249,227,118	5%
Deficit				
Net investment in capital assets	(901,567,132)	(802,195,091)	(99,372,041)	12%
Restricted for debt service	12,930,372	12,930,126	246	0%
Restricted for other purpose	16,654,026	17,653,736	(999,710)	-6%
Unrestricted (deficit)	(1,350,911,806)	(1,128,709,687)	(222,202,119)	20%
Total deficit	$ (2,222,894,540)	$ (1,900,320,916)	$ (322,573,624)	17%

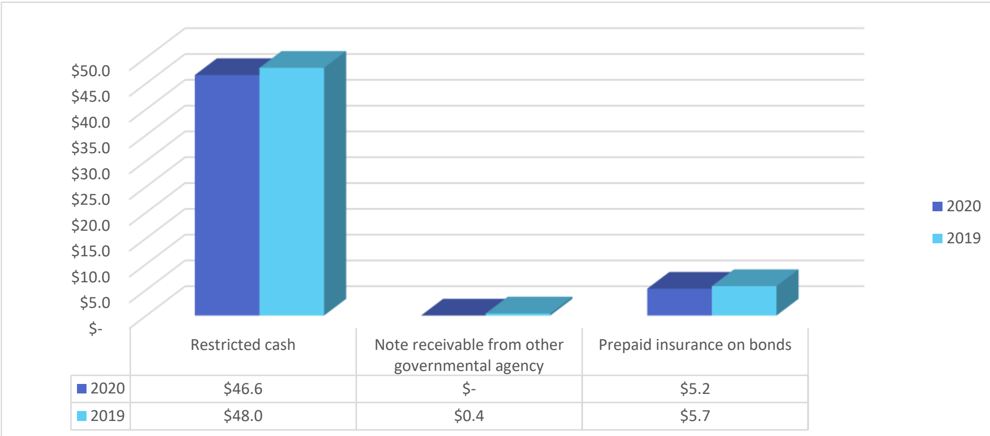
Current assets (in millions)

During the fiscal year ended June 30, 2020, current assets increased by $13.7 million or 24% as compared to the prior fiscal year ended June 30, 2019. This increase was due, in large part, to a change in estimate in collectability of rent receivable from the Commonwealth. Within current assets, (i) cash as of June 30, 2020, was $58.4 million or 16% more than as of June 30, 2019, (ii) net rent receivable was $8.2 million more than as of June 30, 2019 and (iii) net other receivables was $2.3 million lower than as of June 30, 2019.

Capital assets (in millions)

Building decreased by approximately $92.4 million as of June 30, 2020, compared to the prior fiscal year, due to depreciation expense.

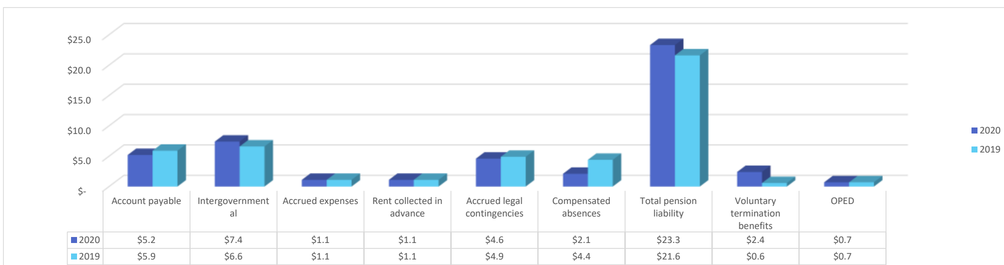




Other non-current assets (in millions)

During the fiscal year ended June 30, 2020, non-current assets decreased by approximately $2.4 million or 4%, as compared to the prior fiscal year ended June 30, 2019. No contributions were made by the Authority to the Sinking Fund during the reporting period as debt service payments were suspended because of the moratorium declared by the Commonwealth of Puerto Rico and the Commonwealth's and the Authority's subsequent Title III cases, as further discussed in Note 23 to the basic financial statements.

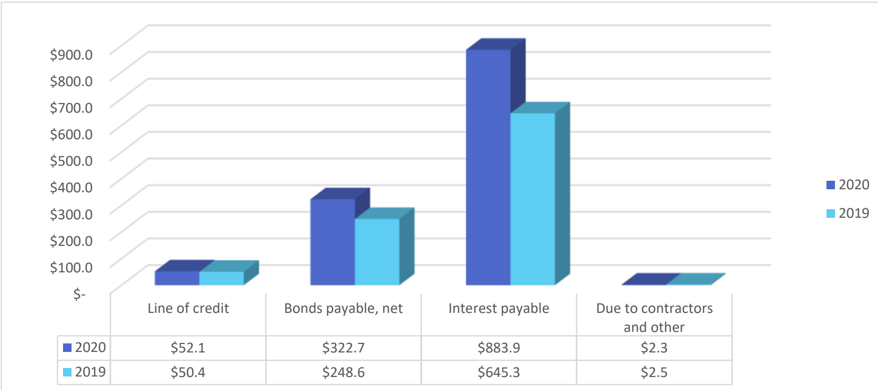
Current liabilities payable from unrestricted assets (in millions)



During the fiscal year ended June 30, 2020, total current liabilities due from unrestricted assets decreased by approximately $1. million or .2% as compared to the prior fiscal year.

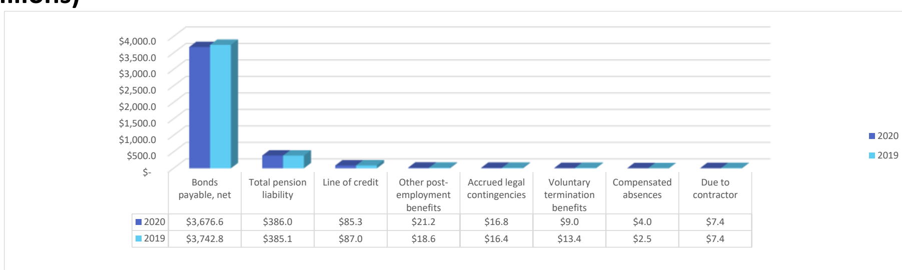
- Accounts payable as of June 30, 2020 decreased by approximately $.7 million when compared with June 30, 2019, primarily due to payment of invoices to vendors.
- Intergovernmental payables increased approximately $.8 million and June 30, 2020 with respect to prior year.
- Voluntary termination benefits as of June 30, 2020increased by approximately $1.8 million when compared with June 30, 2019.
- Compensated absences decreased by approximately $2.3 million during the year ended June 30, 2020.

Current liabilities payable from restricted assets (in millions)



Current total liabilities due from restricted assets increased by approximately $314.2 million in the years ended June 30, 2020. This increase is primarily due to (i) the inclusion of bond payments and interest payable in arrears; and (ii) the limitation of the subrogation rights of monoline insurers to amounts actually paid for the respective years.

Non-current liabilities (in millions)



No bond payments were made by the Authority during the fiscal year ended June 30, 2020; the payments that would have been made during that fiscal year are reported as current bonds payable. Instead, payments were made by bond monoline insurances which retain subrogated rights limited to amounts actually paid on the insured bonds and therefore the Authority's liabilities did not decrease for such payments.

Total pension liability increased approximately $900,000 during the year ended June 30, 2020. These changes are primarily due to a change in actuarial valuations provided by ERS for which the Authority recognizes its proportionate share.

The Authority had various note payable agreements with the GDB Debt Recovery Authority (the DRA). Some of the agreements were to provide interim financing for construction of the Authority's facilities while others were to finance operations including the financing of debt service requirements under the bond agreements. As discussed herein, certain of the lines of credit were impacted by the GDB Title VI restructuring (as defined below). For more information on the GDB Qualifying Modification see Note 23. As further discussed in Note 20 to the basic financial statement, PBA's obligations to the DRA were also discharged by the Commonwealth Plan of Adjustment.

Other non-current liabilities as of June 30, 2020 decreased by approximately $1.4 million, or .3%, when compared with 2019, and consist mainly of the non-current portion of post-retirement employee benefits, legal claims and voluntary termination benefits.

Other postemployment benefits increased by $2.6 million during the year ended June 30, 2020, after experiencing a decrease of $6.8 million in the year ended June 30, 2019. These changes are primarily due to change in actuarial valuations provided by ERS for which the Authority recognizes its proportionate share. This change was added to the actuarial valuations made by the Authority for its healthcare benefits for its retirees covered by collective bargaining agreements (CBA). The Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement replaces the requirement of GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions* (GASB 45) used in prior years. This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

Statement of Revenues, Expenses and Changes in Deficit

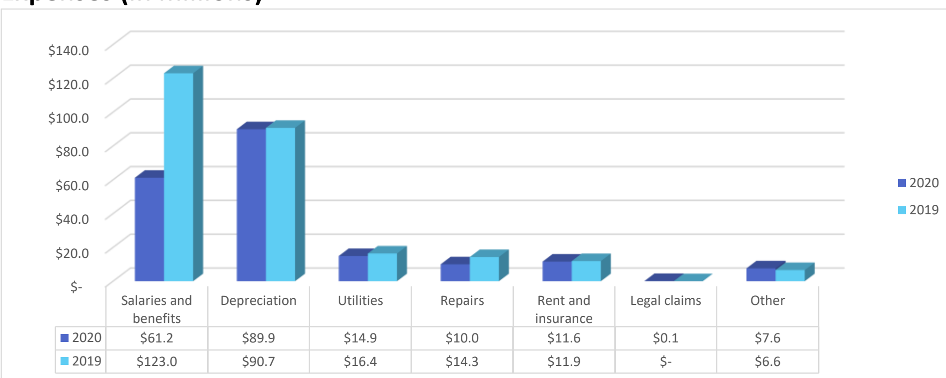
Following is condensed financial information of the Authority's statement of revenues, expenses and changes in deficit:

	Years Ended June 30,			
	2020	2019	Change in amount	Change
Revenues:				
Operating	$ 117,632,253	$ 126,493,326	$ (8,861,073)	-7%
Non-operating	9,127,851	65,503,539	(56,375,688)	-86%
Total revenues	126,760,104	191,996,865	(65,236,761)	-34%
Expenses:				
Operating	194,275,658	262,888,695	(68,613,037)	-26%
Non-operating	255,058,070	228,912,197	26,145,874	11%
Total expenses	449,333,728	491,800,892	(42,467,164)	-9%
Change in net deficit	(322,573,624)	(299,804,027)	(22,769,598)	8%
Deficit:				
Beginning of year	(1,900,320,916)	(1,600,516,889)	(299,804,027)	19%
End of year	$ (2,222,894,540)	$ (1,900,320,916)	$ (322,573,625)	17%

Operating revenues

Operating revenues principally consist of rent charges to Commonwealth agencies, public corporations and municipalities. Operating revenue decreased approximately $8.9 million during the year ended June 30, 2020, as compare to the prior year.

Expenses (in millions)

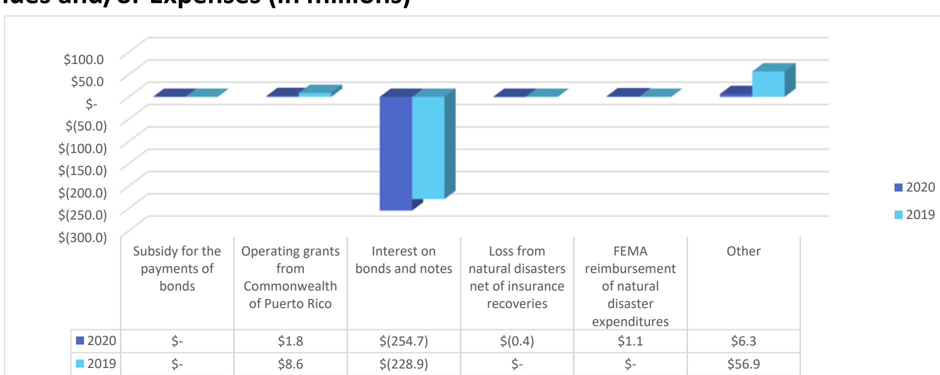


The following chart discloses the major components of operating expenses for the fiscal years ended June 30, 2020, and June 30, 2019. During the fiscal year ended June 30, 2020, operating expenses decreased by approximately $68.6 million, or 26%, as compared to the prior fiscal year ended June 30, 2019.

Notable changes in expenses during the year ended June 30, 2020, include:

- Salaries and benefits decreased by approximately $61.2 million, or 50%, due in large part to the implementation of a voluntary termination program and the reduction of pension expense based on actuarial estimates.
- Security service expense decreased by approximately $.8 million, or 47%.
- Utility expenses decreased by approximately $1.5 million, or 9%.
- The repairs and maintenance expenses decreased by approximately $4.2 million, or 30%.

Non-operating Revenues and/or Expenses (in millions)



Non-operating expenses consist of interest paid and accrued on the Authority's bonds and note payable agreements with DRA and net loss from natural disasters. Net non-operating expenses increased approximately $82.5 million or 50% during the fiscal year ended June 30, 2020.

During the years ended June 30, 2020, and June 30, 2019, appropriations from the Commonwealth to the Authority for the financing of operating expenses amounted to approximately $1.8 million and $8.6 million, respectively.

Capital Assets:

	June 30, 2020	June 30, 2019	Change
Capital assets not being depreciated:			
Land	$ 130,911,906	$ 129,569,461	$ 1,342,445
Total	$ 130,911,906	$ 129,569,461	$ 1,342,445
Capital assets being depreciated:			
Buldings	2,957,255,777	3,049,639,783	(92,384,006)
Equipment and vehicles	2,391,190	2,469,288	(78,098)
Total	2,959,646,967	3,052,109,071	(92,462,104)
Total capital assets	$ 3,090,558,873	$ 3,181,678,532	$ (91,119,659)

The Authority's investment in capital assets as of June 30, 2020, net of accumulated depreciation, amounted to approximately $3.1 billion. Capital assets include land, construction in progress, building, equipment, furniture, and vehicles. Most of the Authority's buildings are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statements.

Debt Administration

The Authority's debt obligations consist principally of bonds payable, net of related unamortized bond discount or bond premiums, and notes payable. The Authority's debt also includes the balance of subrogated rights of the monoline insurers but is limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds. Debt was issued principally to finance capital assets and to finance operating expenses and is summarized as follows:

	June 30, 2020	June 30, 2019	Change
Revenue bonds	$ 33,850,000	$ 33,850,000	$ -
Government facilities	3,914,792,819	3,907,774,664	7,018,155
Total	3,948,642,819	3,941,624,664	7,018,155
Add (deduct):			
Bond discount	(19,841,774)	(21,192,932)	1,351,158
Bond premiums	18,327,957	21,384,046	(3,056,089)
Total	(1,513,817)	191,114	(1,704,931)
Bonds payable net	3,947,129,002	3,941,815,776	5,313,226
Bond payable to monoline insur	52,251,244	49,571,066	2,680,178
Notes payable	137,414,149	137,414,149	-
Total debt	$ 4,136,794,395	$ 4,128,800,991	$ 7,993,404

June 30, 2020 and June 30, 2019

During the year ended June 30, 2020, bonds payable increased by approximately $5.6 million, or 0.01%, before amortization of bond discount and bond premiums. The decrease was primarily due to principal payments by monoline insurers, which retain subrogated rights limited to amounts actually paid on the insured bonds, as reflected above.

As further discussed in Note 20 to the basic financial statement, as a result of the Commonwealth Plan of Adjustment, PBA’s bonds were discharged and are no longer outstanding.

Currently known facts, decisions and conditions

There are various events that may subsequently have a significant effect on the financial position (and/or the results of operations). The most notable are, two catastrophic events (series of earthquakes affecting the southwest portion of the island starting December 2019 and the corona virus pandemic officially declared on March 2020.

The implementation of the Act 8 of 2017 “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”and Law 120 of 2018”Ley para Transformar el Sistema Eléctrico de Puerto Rico”,resulted in fiscal year 2021 in the transfers of 541 employees of the Maritime Transport Authority and Puerto Rico Electric Power Authority with a budgetary impact of $70 million per year and at the same time puts PBA’s liquidity at risk.

Contacting the Authority’s Financial Management

This financial report is designed to provide a general overview of the Authority’s finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller’s Office, Public Building Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

ASSETS

Current assets:		
Cash and cash equivalent	$	58,444,138
Rent receivables, net		10,130,186
Other receivables, net		466,142
Other assets		1,137,251
Total current assets		70,177,717
Non-current assets:		
Restricted cash and cash equivalent:		
Bond sinking funds		20,540
Construction funds		33,637,533
Restricted debt funds		12,909,832
Prepaid insurance on bonds		5,225,757
Capital assets:		
Non depreciable		130,911,906
Depreciable, net		2,959,646,967
Total non-current assets		3,142,352,535
Total assets		3,212,530,252
Deferred Outflows of Resources:		
Loss on bond refunding		65,365,556
Related to pension plans		45,347,647
Related to post employment benefits		3,315,685
Total deferred outflows of resources		114,028,888
Total assets and deferred outflows of resources	$	3,326,559,140

Continued

LIABILITIES AND NET POSITION

Current liabilities:		
Account payable	$	5,193,035
Intergovernmental		7,382,290
Accrued expenses		1,110,686
Rent collected in advance		1,080,121
Accrued legal contingencies		4,551,826
Compensated absences		2,106,290
Total pension liability		23,316,581
Total other postemployment benefits		702,777
Voluntary termination benefits		2,401,089
Current liabilities payable from restricted assets:		
Borrowing under line of credit		52,147,635
Bonds payable, net		322,733,063
Interest payable		883,854,078
Due to contractors		2,308,785
Due to Puerto Rico Infrastructure Financing Authority		11,271
Total current liabilities		$ 1,308,899,527
Non-current liabilities:		
Borrowing under line of credit		85,266,514
Bonds payable, net		3,676,647,183
Due to contractors		7,420,481
Accrued legal contingencies		16,830,153
Compensated absences		3,983,869
Total pension liability		386,024,457
Total other postemployment benefits		21,160,832
Voluntary termination benefits		8,954,176
Total non-current liabilities		4,206,287,665
Total Liabilities		5,515,187,192
Deferred Inflows of Resources:		
Deferred inflows related to pension plan		27,235,524
Deferred inflows related to other postemployment benefits		7,030,964
Total liabilities and deferred inflows of resources		5,549,453,680
Net position		
Net investment in capital assets		(901,567,132)
Restricted for debt service		12,930,372
Restricted for other purposes		16,654,026
Unrestricted (deficit)		(1,350,911,806)
Net position deficit	$	(2,222,894,540)

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

Operating revenues:		
Rental revenues from governmental agencies	$	415,294,036
Less: uncollectible amounts expensed		(297,661,783)
Rental revenues from governmental agencies, net		117,632,253
Operating expenses:		
Salaries and employees benefits		61,203,050
Depreciation		89,914,894
Utilities		14,883,318
Repairs and maintenance		10,041,293
Voluntary termination benefits		245,738
Security services		935,137
Rent and insurance		11,619,591
Legal claims		129,227
Other expenses		5,303,410
Total operating expenses		194,275,658
Operating loss		(76,643,405)
Non-operating revenue (expenses):		
Operating grants from Commonwealth of Puerto Rico		1,766,637
Interest on bonds and notes		(254,663,239)
Loss from natural disasters net of insurance recoveries		(394,831)
FEMA reimbursement or natural disaster expenses		1,112,921
Gain on sales of buildings		2,010,305
Interest and other income		4,237,988
Total non-operating expenses, net		(245,930,219)
Change in net position		(322,573,624)
Net position:		
At beginning of year		(1,900,320,916)
At end of year	$	(2,222,894,540)

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Operating activities:		
Receipts from tenants	$	109,386,229
Payment to employees and related benefits		(72,773,449)
Payment for goods and services		(41,073,130)
Net cash used in operating activities		(4,460,350)
Noncapital related financing activities:		
Grant from Commonwealth of Puerto Rico		1,766,637
Grant from FEMA		3,911,208
Other		84,630
Net cash provided by noncapital financing activities		5,762,475
Capital and related financing activities:		
Payment of bonds		(2,680,178)
Interest paid		(18,946,365)
Proceeds from bond insurers		21,626,543
Proceeds from capital assets sales		4,762,001
Net cash used in capital assets and related financing		4,762,001
Investing activities:		
Collections from interest earned		523,247
Net cash provided by investing activities		523,247
Net increase in cash and cash equivalents		6,587,373
Cash and cash equivalents:		
At beginning of year		98,424,670
At end of year	$	105,012,043

Continues

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Continued

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(76,643,405)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		89,914,894
Allowance for doubtful accounts		297,661,783
Change in operating assets and liabilities:		
Decrease in other current assets		152,076
Decrease in other receivables, net		2,145,665
Increase in rent receivable		(305,858,780)
Increase in deferred outflows related to pension plans		(11,989,406)
Increase in deferred outflows related to other post employment benefits		(2,066,600)
Decrease in amounts due to contractors		(185,449)
Increase in accounts payable and accrue expenses		(402,673)
Increase in accrue legal contingencies		129,227
Decrease in compensated absences		(817,472)
Decrease in rent collected in advance		(49,027)
Increase in other post-employment benefits		2,562,758
Increase in total pension liability		2,681,940
Decrease in voluntary termination benefits		(2,612,957)
Decrease in deferred inflows in other post employment benefits		(683,773)
Increase in deferred inflows related to pension plans		1,600,849
Net cash used in operating activities	$	(4,460,350)

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

1. ORGANIZATION

The Authority is a component unit of the Commonwealth, created by Legislature of the Commonwealth pursuant to Act No. 56 of June 19, 1958, as amended (the Enabling Act). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health-care facilities, welfare facilities, shops and related facilities, the majority of which are leased to the Commonwealth's departments, agencies, public corporations and instrumentalities and municipalities. The annual rent for each leased building has historically been based on the amounts necessary to cover the Authority's payment of:

i. Principal, interest and other amortization requirements of the notes and bonds issued to finance the applicable buildings;
ii. Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and
iii. Cost of equipment replacement and extraordinary repairs.

Component (i) is referred to as Debt Service Rent. Components (ii) and (iii) are subject to periodic increases so that the Authority can recover the costs incurred. Amounts due from Commonwealth departments and governmental agencies may be subject to periodic adjustments based on the availability of funds at the Commonwealth level and the pending Commonwealth Title III case.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction to account receivables because the reimbursement obligation belongs to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21 of 2016) and the Commonwealth's subsequent Title III case, as described more fully in Note 19.

As further discussed in Note 19 to the basic financial statement, the Commonwealth Plan of Adjustment went effective on March 15, 2022. The court order confirming the Commonwealth Plan of Adjustment provides that the PBA leases (including PBA leases with private entities) shall be deemed rejected effective upon the earliest to occur of:

1. June 30, 2022;
2. the date upon which such PBA lease expires in accordance with its terms;
3. the date upon which PBA enters into a new or amended lease with respect to the leased property subject to such PBA Lease;
4. such other date of which PBA, as lessor, provides written notice to the counterparty to a PBA Lease; and

5. the date upon which AAFAF, on behalf of the Commonwealth or any Commonwealth agency that is a lessee with respect to a PBA Lease, provides written notice to PBA that such PBA lease is rejected (the "Notice Date").

Accordingly, each of the PBA leases will be deemed rejected no later than June 30, 2022, unless a new lease is entered before that time.

From the Effective Date of the Commonwealth Plan of Adjustment through the rejection/renegotiation date (*i.e*. June 30, 2022 or the Notice Date), with respect to any PBA lease between PBA, as lessor, and the Commonwealth or any Commonwealth agency, public corporation or instrumentality, as lessee, the monthly lease payments shall be limited to the lower of (i) the amount budgeted and approved pursuant to a certified fiscal plan and (ii) the monthly costs and expenses associated with the applicable leased property.

Any past due accruals on PBA or any Commonwealth entity for Debt Service Rent under a PBA lease is deemed released under the Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting – The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

b. Use of Estimates – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

c. Fair Value of Financial Instruments – The carrying amounts reported in the statements of net position for cash and cash equivalents and receivables approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximates the rates currently available in the market for other debt with similar terms and remaining maturities.

d. **Cash and Cash Equivalents –** Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

e. **Accounts Receivable Allowance for Uncollectible Accounts** – The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, including debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

f. **Other Assets** – These represent tools, supplies, security deposits and building material on hand.

g. **Restricted Cash and Cash Equivalents** – Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payment of bonds payable and related interest costs and cash available in the related construction fund. When both restricted and unrestricted resources are available for specific use, it is the authority's policy to use restricted resources first, then unrestricted resources as they are needed.

h. **Capital Assets –** Capital assets are recorded at cost and segregated between non-depreciable, such as land and construction in progress, and depreciable assets, such as building and equipment. The construction cost includes indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life of five (5) years or more.

Interest cost is capitalized as part of the historical cost of acquiring certain assets while the assets are readied for their intended use. Interest earned on unspent tax-exempt borrowings restricted for acquisition of qualifying assets is offset against interest costs to determine the net amount to be capitalized.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, as follows:

Buildings	50 Years
Equipment and automobiles	5-10 years

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairments include evidence of physical damage, enactment or approval of Acts or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage, among others.

Unrecovered damages to structures caused by January 2020, earthquake were recognized as following GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an impairment loss of $394,831 was recognized for the year ended June 30, 2020.

i. **Current Liabilities** - These are short-term financial obligations that are due within one year or within a normal operating cycle of one year and typically settled using current assets, which are assets that are used up within one year. Examples of current liabilities include accounts payable, accrued expenses, rent collected in advance, compensated absences, voluntary termination benefits and debt service payments due within the next 12 months. The Authority also included in current liabilities the bond principal and interest payments in default.

j. **Non-current Liabilities** – Non-current liabilities are referred to as the long-term debts or financial obligations that are not due within twelve months. Examples of non-current liabilities include bonds payable, compensated absences, accrued legal contingencies, net pension liability, other post-employment benefits and voluntary termination benefits.

k. **Compensated Absences** – In response to a Fiscal Plan certified by the Oversight Board, Act 8-2017, Act for the Administration and Transformation of Human Resources of the Commonwealth of Puerto Rico, was enacted and extends its application to the employees of public corporations. Under this Act, employees begin to accrue vacation and sick leave at the rate of one-and-a-quarter days and one-and-a-half days per month, respectively, after working for three months, and the Act is retroactive to the start date of employment. Employees may accumulate and carry forward up to a maximum of 60 days vacations and 18 days sick leave. Upon termination of work, the accumulated amount of vacation days up to the maximum permissible by the Act is paid.

l. **Bond Premiums, Discounts, and Loss on Refunding –** Bond premiums and discounts are amortized as a Blended Component of interest expense over the lives of the related issue using the straight-line method in a manner that approximates the interest method.
The deferred loss on bond refunding is presented as deferred outflows in the accompanying statement of net position and the related amortization is presented as a Blended Component of interest expense.

m. **Related Parties or Transactions with Other Government Agency** – The Technical Institute of Puerto Rico, a unit of the Puerto Rico Department of Education, is a related government agency, which received advances from the Authority to complete its facility in the city of Ponce.

n. **Due to Contractors –** The Authority withholds from contractors a retainage until all construction issues have been settled satisfactorily. Such issues may take years to resolve.

The Authority lists as non-current liabilities amounts due to contractors where there is uncertainty about when construction issues will be resolved and settled.

o. Claims and Judgments – The Authority accrues an estimate amount of the liability for claims and judgments on the accompanying statements of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

p. Pension Benefits –On August 23, 2017, the Governor of Puerto Rico signed into law Act No. 106 of 2017, known as the *Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants* (Act 106-2017), which completely transformed ERS and the Commonwealth's other retirement systems effective as of July 1, 2017, by, among other things, (i) implementing a pay-as-you-go (PayGo) system in which direct payments to pension beneficiaries are made by the Commonwealth and reimbursed by individual government employers (including the Authority) through an applicable PayGo fee, and (ii) mandating the transfer of all of ERS's existing retirement plans and benefits to a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired after July 1, 2017. The New Defined Contribution Plan and the individual beneficiary accounts established thereunder were officially launched on June 22, 2020.

Funding Policy. The contribution requirements of plan members and Commonwealth direct payment amounts to beneficiaries are established and may be amended by the Commonwealth legislature under the review of the Oversight Board. The required contribution is based on projected pay-as-you-go financing requirements. The PayGo fee to be paid by government employers (including the Authority) to reimburse the Commonwealth for direct beneficiary payments is established and imposed by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) under Act 106-2017.

Annual Pension Benefit Cost and Total Pension Liability (net in 2018). The Commonwealth's annual other pension benefit expense and liability are calculated based on the annual required contribution of the participating employers (ARC); an amount actuarially determined in accordance with the parameters of GASB Statement No. 73 (GASB 68 in 2018). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess).

q. Other Post-employment Benefits (OPEB)

Plan Description. The Authority provides healthcare benefits to its retirees under two plans: one covered by the Authority and considered a single-employer plan, and the other through the post-employment benefit plan of the Commonwealth of Puerto Rico for retired participants of ERS, a multi-employer plan. Since July 1, 2017, both plans have operated under the PayGo system established under Act 106-2017.

Prior to the fiscal year ended June 30, 2019, the Authority recognized post-employment benefit liability for the Authority's plan. Beginning with the fiscal year ended June 30, 2019, the Authority began including the prorated estimated liability for the New Defined Contribution Plan established under Act 106-2017, which was treated as a change in estimate of immaterial consequence as permitted by GASB Statement No. 75 and other accounting guidance.

Funding Policy. The contribution requirements of plan members and Commonwealth direct payment amounts to beneficiaries are established and may be amended by the Commonwealth legislature under the review of the Oversight Board. The required contribution is based on projected pay-as-you-go financing requirements. The PayGo fee to be paid by government employers (including the Authority) to reimburse the Commonwealth for direct beneficiary payments is established and imposed by AAFAF under Act 106-2017.

Annual OPEB Cost and Net OPEB Obligation. The Commonwealth's annual other post-employment benefit (OPEB) expense and liability are calculated based on the annual required contribution of the participating employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess).

r. Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the basic financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated.

s. Deferred Outflows/Inflows of Resources – In addition to assets and liabilities, the Authority reports in separate sections deferred outflows/inflows of resources. This separate financial statement element—deferred outflows/inflows of resources—represents a consumption of net position that applies to a future period(s) and thus is recognized as an outflow of resources (expense) until then.

t. Net Position – The difference between assets and liabilities is presented as "Net Position." Components of net position are the following:

1) *Net investment in capital assets* – Consists of Capital Assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage notes, or other

borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net Investment in Capital Assets is comprised of the following:

Capital Assets, net	$ 3,090,558,873
less: bonds payable, current	(322,733,063)
less: bonds payable, long term	(3,676,647,183)
Unspent proceeds	7,254,241
Net Investment in Capital Assets	$ (901,567,132)

2) *Restricted for debt service* – Net position restricted for debt service consists of restricted net assets, when available, for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants. Given the Authority's net deficit, no net position was reported as restricted for debt services.

3) *Restricted for other purposes* – This restriction is imposed by the grantors and contributors. Given the Authority's net deficit, no net position was reported as restricted for other purposes.

4) *Unrestricted* – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets." The Authority reported a net deficit.

u. Operating Revenues and Expenses – The Authority distinguishes operating revenues and expenses from non-operating items.

All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral for the repayment of the Authority's revenue bonds.

v. Non-operating Revenues include Internal Revenue Service grants for bond interest payments and other grants from the Commonwealth of Puerto Rico, which are subject to appropriations contingent on the availability of funds from the Commonwealth and legislative approval.

w. Risk Financing – The Authority carries commercial insurance to cover casualty, theft, claim and other loss. The current insurance policies have not been cancelled or terminated. Coverage is from July 1st to June 30th of each fiscal year. The Authority has not settled any claims in excess of its insurance coverage during the past three years, but it has filed claims for hurricane damages exceeding the policy limits, which have not been settled. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

x. Future Adoption of Accounting Standards

The GASB has issued the following accounting standards that have effective dates after June 30, 2020:

GASB Statement No. 87, *Leases*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 98, The Annual Comprehensive Financial Report, establish the term annual comprehensive financial report on its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 99, Omnibus 2022, establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. 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

GASB Statement No. 100, Accounting Changes and Error Corrections, establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. 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.

The Authority is evaluating the impact that these standards may have on its future financial statements.

y. Reclassifications

Certain reclassification to prior year account balances were done to conform with current year financial statements presentation.

3. PROMESA AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING

The Commonwealth and many of its component units, including the Authority have suffered an economic and fiscal crisis, which has caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. During the fiscal years subsequent to June 30, 2016, the Commonwealth and other governmental entities including the Authority, as well as COFINA, PRHTA, ERS, and PREPA initiated PROMESA proceedings at the request of the Governor to restructure or adjust their existing debt. Following are the most relevant Commonwealth and federal legislation enacted to address the fiscal crisis and to initiate the economic recovery:

(a) Fiscal Measures Before PROMESA

(i) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act* (the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

The implementation of the Moratorium Act and its related executive orders is the subject of ongoing litigation. Upon the enactment of PROMESA on June 30, 2016, the Title IV Stay (discussed below) applied to stay this litigation until the Title IV Stay expired on May 1, 2017. Since the commencement of the Commonwealth's Title III case on May 3, 2017**,** the automatic stay under Title III of PROMESA has applied to continue the stay of this litigation and prevent debt service payments to bondholders, including bondholders of the Authority.

(b) PROMESA and Other Puerto Rico Legislation

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under

Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out of court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board."

(b) *Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

(c) Title III – In-Court Restructuring Process

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

(d) Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30,

2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 28, 2019, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for "critical projects" as identified by the Revitalization Coordinator.

(f) Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

(g) Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of

capital between territories of the United States and the rest of the United States."

(ii) Puerto Rico Legislation and Other Fiscal Measures

Act No. 2-2017, the *Puerto Rico Fiscal Agency and Financial Advisory Authority Act*, was enacted to expand AAFAF's powers and authority (as initially established under the Moratorium Act) so that AAFAF has the sole responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. AAFAF is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2-2017 established AAFAF as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president is currently a member; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

Act No. 3-2017, the *Fiscal Crisis Management Act*, was enacted to extend most of the fiscal measures that had been adopted under Act No. 66-2014 through July 1, 2021, including a

10-year extension of the excise tax on acquisitions by foreign corporations under Act No. 154-2010.

Act No. 5-2017, the *Puerto Rico Fiscal Responsibility and Financial Emergency Act*, authorized the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5-2017 states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, that is, those related to the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents. Act No. 5-2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5-2017 was set to expire on May 1, 2017, to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended the Act No. 5-2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46-2017, which further extended the Act No. 5-2017 emergency period through December 31, 2017. Act No. 46-2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA. On June 27, 2019, the Governor issued executive order EO-2019-030 extending the emergency period until December 31, 2019. On December 31, 2019, the Governor issued executive order EO-2019-066 extending the emergency period until June 30, 2020.

Act No. 106-2017, the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants*, reformed the Commonwealth's pensions by replacing the governing boards of the Retirement Systems with a single Retirement Board of the Commonwealth of Puerto Rico (Retirement Board) and established a separate "Account for the Payment of Accrued Pensions" to implement a PayGo method by which the Commonwealth's General Fund makes direct pension payments to government pensioners and then gets reimbursed for those payments by the applicable employers (including the Authority) through the PayGo fee. Act 106-2017 created the legal framework so that the Commonwealth can make payments to pensioners through the Pay Go system.

Act No. 53-2021, the Law to End the Bankruptcy of Puerto Rico, was enacted on October 26, 2021 to, among other things, approve the issuance of the New GO Bonds and CVIs (each as defined and discussed in Note 20) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan. In addition to approving the Commonwealth's restructuring transactions, Act 53 conditioned the effectiveness of the Government's approval on the preservation of all accrued pension benefits owed to current public pension participants, which required the elimination of the pension cuts proposed in the Seventh Amended Plan. In response to Act 53, the Oversight Board modified the Seventh Amended Plan and proposed the Eighth Amended Plan with zero pension cuts to accrued pension benefits. The Title III Court confirmed that version of the plan on January 18, 2022 and it became effective on March 15, 2022.

(c) PROMESA Title III Cases

(i) Overview of Title III Cases

(a) Oversight Board Commencement of Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume and new matters to be initiated.

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court).

On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for PRHTA and ERS by filing similar petitions for relief under Title III of PROMESA in the Title III Court.

On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation. All claims against any Title III debtor that arose prior to the filing of the debtor’s Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

4. GOING CONCERN, UNCERTAINTIES, AND LIQUIDITY RISK

On April 8, 2022 the Commonwealth of Puerto Rico issued Audited Financial Statement as of June 30, 2019 in which, based on subsequent events that remediate the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern as of the date of these basic financial statements.

In addition, with respect to PBA, on September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for PBA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

As further discussed in Note 19, on January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment. On the Effective Date, the Commonwealth and the Authority each emerged from their Title III cases and the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment eliminated PBA's bonds and all related litigation has been resolved and dismissed. The Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth's future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Oversight Board would approve the future financing needs of the Authority.

Notwithstanding the budgetary constraints and historical liquidity risks faced by the Commonwealth and the Authority, and other circumstances existing on June 30, 2020, based on subsequent events that remedied the Commonwealth and PBA's financial condition and addressed its liabilities, PBA management has no doubts about the continuity of its operations without uncertainties or liquidity problems.

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/HomeDocketInfo.

(Continues on next page)

5. CASH AND CASH EQUIVALENTS

The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Cash and cash equivalents on June 30, 2020, consisted of the following:

Unrestricted cash and equivalents deposited in comercial banks:		
Cash in banks	$	59,194,319
Cerficates of deposits		1,498,090
Total unrestricted cash and equivalents deposited in comercial banks		60,692,409
Restricted cash and equivalent deposited in comercial banks:		
Bond sinking funds		20,540
Construction funds		33,637,533
Restricted other		12,909,832
Total restricted cash and equivalents deposited in comercial banks		46,567,905
Total cash and cash equivalents		107,260,314
Less: Custodial credi risk loss		750,000
Total cash and equivalents in excess of federal depository insurance	$	106,510,314

Unrestricted cash and cash equivalents are deposited in two local banks and the US Bank.

Restricted cash and cash equivalents deposited with US Bank consist of:

a. **Bond sinking funds** - Bond sinking funds consist of monies deposited under Resolution No. 468 and consist of two separate accounts: "Bond Service Account" and a "Redemption Account." Revenues have historically been deposited in fiscal agent accounts in the following order:

1) To the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six month, of all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

2) To the Redemption Account, in such amount as may be required to make the amount so deposited in the current fiscal year equal to the amortization requirements, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amounts of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

   Bond Resolution No. 468 also requires funds to be invested and reinvested in government obligation, bankers' acceptances, certificates or time deposits of any Commonwealth approved bank or national banking association, repurchase or reverse repurchase agreements or any other investment that is rated in one of the three highest rating categories.

In July 2017, the Authority defaulted on its bond service payments, and the insurer began covering the deficiencies. During the years ended June 30, 2020, and June 30, 2019, the Authority's monoline insurers covered bond service payments in the aggregate amount of approximately $21.6 and $39.8 million, respectively.

As further discussed in Note 20, pursuant to the Commonwealth Plan of Adjustment the PBA's bonds are no longer outstanding and no additional funds are being deposited in the foregoing accounts.

b. Construction Funds – These funds are used for the payment of all or any part of the remaining cost of the initial facilities, or for payment of all or any part of the cost to the Authority of any additional facilities or improvements, in accordance with the Bonds resolutions, insurances proceeds and state or federal grants.

c. Custodial Credit Risk - For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under applicable Commonwealth law public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The Authority maintains bank balances in the amounts of approximately $104.3 million as of June 30, 2020.

6. RENT RECEIVABLE

This balance represents the amount due primarily from Commonwealth agencies, instrumentalities and public corporations in accordance with the corresponding lease agreements and adjusted for the estimate of uncollectible amounts due to the current financial condition of the Commonwealth. Notwithstanding, minimum lease rentals are approximately as follows:

Fiscal Year Ending June 30,	Amount
2021	$ 355,163,922
2022	446,738,315
2023	434,906,957
2024	423,574,383
2025	425,172,624
2026-2030	2,534,674,207
2031-2035	1,466,850,674
2036-2040	1,165,993,006
2041-2043	661,667,374

Lease rental agreements provide for rate revisions each July 1st based on, among other things, debt service requirements for the upcoming fiscal year.

The total amount of rent receivable includes approximately $10.1 million collected on or after June 30, 2020. All other receivables have been reserved as uncollectible.

Act No. 97, Article 15, of May 15, 2006, establishes that any rent to be paid to the Authority during any fiscal year by any Commonwealth department, agency or public corporation under the conditions of a rental contract in accordance of the dispositions of Act No. 56 of June 19, 1958, as amended, the Commonwealth will advance to the Authority the amount not paid. This Act requires the Secretary of Treasury Department to make an advance of any available funds committed by the full faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality, this Act requires the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection. There were no advances from the Commonwealth and the Revenue Collection Center during the years ended June 30, 2019, and June 30, 2018. The financial requirements of the above Acts are superseded by the protections afforded under Title III of PROMESA (refer to Notes 3 and 20). Management estimates that all but the rent receivable collected after June 30, 2020, are uncollectible and has reserved them accordingly.

7. OTHER RECEIVABLES

Other receivables consist of billings for miscellaneous services performed by the Authority and claims against property insurance carriers and FEMA recovered after June 30, 2020. The amounts presented in the accompanying statement of net position are approximately $.5 million for the year ended June 30, 2020.

8. TRANSACTIONS WITH COMMONWEALTH OF PUERTO RICO

a. **Rental Revenue and Receivable –** All rental revenues are from charges to the Commonwealth related entities and related rental receivable that are due by such entities.

b. **Contributions –** The Commonwealth, from time to time, makes non-operating contributions to the Authority. Capital grants are restricted to finance investment in capital assets.

9. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2020, was as follows:

	Beginning Balance June 30, 2019	Increase	Decrease	Ending Balance June 30, 2020
Capital assets not being depreciated:				
Land	$ 129,569,461	$ 1,461,213	$ (118,768)	$ 130,911,906
Total capital assets not being depreciated	129,569,461	1,461,213	(118,768)	130,911,906
Capital assets being depreciated:				
Buildings	4,750,372,619	-	(7,218,547)	4,743,154,072
Equipment and vehicles	13,368,657	467,617	-	13,836,274
Total capital assets being depreciated	4,763,741,276	467,617	(7,218,547)	4,756,990,346
Less accumulated depreciation:				
Buildings	(1,700,732,836)	(89,355,418)	4,189,959	(1,785,898,295)
Equipment and vehicles	(10,899,369)	(545,715)	-	(11,445,084)
Total accumulated depreciation	(1,711,632,205)	(89,901,133)	4,189,959	(1,797,343,379)
Capital assets being depreciated, net	3,052,109,071	(89,433,516)	(3,028,588)	2,959,646,967
Capital assets, net	$ 3,181,678,532	$ (87,972,303)	$ (3,147,356)	$ 3,090,558,873

INTERGOVERNMENTAL PAYABLES

Intergovernmental payables as of June 30, 2020, consist of the following:

		2020
Amount payable from unrestricted assets:		
Puerto Rico Electric Power Authority	$	919,578
Puerto Rico Aqueduct and Sewer Authority		183,685
Employees's Retirement System		4,208,459
Retention to Projects with Governmental Agencies		650,101
General Services Administration		1,201,252
Department of Treasury		186,945
Other		32,270
Total payable for unrestricted assets	$	7,382,290
Amount payable from restricted assets:		
Puerto Rico Infraestructure Financing Authority	$	11,271

10. BORROWING NOTES PAYABLE

The activity under notes payable agreements during the fiscal year ended June 30, 2020 is as follows:

	Fiscal Year Ended June 30, 2020				
	Balance June, 30 2019	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2020	Current Portion
Lines of Credits used for:					
Operational activities	$ 48,821,233	$ -	$ -	$ 48,821,233	$ 48,821,233
Construction activities	88,592,916	-	-	88,592,916	3,326,402
Total	$ 137,414,149	$ -	$ -	$ 137,414,149	$ 52,147,635

The Authority maintained a note payable with Debt Recovery Authority (DRA) for the interim financing of its capital improvement program in an amount not to exceed $226 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable notes as determined by DRA but not less than 6.0%. The notes are due on June 30,2044. The balance outstanding under this note payable amounted to approximately $50.1 million as of June 30, 2020. The outstanding balances are considered in default and past due.

The Authority maintained an operating note payable with DRA bearing interest at 150 basis points over the three-month LIBOR but not less than 5% at any time 5% at June 30, 2020. The proceeds from this note payable were used to finance the Authority's operational expenses for the year ended June 30, 2006. This note payable was due as of June 30, 2018. Payments of principal and interest are to be made from annual appropriations from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of Resolution No. 387 of December 21, 2005. No payments were made for principal and interest amount during the years ended June 30, 2020. Balance outstanding under this note payable amounted to approximately $48.8 million at June 30, 2020. The outstanding balance is considered in default and past due.

Also, the Authority maintain an executed note payable agreements with DRA for the interim financing of its Capital Improvement Program in an amount not to exceed $93.6 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable rate as determined by DRA but not less than 6% at any time (6% at June 30, 2020. The notes payables are due on June 30, 2044. Balance outstanding under this line of credit amounted to approximately $ 38.5 million as of June 30, 2020. The outstanding balance is considered in default and past due.

Aggregate maturities of amortization requirements on notes payable with DRA, principal and related interest payment in future years are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 52,147,635	$ 85,854,458	$ 138,002,093
2022	1,814,342	5,315,575	7,129,917
2023	1,923,203	5,315,575	7,238,778
2024	2,038,595	5,193,075	7,231,670
2025	2,160,911	5,063,224	7,224,135
2026-2030	12,912,129	23,078,716	35,990,845
2031-2035	17,279,342	18,442,478	35,721,820
2036-2040	23,123,657	12,238,147	35,361,804
2041-2044	24,014,335	3,935,351	27,949,686
Total	$ 137,414,149	$ 164,436,598	$ 301,850,747

The amounts reflected for the year ended June 30, 2021, include amounts in arrears.

As further discussed in Note 20, pursuant to the Commonwealth Plan of Adjustment, all of the foregoing obligations with the DRA have been discharged in exchange for a cash payment equal to 10% of such obligations and such obligations are no longer outstanding.

11. BONDS PAYABLE

Bonds payable as of June 30, 2020, consisted of:

	2020
Office Buildings Bond:	
Term bonds maturing through 2021 with interest rates ranging from 5.5% to 6.0%	$ 33,850,000
Government Facilities Revenue Bonds:	
Serial bonds maturing through 2027, with interest rates ranging from 3.0% to 6.75%	1,526,527,819
Term bonds maturing through 2042, with interest rates ranging from 3.0% to 7.0%	2,365,655,000
Capital Appreciation bonds, maturing through 2031, with interest rate a 5.45%	22,610,000
Total government facilities revenue bonds	3,914,792,819
Subrogated principal paid by monoline insurers	52,251,244
Total bonds outstanding	4,000,894,063
Add (Deduct):	
Bond discount	(19,841,774)
Bond premium	18,327,957
Bonds payable, net	3,999,380,246
Less current portion	322,733,063
Bonds payable long term portion	$ 3,676,647,183

The aggregate maturities of the Sinking Funds' amortization requirements (excluding discounts and premiums), accreted value of the bonds, and related interest payment in future years are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 322,733,063	$ 920,578,808	$ 1,243,311,871
2022	99,560,000	162,424,458	261,984,458
2023	101,515,000	154,900,073	256,415,073
2024	95,930,000	149,167,479	245,097,479
2025	103,255,000	143,440,720	246,695,720
2026-2030	1,244,743,999	994,378,568	2,239,122,567
2031-2035	799,217,000	448,741,730	1,247,958,730
2036-2040	768,655,000	229,912,161	998,567,161
2041-2042	465,285,001	35,886,862	501,171,863
Total	$ 4,000,894,063	$ 3,239,430,859	$ 7,240,324,922

The full faith and credit of the Commonwealth was pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds was further supported by the guaranty of the Commonwealth under which the Commonwealth pledged to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may have been necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,721 million.

The Authority bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Services of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2020.

The Authority's bonds payable includes certain restrictive covenants. As of June 30, 2020, the Authority was not in compliance with certain covenants.

During the year ended June 30, 2020, monoline insurers of the Authority's bonds made principal and interest payments of approximately $21.6 million.

The monoline insurance policies include express subrogation rights that are limited to the amount actually paid for each of the missed payments of the insured bonds. Although a monoline insurance policy does not contain express subrogation rights and another states subrogation rights broadly, applicable non-bankruptcy legislation would limit these monoline insurers' rights to reimbursements of the actual amount paid to holders of insured bonds. In addition, for any insured bonds issued by a debtor under Title III of PROMESA, the monoline insurers' claims for repayment will be treated the same as any other insured bond claim under any confirmed Title III plan of adjustment, such that the monoline insurers may not recover the full amount paid.

The activity of bonds payable during the fiscal year ended June 30, 2020 is as follows:

	Fiscal Year Ended June 30, 2020				
	Balance June 30, 2019	Increase	Payments/ Decreases	Balance June 30, 2020	Current Portion
Office Building Bonds					
Terms bonds	$ 33,850,000	$ -	$ -	$ 33,850,000	$ 29,280,000
Government Facilities:					
Serial bonds	1,529,207,997	-	(2,680,178)	1,526,527,819	241,201,819
Term bonds	2,365,655,000	-	-	2,365,655,000	-
Capital apreciation bonds	12,911,667	9,698,333	-	22,610,000	-
Subrogated principal paid by monoline insurer	49,571,066	2,680,178	-	52,251,244	52,251,244
Total	$ 3,991,195,730	$ 12,378,511	$ (2,680,178)	$ 4,000,894,063	$ 322,733,063
Total bonds outstanding	$ 3,991,195,730	$ 12,378,511	$ (2,680,178)	$ 4,000,894,063	$ 322,733,063
Add (deduct):					
Bond discounts	(21,192,934)	-	1,351,164	(19,841,770)	-
Bond premiums	21,384,046	-	(3,056,093)	18,327,953	-
Bonds payable, net	$ 3,991,386,842	$ 12,378,511	$ (4,385,107)	$ 3,999,380,246	$ 322,733,063

The following table discloses the composition of the amounts included in the respective category as of June 30, 2020.

Bonds principal payable current portion as of June 30	2020
Due and payable	$ 196,341,820
Payable to monoline insurers	52,251,244
Payable July 1	74,140,000
Total current portion as of June 30,	$ 322,733,064

Interest payable as of June 30	2020
Due and payable	$ 645,709,542
Payable to monoline insurers	66,973,415
Accrued for payment July 1	94,049,724
Total interest payable on bonds as of June 30	$ 806,732,681
Payable in lines of credit	77,121,397
Total interest payable as of June 30	$ 883,854,078

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on its debts. Defeased debt, in-substance, and the related assets placed in trust to repay the debt are no longer reported on the face of the financial statements, in accordance with GASB Statement No. 7, *Certain Debt Extinguishment Issues*. As June 30, 2020, the outstanding balance of defeased bonds was approximately $646.6 million.

As further discussed in Note 20, pursuant to the Commonwealth Plan of Adjustment, PBA's bonds have been discharged and are no longer outstanding.

12. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as of June 30, 2020 consist of:

	Fiscal Year Ended June 30, 2020				
	Balance June 30, 2019	Increase	Decreases	Balance 6/30/2020	Current Portion
Accrued legal contingencies	$ 21,252,752	$ 129,227	$ -	$ 21,381,979	$ 4,551,826
Compensated absences	6,907,631	-	(817,472)	6,090,159	2,106,290
Total pension liability	406,659,098	2,681,940		409,341,038	23,316,581
Total other postemployment benefits	19,300,851	2,562,758	-	21,863,609	702,777
Voluntary termination benefits	13,968,222	-	(2,612,957)	11,355,265	2,401,089
Total	$ 468,088,554	$ 5,373,925	$ (3,430,429)	$ 470,032,050	$ 33,078,563

Advances from Other Governmental Entities – This amount represents the balance of the amount advanced by the other governmental entities primarily for the construction of facilities that will be owned by such entities. These projects typically include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration process. Upon completion, the project is taken over by the corresponding agency. The assets are not owned by the Authority.

a. **Compensated absences** – Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. The Authority records as a liability and as expense the vested accumulated vacation benefits accrued to employees. The cost of vacation expected to be paid in the next twelve months is classified as current and accrued liabilities, while amounts expected to be paid after twelve months are classified as non-current liabilities.

b. **Accrued Legal Contingencies –** This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based on the advice and consent of the Authority's legal division and external legal advisors. The actual amounts required to settle such cases may be materially different from the amount accrued.

d. **Other Post-Employment Benefits –** The Authority records a liability for its retirement health care benefits following GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. It includes the Authority's proportionate share of the Commonwealth Healthcare Benefit Plan to Retirees, considered a multi-employer plan, and the Authority's plans covered by collective bargaining agreements (CBA) and considered a single-employer plan. Both plans operate on a pay-as-you-go basis as further described in Note 18 to the basic financial statements.

e. **Voluntary Termination Benefits –** This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 19 to the basic financial statements.

13. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as guarantee that the contractor will complete the project in accordance with contract requirements. The retainage is typically paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

14. PENSION REFORM AND PLAN DESCRIPTION

(i) Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300 4617 in order to convey to the Primary Government's agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new PayGo mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Commonwealth Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

On June 23, 2017, the Legislature approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the Commonwealth's Retirement Systems to liquidate their assets and pass the net proceeds to the Treasury Department.

Act 106-2017, enacted on August 23, 2017, approved a substantial pension reform for all of the Commonwealth's Retirement Systems, including ERS. This reform modified most of ERS's activities and effectively restructured ERS's operations. Effective on July 1, 2017, ERS's previously existing pension programs administered by ERS under Act No. 447 of 1951 (as amended) were terminated and transitioned to a PayGo system, in which ERS stopped receiving contributions from employers or plan participants and is no longer managing contributions on behalf of participants. Act 106-2017 created the legal framework so that the Commonwealth can make benefit payments to current pensioners. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers (including the Authority). Approximately $2.4billion was allocated for these purposes in each of the Commonwealth's budgets for fiscal year 2020.

Act 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created the New Defined Contribution Plan for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by ERS. Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Act 106-2017, among other things, amended Act No. 447 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, ERS's Board of Trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of ERS benefits may be managed by a third-party service provider. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017, known as the *Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico* (Act No. 8 of 2017).

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

(ii) Pension Benefits Transferred

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program (the Defined Benefit Program), a defined contribution program (the System 2000 Program) and a contributory hybrid program (the Contributory Hybrid Program). Benefit provisions varied depending on member's date of hire. Substantially all full-time employees of the

Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the Authority) are covered by ERS. Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.
Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Plan created by Act 106-2017. Membership continues to be optional for the Governor of the Commonwealth, Commonwealth secretaries, heads of public agencies and instrumentalities, among others.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS. In addition, the Commonwealth Plan of Adjustment includes the zero pension cut condition under Act No. 53-2021, thus preserving all accrued pension benefits for active and retired ERS participants under Class 51.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations; these benefits were not changed or amended with the enactment of Act 106-2017.

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

- Members of Act No. 447 are generally those members hired before April 1, 1990.

- Members of Act No. 1 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).

- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 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.

Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by a private third party.

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of ERS, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Prior to July 1, 2017, members who attained 55 years of age and completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant was eligible, was limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who completed 30 years of creditable service were entitled to receive the Merit Annuity. Under the Merit Annuity, participants who had not attained 55 years of age received 65% of the average compensation, as defined; otherwise, they received 75% of the average compensation, as defined.

Prior to July 1, 2017, Commonwealth legislation required employees to contribute 10% of their monthly gross salary to the Defined Benefit Program.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consisted principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

System 2000 Program

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447, to establish the System 2000 Program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different ERS benefit structures, including the Defined Benefit Program.

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things, the System 2000 Program, a new benefit structure, similar to a cash balance plan (such as a defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired

on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999, were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Prior to July 1, 2017, Commonwealth legislation required employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions were credited to individual accounts established under the System 2000 Program. Participants had three options to invest their contributions to the System 2000 Program. Investment income was credited to the participant's account semiannually.

Under the System 2000 Program prior to July 1, 2017, contributions received from participants were pooled and invested by ERS, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program were paid from the same pool of assets. As a different benefit structure, the System 2000 Program was not a separate plan, and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions were used by ERS to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined the plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account was used to purchase an annuity contract, which provided for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement received a lump-sum payment. In case of death, the balance in each participant's account was paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Contributory Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305, to establish, among other things, a defined contribution program similar to the Contributory Hybrid Program to be administered by the ERS. 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 plans will become part of the Contributory Hybrid Program. Act

No. 3 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 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, could have retired on any later date and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013, did not reach the age of 58 and completed 10 years of service or did not reach the age of 55 and completed 25 years of service could have retired depending on the new age limits defined by the Contributory Hybrid Program and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age could have retired on any later date and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, did not reach the age of 60 could have retired depending on the new age limits defined by the Contributory Hybrid Program and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from $400 to $500 per month.

2. The retirement age for the Act No. 447 participants was gradually increased from age 58 to age 61.

3. The retirement age for the active System 2000 Program participants was gradually increased from age 60 to age 65.

4. Eliminated the "Merit Annuity" available to participants who joined the Retirement System prior to April 1, 1990.

5. The retirement age for new employees was increased to age 67.

6. The employee contribution rate was increased from 8.275% to 10%.

7. For the System 2000 Program participants, the retirement benefits were no longer paid as a lump sum distribution; instead, they were paid through a lifetime annuity.

8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings were contributed to ERS.

9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

10. Survivor benefits were modified.

Prior to July 1, 2017, employee contributions were credited to individual accounts established under the Contributory Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) was required for the purchase of disability insurance.

Upon retirement prior to July 1, 2017, the balance in each participant's account was used to purchase an annuity contract, which provided for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries continued receiving the monthly benefit until the contributions of the participant were completely consumed. In case of the participants in active service a death benefit was paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement received a lump-sum payment. In case of permanent disability, the participants had the option of receiving a lump sum or purchasing an annuity contract.

For the fiscal year ended June 30, 2014, the Authority was required to contribute 12.275% of each participant's gross salary under the different benefit structures. ERS used these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2014, and up until June 30, 2016, the employer's contribution rate was annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2017, the employer's contribution rate that is in effect on June 30 of every year was annually increased on every successive July 1st by one point twenty-five percent (1.25%). Beginning July 1, 2017, the employer’s contribution is established through the PayGo fee as determined by AAFAF under Act 106-2017.

Additional information on ERS is provided in its standalone financial statements for the year ended June 30, 2020, a copy of which can be obtained from the Employee Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

(iii) Total Pension Liability

The Commonwealth's total pension liability, from which an allocation was made in the Authority's financial statements as of June 30, 2020, was measured as of June 30, 2019, respectively, and the total pension liability used to calculate the total pension liability was determined by actuarial valuations based on census data as of July 1, 2017, respectively, which was rolled forward to June 30, 2018, respectively, assuming no gains or losses.

(iv) Actuarial Assumptions

The following actuarial methods and assumptions were used in developing the estimate of the total pension liability of the Employees Retirement System, from which an allocation of the total pension liability was made to the Authority and other instrumentalities of the Commonwealth of Puerto Rico.

The total pension liabilities as of June 30, 2020, were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

	Actuarial Valuations as of:
	30-Jun-19
Actuarial cost method	Entry age normal
Asset-valuation method	Not applicable
Actuarial assumptions:	
Inflation	Not applicable
Municipal bond index	Not applicable
Discount rate	3.5
Projected salary increases per annum	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.
Cost-of-living adjustments	None assumed.

The mortality tables used in the June 30, 2019 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 were adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. Also, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

- *Post-retirement health 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 Uninsured Pensioner (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 generation 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 expectation 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-Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

(v) Discount Rates

ERS is in a deficit position. Therefore, the tax-free municipal bond index (Bond Buyer General Obligations 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.50% as of June 30, 2020.

(vi) The Authority's proportion of the total pension liability of ERS

The Authority's proportionate share of total pension liability of ERS and the proportion percentage of the aggregate total pension liability of ERS allocated to the Authority as of June 30, 2020, amounted to $409,341,038.

The Authority's proportion of the ERS's total pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions reflecting each employer's projected long-term contribution effort that are included in the proportionate share calculation are: (1) Act No. 116 of 2010 statutory payroll-based contribution, (2) Act No. 3 of 2013 supplemental contribution, and (3) other special law contributions. Amounts from the Authority to the ERS of $20,348,051 were required during the period subsequent to the measurement date or during the period ended June 30, 2020. Other contributions to ERS that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual employer to ERS (i.e., local employer early retirement incentives), were excluded from the proportionate share calculation.

In addition, the collected Additional Uniform Contribution (AUC), required by Act No. 32 of 2013, which is a contribution that reflects each employer's projected long-term contribution effort, was excluded from the proportionate share calculation because its collectability from various employers, including the Commonwealth, is uncertain. Exclusion of such amounts prevents an overallocation of GASB Statement No. 73 amounts to the employers who have paid their AUC (or are expected to do so) and an under-allocation of GASB Statement No. 73 amounts to the employers who have not paid their AUC (or are not expected to do so).

The components of the pension liability of the Authority's proportionate share as of June 30, 2020 (measurement date June 30, 2019) are as follows:

		2020
Authority's proportionate share of:		
Proportion of the net pension liability		1.64722%
Total pension liability	$	(409,341,038)

The following table presents the sensitivity analysis of the Authority's proportionate share of the pension liability as of June 30, 2020 (measurement date June 30, 2019), for ERS calculated using the discount rate of 3.50%, as well as what the Authority's proportionate share of the pension liability would be if it were calculated using a discount rate of one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Net pension liability	$ (465,485,689)	$ (409,341,038)	$ (363,728,379)

(vii) Pension expense and deferred outflows of resources and deferred inflows of resources from pension activities

Pension expense recognized by the Authority for the years ended June 30, 2020, related to the Retirement Systems amounts to $15,554,889.

Deferred outflows and deferred inflows of resources from pension activities including other post-employment benefits reported in the Administration's statements of net position as of June 30, 2020, are as follows:

	Deferred Outflows of Resources June 30, 2020
Changes of assumptions	$ 13,292,318
Changes in proportion and differences between employer contributions and share of contribution	9,441,525
Subsequent to the measurement date	22,613,804
	$ $ 45,347,647

	Deferred Inflows of Resources June 30, 2020
Balance of deferred inflows due to:	
Difference between expected and actual experience	$ 13,877,856
Changes of assumptions	10,582,562
Changes in proportion and differences between employer contributions and share of contribution	2,775,106
	$ 27,235,524

(viii) Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020, will be recognized in the pension expense as follows:

Year Ending June 30:		
2021	$	(1,125,420)
2022		(1,125,420)
2023		(1,125,420)
2024		(1,125,421)
	$	(4,501,681)

Deferred outflows of resources related to pensions resulting from the Authority's required contributions subsequent to the measurement date of June 30, 2019, amounted to $22,613,804 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. This amount is not included in the table above.

15. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75). This Statement replaces the requirement of Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions* (GASB 45). GASB 75 establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

OPEB are part of an exchange of salaries and benefits for employee service rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employee's years of service and provides information about actuarial accrued liabilities associated with the OPEB, and whether and to what extent progress is being made in funding the plan.

The Authority provides healthcare benefits to its retirees under two plans: one covered by Collective Bargaining Agreements (CBA) and considered a single-employer plan, and the other through the postemployment benefit plan of the Commonwealth of Puerto Rico for retired participants of ERS, a multi-employer plan. Both plans operate on a pay-as-you-go basis.

The Plan administered by the Authority Benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and its functions, and for the purpose of the actuarial valuation, it has been identified as a single-employer defined benefit healthcare plan. Participant groups covered are (i) employees under a Collective Labor Agreement with "Union

Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and (2) the Authority's management employees.

All employees with at least 10 years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

- For employees that were employed by the Authority at March 30, 1990, the retirement is at 30 years of service.

- For employees that were employed by the Authority after Match 30, 1990, the retirement is at 10 years of service and 65 years old.

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee becomes disabled until death. The obligation end in case of death after retirement.

The Authority's contribution is limited to $200 monthly per single retired employee up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the collective bargaining agreement and will be re-evaluated when the collective bargain agreements are up for renewal. Milliman an international actuarial and consulting firm (Milliman) provide actuarial estimates for active employees and those employees who retired early. Milliman used a measurement date of June 30, 2020.

Once the postemployment benefits covered by collective bargain agreements expire, the Authority's retirees commence participation in the plan administered by the Commonwealth. Milliman provided actuarial estimates for retirees participating in the plan administered by the Commonwealth. Milliman used a measurement date of June 30, 2020. This group of retirees was not included in prior years' liability for post-employment benefits.

The postemployment benefit plan of the Commonwealth of Puerto Rico 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. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Under leveled benefits provided in each plan, the medical cost increases reside with the retiree and, therefore, result in a lower OPEB liability for the Authority.

GASB 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

Actuarial assumptions

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

- Pre-retirement Mortality — For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females were adjusted to reflect Mortality Improvement Scale 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 females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

- Post-retirement health 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 Uninsured Pensioner (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 generation 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 expectation 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 generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the collective total allocated OPEB liability of the ERS Plan and CBA Plan at June 30, 2020, were calculated using the discount rate of 3.50% and 2.21%, respectively, as well as the Plan's total allocated OPEB liability if it were calculated using the discount rate of one percentage point lower (2.50%) and (1.21%), respectively, or one percentage point higher (4.50%) and (3.21%), respectively, than current rate:

	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Proportionate share of ERS OPEB liability	$ 9,380,996	$ 8,608,602	$ 7,906,080
	At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
CBA OPEB liability	$ 15,594,871	$ 13,255,007	$ 11,343,072
Total OPEB liability	$ 24,975,867	$ 21,863,609	$ 19,249,152

Deferred outflows of resources and deferred inflows of resources

Because all participants of the ERS Plan 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 are recognized immediately during the measurement year.

Additional information on the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employee Retirement System is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2020, a copy of which can be obtained from the Employee Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

	Derred Outflows June 30, 2020
Balance of deferred outflows due to:	
Payment made subsequent to the measurement date	$ 702,777
Changes in assumptions	2,612,908
	$ 3,315,685

		Deferred Inflows June 30, 2020
Balance of deferred outflows and inflows due to:		
Difference between expected and actual experience	$	6,354,662
Changes of assumptions		676,302
Net difference between projected and actual earnings on pension plan investments		-
Changes in proportion and differences between employer contributions and share of contribution		-
	$	7,030,964

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020 will be recognized in the pension expense as follows:

Year Ending June 30:		
2021	$	(441,811)
2022		(441,811)
2023		(441,811)
2024		(441,811)
2025		(441,811)
Thereafter		(2,209,001)
	$	(4,418,056)

Deferred outflows of resources related to pensions resulting from the Authority's required contributions subsequent to the measurement date of June 30, 2020 amounted to $702,777 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. This amount is not included in the table above.

OPEB Obligation

The net OPEB obligation change for the years ended June 30, 2020, is as following:

		2020
Normal OPEB obligation at beginning of year	$	19,300,851
Total annual OPEB costs		3,037,433
Actuarial change in estimate		(248,675)
Actuarial benefits payments		(226,000)
OPEB liability	$	21,863,609

Components of OPEB costs during the years ended June 30, 2020 are as follows:

		2020
Annual required contribution (ARC) for the fiscal year	$	-
Service Cost		344,231
Actuarial change in estimate		2,319,550
Interest or net OPEB obligation		373,652
ARC amortization adjustment		-
Total annual OPEB Costs	$	3,037,433
Actuarial discount rate		2.21%

The projection of future benefit payment for an ongoing plan involves estimates of the value of reported amount and assumption about the probability of occurrence of events far into the future. Examples include assumption about the future employment, mortality, and the healthcare costs trend. Amount determined regarding the funded status of the plan and annual required contribution of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions - The following actuarial methods and assumptions were used in developing the estimate of the net pension liability of the Commonwealth of Puerto Rico's Retirement System, from which an allocation of the net pension liability was made to the Administration and other instrumentalities of the Commonwealth of Puerto Rico.

The total OPEB liabilities as of June 30, 2020, were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

	Actuarial Valuations as of:
	30-Jun-20
Actuarial cost method	Entry age normal
Asset-valuation method	Not applicable
Actuarial assumptions:	
Inflation	Not applicable
Municipal bond index	Not applicable
Discount rate	2.21
Projected salary increases per annum	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.

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 were adjusted to reflect Mortality Improvement Scale MP-2020 from the 2006 base year and projected forward using MP-2020 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from the 2006 base year and projected forward using MP-2020 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. Also, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

Post-retirement health 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 Uninsured Pensioner (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. These base rates are projected using the mortality improvement scale above.

16. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provided benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provided to eligible employees that have completed between 20 to 29 years of credited service in the

Retirement System, between 48 and 55 years to age, and will consist of biweekly benefits of 50% of each employee' salary, as defined. In this early retirement benefits program, the Authority will make the employee and the employer contribution to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have a least 30 years of credited service in the Retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives to employees who have 30 years of service or who have reached retirement age, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period. Additionally, eligible employees who choose to participate in the early retirement benefit program or who choose the economic incentive and have at least 20 years of credited services in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority. The financial impact resulting was the recognition of a liability of approximately $13.9 and $16.7 million in the balance sheets as June 30, 2019 and 2018. At June 30, 2019, unpaid long-term benefits granted through this program were discounted at 2.52%, depending on the employee voluntary termination benefits selected.

17. CONTINGENT LIABILITIES

a. Litigation – The Authority is a defendant or co-defendant in various lawsuits for alleged breach of contract and torts in cases related to construction projects. In addition, the Authority is a defendant or co-defendant in other cases related to public liability and labor related matters. Some of the cases related to public liability are covered by insurance.

The Authority, based on legal advice, recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of insurance coverage and/or the recorded provision that may arise from such claims would not affect the Authority's financial position or operations, particularly since any claims that arose prior to the Authority's Title III case are prepetition claims and the only payment on such claims is pursuant to the Commonwealth Plan of Adjustment. Refer to Note 20 regarding additional information on the Commonwealth Plan of Adjustment.

b. Grants- In the normal course of operations, the Authority receives grants from FEMA. The grant program is subject to audit, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies authority in accordance with the requirements of the U.S. Office of Management and Budget Uniform Guidance 2 CFR Part 200, in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Authority may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

18. Hurricane Maria

On September 20, 2017, the island of Puerto Rico was devastated by Hurricane Maria. The Hurricane caused catastrophic destruction in Puerto Rico, including severe damages to the electric power system, which left the Island completely without power.

The Authority recorded estimated damages of approximately $142.5 million, which included $10.5 million for debris removal and temporary repairs. The remainder (approximately $132. million), was for damages to buildings and structures.

The Authority received insurance payouts for $35 million in fiscal years 2018 and 2019. Also, the Authority received approximately $1.0 million and accrued other $9.5 million from Federal Emergency Management Agency (FEMA) as part of claims for reimbursements for expenses incurred the Authority in the recovery of damages caused by Hurricane Maria.

Experts estimate that repairs will take no less than five to seven years to be completed, and those that may qualify to be capitalized will be done as incurred.

19. SUBSEQUENT EVENTS

A. Plan of Adjustment

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under

Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to 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], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), 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 its monthly pension cut provisions 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 Rico, et al.* [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. 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] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. All of PBA's obligations to the DRA were also discharged in exchange for a 10% cash recovery.

Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.

- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).

- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.

- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

The Commonwealth Plan of Adjustment does not implement any changes to the PBA governance structure or PBA collective bargaining agreements

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

Based on the agreements in the adjustment plan, an estimated extraordinary gain of $4,800 million which is broken down as follows:

Description	Amount in million
Bonds payable	$ 3,800
Lines of credit with DRA	137
Principal and interest paid by insurers for defaulted debt	119
Accrued interest payable	813
Cash transferred	(69)
Estimated extraordinary gain	$ 4,800

There are claims pending of litigation that may affect this estimated extraordinary gain.

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

B. PBA LEASES

The Confirmation Order provides that the PBA leases (including PBA leases with private entities) shall be deemed rejected effective upon the earliest to occur of:

1. June 30, 2022;

2. the date upon which such PBA lease expires in accordance with its terms;

3. the date upon which PBA enters into a new or amended lease with respect to the leased property subject to such PBA Lease;

4. such other date of which PBA, as lessor, provides written notice to the counterparty to a PBA Lease; and

5. the date upon which AAFAF, on behalf of the Commonwealth or any Commonwealth agency that is a lessee with respect to a PBA Lease, provides written notice to PBA that such PBA lease is rejected (the "Notice Date").

Accordingly, each of the PBA leases will be deemed rejected no later than June 30, 2022, unless a new lease is entered before that time.

From the Effective Date through the rejection/renegotiation date (*i.e*. June 30, 2022 or the Notice Date), with respect to any PBA lease between PBA, as lessor, and the Commonwealth or any Commonwealth agency, public corporation or instrumentality, as lessee, the monthly lease payments shall be limited to the lower of (i) the amount budgeted and approved pursuant to a certified fiscal plan and (ii) the monthly costs and expenses associated with the applicable leased property.

Any past due accruals on PBA or any Commonwealth entity for Debt Service Rent under a PBA lease is deemed released under the Plan.

C. EMPLOYEES TRANSFERRED FROM THE PUERTO RICO POWER AUTHORITY TO THE PUBLIC BUILDING AUTHORITY

In June 2021, the agency (PBA) received 544 new employees transferred from the Power Authority of Puerto Rico (AEE) and Maritime Transport Authority (ATM). The relocation of these employees to PBA was originated by the Act Num. 120-2018 “Ley para Transformar el Sistema Eléctrico de Puerto Rico”. This Act established the relocation process of the AEE employees that chose to stay as a part of the Government of Puerto Rico workforce.

Based on estimates the addition of these employees in the PBA roster will result in a significant increase in their operational costs, such as payroll cost (approximately $24 million annually), office space, office equipment, tools, and other costs.

D. TRANSFER OF FUNDS TO PUERTO RICO TREASURY DEPARTMENT

On January 27,2022 PBA received joint circular letter AAFAF/DH/OGP Núm. 2022-01 with instruction to transfer outstanding balance of certain banks accounts to Puerto Rico Treasury Department on or before February 11,2022 in order for the Commonwealth to make the payments required by the Commonwealth Plan of Adjustment. As result of this request between February 9 and April 4, 2022, $69.4 million was transferred by PBA to the Treasury Department.

The Authority has evaluated subsequent events through June 29, 2022 which is the date the basic financial statements were available to be issued. The subsequent events disclosed are principally those which management believes are of sufficient public interest for disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019
Proportion of the Collective Total Pension Liability	1.64722%	1.66054%
Proportionate Share of the Collective Total Pension Liability	$409,341,038	$406,659,098
.		
Covered Employee Payroll	$ 42,082,413	$ 46,193,821
Share ofthe Collective Total Pension Liability as a Percentage of its Covered Payroll	972.71%	880.33%

Notes:

1. On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

In the revised June 30, 2019 actuarial valuation, there was an decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

2.The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

3. The total pension liability as of June 30, 2020 was measured as of June 30, 2019 and 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.

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

5. This information is intended to help users assess the Authority's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

6. This schedule is required to illustrate I0-years of information. However, until an I0-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

	2020	2019
Proportion of the Collective Total OPEB Liability	1.03440%	1.05174%
Proportionate Share of the Collective Total OPEB Liability	$ 8,608,602	$ 8,857,277
Covered Employee Payroll		
Share ofthe Collective Total OPEB	*N/A*	*N/A*
Liability as a Percentage of its Covered Payroll	*N/A*	*N/A*

Notes:

1. On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

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3. The OPEB liability as of June 30, 2020 was measured as of June 30, 2019 and 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.

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

5. This information is intended to help users assess the Authority's OPEB plan's status on a going- concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

6. This schedule is required to illustrate I0-years of information. However, until an I0-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN TOTAL OTHER POST EMPLOYMNET BENEFIT (OPEB) LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2020

	Fiscal Year Ending June 30			
	2020	2019	2018	2017
Total OPEB Liability				
Service cost	$ 344,231	$ 310,819	$ 709,728	$ 895,113
Interest on total OPEB liability	373,652	659,520	610,136	520,844
Effect of economic/demographic gains or (losses)	-	(7,625,578)	(17)	(4,633,911)
Effect of assumption changes or inputs	2,319,550	583,986	(821,223)	448,893
Benefits payment	(226,000)	(168,600)	(106,448)	(153,054)
Net change in total OPEB liability	2,811,433	(6,239,853)	392,176	(2,922,115)
Total OPEB liability, beginning	10,443,574	16,683,427	16,291,251	19,213,366
Total OPEB liability, ending	$ 13,255,007	$ 10,443,574	$ 16,683,427	$ 16,291,251
Covered payroll	$ 34,924,579	$ 34,924,579	$ 26,997,294	$ 26,997,294
Total OPEB liability as of a % of covered payroll	37.95%	29.90%	61.80%	60.34%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in according with the current GASB standards, they should not reported.

Notes:

1.The above information represents the Authority's Collectively Bargaining Agreements OPEB liabilities. The OPEB plan is a single employer OPEB plan. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. Due to the inherent nature of these estimates, actual results could differ from those estimates.

2. The OPEB liability as of June 30, 2020 was measured as of June 30, 2019 and 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.

SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BOND SINKING FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

Governmental Facilities Bonds:		
Balance at July 1,	$	20,294
Receipts:		
Debt Service Rental		-
Investment income		246
Deposits from other accounts		21,607,960
Disbursements:		
Payment of bonds interest on bonds		(18,927,782)
Payment of bond prinicipal on bonds		(2,680,178)
Balance at June 30,		20,540
Office Buildings		
Balance at July 1,		
Receipts:		-
Transfers from other accounts		
Disbursements:		-
Payment of bonds interest on bonds		
Payment of bond prinicipal on bonds		-
Balance at June 30,		-
		-
	$	20,540

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES
FOR THE YEAR ENDED JUNE 30, 2020

Office Buildings	
Debt Service Rental - bonds and notes	$ 64,541,107.68
Operating and administrative	56,607,884.39
Equipment reserve rentals	5,513,332.27
Total office buildings	126,662,324
Public Education Buildings	
Debt service rental- bonds and notes	202,980,881.66
Operating and administrative	53,067,922.04
Equipment reserve rentals	17,735,211.05
Total public education buildings	273,784,015
Health Facilities	
Debt service rental - bonds andnNotes	12,631,578.15
Operating and administrative	1,271,530.87
Equipment reserve rentals	944,588.23
Total health facilities	14,847,697
Total operating rental revenues	415,294,036
Uncollectible amounts	297,661,783
Total operating rental revenue, net	$ 117,632,253

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FEDERAL EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security				
Pass-through the Central Office for Reconstruction, Recovery and Resilience of Puerto Rico				
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	PA-02-PR-4339-PW-000430	-	1,710,856
	97.036	PA-02-PR-4339-PW-004607	-	421,912
	97.036	PA-02-PR-4339-PW-000545	-	73,146
	97.036	PA-02-PR-4339-PW-001431	-	12,600
	97.036	PA-02-PR-4339-PW-000926	-	89,577
	97.036	PA-02-PR-4339-PW-003396	-	19,125
	97.036	PA-02-PR-4339-PW-002586	-	3,911
	97.036	PA-02-PR-4339-PW-001335	-	532,350
Total Expenditures of Federal Awards			**$ -**	**$ 2,863,477**

See accompanying Notes to Schedule of Expenditures of Federal Awards.

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Authority under the programs of federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and it does not present the financial position, changes in net assets or cash flows of the Authority.

2. **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on a cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. **Federal CFDA number**

The Catalog of Federal Assistance, CFDA, numbers included in the Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance. CFDA numbers are presented for those programs for which such numbers were available.

4. **Matching costs**

Such costs, as the nonfederal share of certain program costs, are not included in the accompanying Schedule.

5. **Nonmonetary Assistance**

For the year ended June 30, 2020, the Authority received no nonmonetary assistance. The grant amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the PBA. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

6. **Subrecipients**

For the year ended June 30, 2020, the Authority provided no funds to subrecipients.

7. **Disaster Grants**

Public Assistance (CFDA No 97.036) After a Presidential-Declared disaster, FEMA provides a Public Assistance Grant to reimburse eligible costs associated with repair, replacement, or restoration of disaster-damaged facilities. The Federal government reimburses in the form of cost-shared grants which requires state matching funds.

8. **Relationship to Statement of Revenues, Expenses and Changes in Net Position**

Of the expenditures reported in this schedule, the Authority received $2,132,768, or 75 percent, as a partial reimbursement for the use of generators to provide energy to its most critical facilities used by the Commonwealth for government offices, schools, and public safety functions. The reimbursement was based on rates provided by FEMA based on the capacity of the generators and not actual costs of operations. The claim to FEMA for the use of generators was in the form of schedules of daily usage in hours certified by an authorized officer of the Authority and reviewed by FEMA personnel, who inspected several of the facilities where those generators were in use. For the purpose of FEMA, these reimbursements are considered a federal expenditure.

9. **Indirect cost rate**

The Authority has elected not to use the ten percent the minimum indirect cost rate allowed under the Uniform Guidance.

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, of the Public Buildings 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, and have issued our report thereon dated June 29, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 to 2020-003 that we consider to be significant deficiencies.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2020-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carolina, Puerto Rico
June 29, 2022

Aquino, De Córdova, Alfaro & Co., LLP
by Eduardo González-Green
Lic. # 3171

Stamp number E550153
of Puerto Rico CPA Society
has been affixed to the
original report

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jerry De Córdova, CPA, JD
Eduardo González Green, CPA, CFF, CFE, FCPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Report on Compliance for Each Major Federal Program

We have audited the Public Building Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2020. Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

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compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-002 and 2020-003 that we consider to be significant deficiencies.

The Authority 's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carolina, Puerto Rico
September 5, 2023

Aquino, De Córdova, Alfaro & Co., LLP
by Eduardo González-Green
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Stamp number E550154
of Puerto Rico CPA Society
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original report

Section I- Summary of Auditors' Results

Financial Statements

1. Type of auditor's report issued:	☑	Unmodified opinion	☐ Qualified opinion
	☐	Adverse opinion	☐ Disclaimer of opinion
2. Internal control over financial reporting:			
a. Material weakness(es) identified?	☐	Yes	☑ No
b. Significant deficiencies identified?	☑	Yes	☐ No
3. Noncompliance material to financial statements noted?	☑	Yes	☐ No

Federal Awards

1. Internal control over major programs:			
a. Material weakness(es) identified?	☐	Yes	☑ No
b. Significant deficiencies identified?	☑	Yes	☐ None reported
2. Type of auditors' report issued on compliance for major programs:	☑	Unmodified opinion	☐ Qualified opinion
	☐	Adverse opinion	☐ Disclaimer opinion
3. Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516)a)?	☑	Yes	☐ No

4. Identification of major programs:

Assistant Listing Number	Name of Federal Program or Cluster
97.036	DISASTER GRANTS – PUBLIC ASSISTANCE (Presidentially Declared Disasters)

5. Dollar threshold used to distinguish between Type A and Type B programs:		$750,000	
6. Auditee qualified as low-risk?	☐	Yes	☑ No

Section II - Financial Statement Findings Section

Finding Reference **2020-001**

Accounts reconciliations and analysis- Significant Deficiency

Criteria: As per Law Núm. 230 of July 23, 1974, as amended, **e**stablished public policy over governmental accounting and public property controls, and accordingly, the Authority's management should have a process put in place to ensure that the trial balance used in the financial statement preparation process is final, contains all valid journal entries made, and is in balance. Also, performs procedures to verify the completeness and accuracy of system-generated data and reports used in the performance of key controls and critical accounting analyses.

Condition: The account 1424000, asset clearing account, within property plant and equipment accounts (PPE) group, had a credit balance of approximately $239,000 within the trial balance handed to us from client. The account balance should end with a positive one. During the audit, necessary adjustments were done to the account to conform with Generally Accepted Accounting Principles.

Cause: The account had been credited with more charges than it should have. There was miscommunication within the responsible personnel recording PPE's acquisitions**.** During the period the property department had recognize more acquisitions of PPE than the ones recorded, included in the account 1424000, from purchasing department, creating the account 1424000 to be in a negative balance at year end.

Accounting closing procedures have not been established to ascertain the accuracy of accounts balances.

Effect: The Authority shows a credit balance on an asset account that should have debit balance.

Recommendation: To monitor, on a monthly basis, the balance of account 1424000, as part of the monthly accounting closing procedures.

Management response: The financial statements, with their respective findings, were delivered to the Agency on June 29, 2022, Due to multiple changes in management, in addition to the Pandemic our financial statements were behind schedule, therefore, management will be working on the Single Audit's action plans required during this period of 2023, to comply with all the things that are still in forced.

Responsible Official: José R. González De la Vega

Estimated Completion Date: To complete on or before December 2023

Section III – Federal Award Findings and Questioned Costs

Finding Number:	**2020-002**
Agency:	**Department of Homeland Security**
Federal Program:	**DISASTER GRANTS - PUBLIC ASSISTANCE (Presidentially Declared Disasters)**
Assistant listing number:	**97.036**
Grant Number:	**All grants in SEFA**
Grant Period:	**July 1, 2018 through June 30, 2020**
Compliance Requirement:	**Reporting**
Category:	**Significant Deficiency and noncompliance over federal program**

Criteria: OMB Uniform Guidance subpart B .200(a) establishes that Non-Federal entities that expend $750,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

Condition: During our audit of June 30, 2020 financial statements, we noted that single audit report for fiscal year 2019-2020 was not submitted by September 30, 2021.

Cause: Missed of internal controls over financial reporting to produced financial statements on timely basis to comply with OMB reporting deadlines.

Effect: Non-compliance with the above-mentioned requirement could lead to administrative actions by the grantor. It could also be interpreted as a failure to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

Recommendation: To improve, execute and monitor accounting periods end closings as planned in order to get a financial statement on time to comply with required deadlines. Also, keep track and communication of federal programs compliances with regulatory parties and among Authority responsible departments involve and establish a program deadline calendar.

Section III – Federal Award Findings and Questioned Costs- continued

Questioned Costs: None

Perspective of the information: Single audit report was issued after authoritative due date. The information was not draw from a statistical sample.

Prior Year Finding: yes

Management response: The financial statements, with their respective findings, were delivered to the Agency on June 29, 2022, Due to multiple changes in management, in addition to the Pandemic our financial statements were behind schedule, therefore, management will be working on the Single Audit's action plans required during this period of 2023, to comply with all the things that are still in forced.

Responsible Official: José R. González De la Vega

Estimated Completion Date: To complete on or before December 2023

Finding Number:	**2020-003**
Agency:	**Department of Homeland Security**
Federal Program:	**DISASTER GRANTS - PUBLIC ASSISTANCE (Presidentially Declared Disasters)**
Assistant listing number:	**97.036**
Grant Number:	**All grants in SEFA**
Grant Period:	**July 1, 2018 through June 30, 2020**
Compliance Requirement:	**Reporting**
Category:	**Significant Deficiency**

Criteria: As per § 200.328 Financial reporting. Unless otherwise approved by OMB, the Federal awarding agency must solicit only the OMB-approved governmentwide data elements for collection of financial information (at time of publication the Federal Financial Report or such future, OMB-approved, governmentwide data elements available from the OMB-designated standards lead. This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting. The Federal awarding agency must use OMB-approved common information collections, as applicable, when providing financial and performance reporting information.

Condition: During the audit, we note differences between quarterly reports amounts submitted to grantee agency and expense amounts accrued during the year.

Grant	Report (Name)	PW Number	Date submitted	Deadline	Extension date approved	Report submitted on time? Yes/No	Expenditures as per QPR	Expenditures as per SEFA
FEMA 1798-DR-PR	Proyecto Completado	PW-4339-430	6/30/2020	7/30/2020	No	Yes	-	1,710,856
FEMA 1798-DR-PR	Proyecto sin comenzar	PW-4339-1335	6/30/2020	7/30/2020	NO	Yes	-	532,350

Cause: Missing of supporting documentation and underlying data support reporting figures amount.

Effect: Wrong reported amounts could significantly affect program outcomes.

Recommendation: To keep, document, file and trace supporting data for to support quarterly reports

Questioned Costs: None

Perspective of the information: The information was not drawn from a statistical sample.

Prior Year Finding: No

Management response: A specialized federal funds firm was hired. It is working with internal controls to improve the method of accounting for federal funds that meet accounting and FEMA requirements.

Responsible Official: Mr. José R. González de la Vega

Estimated Completion Date: To complete on or before December 2023

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

FINDING NUMBER	**2019-001**
RECOMMENDATION	Monthly closing accounting procedures should be improved.
ACTION	Condition still prevails.

FINDING NUMBER	**2019-002**
RECOMMENDATION	To improve, execute and monitors accounting periods end closings as planned in order to get a completed bank reconciliation on time.
ACTION	Condition still prevails.

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Commonwealth of Puerto Rico
Public Buildings Authority
Management Comments / Corrective Action Plan
Single Audit for the period ended June 30, 2020

Finding Number, Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
2020-001	Monthly closing accounting procedures should be improved.	The financial statements, with their respective findings, were delivered to the Agency on June 29, 2022. Due to multiple changes in management, in addition to the Pandemic our Financial Statement were behind schedule, therefore, management will be working on the Single Audit's action plans required during this period of 2023, to comply with all the things that are still in force.	Based on 2020 Corrective Action Plan. The Findings will be answered on the 2023 Financial Statement.	José R. González De La Vega Comptroller

GOBIERNO DE PUERTO RICO
AUTORIDAD DE EDIFICIOS PUBLICOS

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
2020-002 U.S. Department of Homeland Security Pass-through the Central Office for Reconstruction, Recovery and Resilience of Puerto Rico (COR3)	Keep track and communication of federal programs compliances with regulatory parties and among Authority responsible departments involve and establish a program deadline calendar.	The financial statements, with their respective findings, were delivered to the Agency on June 29, 2022. Due to multiple changes in management, in addition to the Pandemic our Financial Statement were behind schedule, therefore, management will be working on the Single Audit's action plans required during this period of 2023, to comply with all the things that are still in force.	Based on 2020 Corrective Action Plan. The Findings will be answered on the 2023 Financial Statement.	José R. González De La Vega Comptroller

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2020

GOBIERNO DE PUERTO RICO
Autoridad de Edificios Públicos

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
2020-003 U.S. Department of Homeland Security Pass-through the Central Office for Reconstruction, Recovery and Resilience of Puerto Rico (COR3)	To keep, document, file and trace supporting data for to support quarterly reports.	• A specialized federal funds firm was hired that is working with internal controls to improve the method of accounting for federal funds that meet accounting and FEMA requirements.	We hope to finish these works, no later than December 30, 2023.	José R. González De La Vega Comptroller