PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Uniform Guidance Report
Year Ended June 30, 2021
(With Independent Auditors' Report)

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(A Component Unit of the Commonwealth of Puerto Rico)

Uniform Guidance Report
Year Ended June 30, 2021

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Fiscal Agency and Financial Advisory Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Puerto Rico Fiscal Agency and Financial Advisory Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Puerto Rico Fiscal Agency and Financial Advisory 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.

Auditors' 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 auditors' 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 financial position of the governmental activities and each major fund of the Puerto Rico Fiscal Agency and Financial Advisory Authority as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

As discussed in Note 3 to the basic financial statements, the Puerto Rico Fiscal Agency and Financial Advisory Authority main source of revenue consists of legislative appropriations from the Commonwealth of Puerto Rico. As a result, the Puerto Rico Fiscal Agency and Financial Advisory Authority's operations are dependent on the Commonwealth of Puerto Rico's ability to continue providing funding to the Puerto Rico Fiscal Agency and Financial Advisory Authority through legislative appropriations. For many years, the Commonwealth of Puerto Rico was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations.

In response to the Commonwealth of Puerto Rico's fiscal crisis, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act, establishing the Fiscal Oversight Management Board. After years of extensive litigations with creditors, on October 26, 2021, the Commonwealth of Puerto Rico enacted Act No. 53 to End the Bankruptcy of Puerto Rico to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. In response to Act No. 53, the Fiscal Oversight Management 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 with certain revisions on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth of Puerto Rico emerged from Title III of the Puerto Rico Oversight, Management, and Economic Stability Act after consummating the Commonwealth of Puerto Rico Plan of Adjustment.

Management had initially identified the financial condition of the Commonwealth of Puerto Rico as an external matter that may affect the ability of the Puerto Rico Fiscal Agency and Financial Advisory Authority to continue as going concern. However, as a result of the approval and execution of the Commonwealth of Puerto Rico's Plan of Adjustment on March 15, 2022, management does not believe there is substantial doubt about the Puerto Rico Fiscal Agency and Financial Advisory Authority's ability to continue as going concern as of the date of these basic financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 10, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Puerto Rico Fiscal Agency and Financial Advisory Authority's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the schedule of allocation of expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and were derived from and relates 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 schedule of expenditures of federal awards is 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 July __, 2022, on our consideration of the Puerto Rico Fiscal Agency and Financial Advisory 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 Puerto Rico Fiscal Agency and Financial Advisory 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 Puerto Rico Fiscal Agency and Financial Advisory Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
July 14, 2022.

RSM Puerto Rico

Stamp No. E499092 was affixed
to the original of this report.

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Authority) as of and for the year ended June 30, 2021. This MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities as well as fiduciary activities, and (c) identify changes in the Authority's financial position and identify individual issues or concerns. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial condition, the basic financial statements, including the notes thereto, and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

- The Authority's Total Assets were approximately $108.7 million as of June 30, 2021, a decrease of approximately $2.5 million or 2% as compared to prior year. The total assets were composed of approximately $107.2 million of cash, $475 thousand of accounts receivable, $234 thousand of prepaid expenses and $786 thousand of capital assets.

- The Authority's Total Liabilities were approximately $35.7 million as of June 30, 2021, an increase of approximately $4.9 million or 16% as compared to prior year. The total liabilities were composed of approximately $32.3 million of accounts payable and accrued liabilities, $1.3 million of unearned revenues, $1.1 million of compensated absences and $963 thousand of termination benefits.

- The Authority's Net Position was approximately $73 million as of June 30, 2021, a decrease of approximately of $7.5 million or 9% as compared to the prior fiscal year.

- The Commonwealth of Puerto Rico's (the Commonwealth) appropriations made to the Authority amounted to approximately $67.7 million for the year ended June 30, 2021, a decrease of approximately $38.3 million or 36% as compared to the prior fiscal year.

- The Authority received federal funds of approximately $9 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Fund, to implement the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by the Government of Puerto Rico.

- The Authority received federal funds of approximately $277 million from the American Rescue Plan (ARP) Coronavirus State and Local Fiscal Recovery Funds for Improvements to Educational Institutions, an Agency Fund of the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the Authority's basic financial statements for the fiscal year ended June 30, 2021. The Authority's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad view of the Authority's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement provides information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the assets plus deferred outflows of resources less liabilities and deferred inflows of resources reported as the overall 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 eroding.

- ***Statement of Activities*** – This statement presents information on how the Authority's net position changed during the reporting period. All changes in net position are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for certain items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found immediately following this MD&A.

Governmental Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Authority's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements differ from the perspective and basis of accounting used to prepare the government-wide financial statements.

Governmental Funds – Most of the basic services provided by the Authority are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Authority's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Authority. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By comparing the two, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the Authority in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Authority's fiduciary funds:

Other Employee Benefits- The Authority is the trustee, for the benefit of former employees of the Government Development Bank (GDB) receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The fiduciary activities of the Authority are reported in a separate statement of fiduciary net position and of changes in fiduciary net position. The Authority exclude these activities from its government-wide financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Agency Fund - This is custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The Authority receives approximately $277 million which were approved by the Coronavirus Relief Fund Disbursement Oversight Committee (created by the Governor of Puerto Rico with Executive Order EO-202-00040), and assigned by the Puerto Rico Office of Management and Budget in funds from Coronavirus State Fiscal Rescue Fund (CSFRF) which account for funds received from the American Rescue Plan Act of 2021 signed by President Joseph R. Biden on March 11, 2021 (the American Rescue Plan). The funds assigned to the Authority are held in custody capacity because the funds are going to be used by the Puerto Rico Infrastructure Financing Authority (PRIFA) for the purpose of conducting the improvements to Educational Institutions affected by seismic activity and Hurricanes Irma and Maria. The Authority excludes these activities from the Authority's government-wide financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to Basic Financial Statements

The notes to the basis financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the basic financial statements can be found immediately following the Statement of Changes in Fiduciary Net Position- ERO Trust Fund.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS (GOVERNMENT-WIDE FINANCIAL STATEMENTS)

The following is an analysis of the financial position and changes in the financial position of the Authority's Governmental Activities for fiscal year 2021.

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Net Position

Condensed financial information from the statements of net position as of June 30, 2021 and 2020, is shown below (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percent
ASSETS:				
Cash	$ 107,233	$ 108,647	$ (1,414)	-1%
Accounts receivable, net of allowance	475	2,008	(1,533)	-76%
Prepaid expenses	234	56	178	318%
Capital assets, net	786	542	244	45%
Total assets	108,728	111,253	(2,525)	-2%
LIABILITIES:				
Liabilities payable within one year	34,155	29,301	4,854	17%
Liabilities payable after one year	1,552	1,451	101	7%
Total liabilities	35,707	30,752	4,955	16%
NET POSITION	$ 73,021	$ 80,501	$ (7,480)	-9%

Governmental entities are required by U.S. Generally Accepted Accounting Principles (U.S. GAAP), as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position. The statement of net position presents the value of all of the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Authority as of June 30, 2021, amounted to approximately $108.7 million and $35.7 million, respectively, for a net position of approximately $73 million.

Total assets decreased by approximately $2.5 million, from approximately $111.2 million in fiscal year 2020 to $108.7 million in fiscal year 2021. Decrease in total assets is due principally to a decrease in cash amounting to approximately $1.4 million which was mainly related to the results of operations, and a decrease in accounts receivable of approximately $1.5 million.

Total liabilities increased by approximately $4.9 million, from approximately $30.8 million in fiscal year 2020 to $35.7 million in fiscal year 2021. The increase mainly resulted from an increase in accounts payable and accrued liabilities amounting to approximately $4.8 million related mainly to increases in Title III and Non-Title III 10% retention fees payable on legal and professional services contracts for the restructuring of Puerto Rico's debt, and an increase in unearned revenues from CARES Act funds amounting to approximately $1.3 million, among others.

Statements of Activities and Results of Operations

Condensed financial information of the statements of activities for the years ended June 30, 2021 and 2020, is shown below (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percentage
REVENUES	$ 78,483	$ 107,785	$ (29,302)	-27%
EXPENSES	(85,963)	(66,416)	(19,547)	29%
CHANGE IN NET POSITION	(7,480)	41,369	(48,849)	-118%
NET POSITION-BEGINNING	80,501	39,132	41,369	106%
NET POSITION-ENDING	$ 73,021	$ 80,501	$ (7,480)	-9%

The Governmental Activities change in net position decreased by approximately $48.9 million, from approximately $41.4 million in fiscal year 2020 to negative $7.5 million in fiscal year 2021. The net decrease in change in net position was mainly due to: (1) a decrease in the Commonwealth's appropriations of approximately $38.3 million, (2) an increase in federal grants of approximately $7.7 million, related primarily to federal funds awarded received from the CARES Act Coronavirus Relief Fund, to implement the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by the Government of Puerto Rico, (3) an increase in charges for services and other revenues of approximately $1.3 million, (4) increase in Contribution to Commonwealth of approximately $17.3 million for Commonwealth Title III expenses, salaries and fringe benefits of approximately $548 thousand, office and administrative expense of approximately $176 thousand, occupancy and equipment costs of approximately $619 thousand, and legal and professional fees of approximately $1.4 million, respectively, and (5) a decrease in other expenses of approximately $494 thousand.

The Authority's most significant revenues correspond to Contributions from Commonwealth. Contributions from Commonwealth decreased by approximately $38.3 million, from approximately $106 million in fiscal year 2020 to approximately $67.7 million in fiscal year 2021.

CURRENTLY KNOWN FACTS AND EVENTS

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Authority's financial position and results of operations.

Authority's Budget

The Fiscal Oversight and Management Board approved for the Authority a budget amounting to approximately $89.3 million for the fiscal year ending on June 30, 2022, for its operations. However, during fiscal year 2022 the Commonwealth assigned $15.8 million (in addition to the approved budget) to cover expenses related to Commonwealth bankruptcy case, and payments to municipalities of federal funds that were deposited in GDB before the execution of the GDB Qualify Modification and which the Commonwealth guaranteed as part of the execution of the GDB Qualify Modification.

Federal Funds

CARES ACT - Coronavirus Relief Fund (CSFRF)

During fiscal year 2022, the Puerto Rico Office of Management and Budget (OMB) assigned to the Authority approximately $7.3 million to continue the implementation of the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by Commonwealth of Puerto Rico.

AMERICAN RESCUE PLAN ACT (ARP)- CSFRF

During fiscal year 2022, the Puerto Rico Office of Management and Budget (OMB) assigned to the Authority approximately $7.9 million to cover: (1) administrative expenses related to the technical assistance and oversight of American Rescue Plan Act funds received by Commonwealth of Puerto Rico, (2) administrative and support services for the Project Management Program created to assist agencies and other governmental entities in planning key initiatives and the execution of key projects, (3) modernize the Puerto Rico Department of State's website to enable easier access digital service and (4) a premium pay program for workers performing essential work.

Commonwealth Plan of Adjustment

As described in Note 14, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al*. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [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.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Puerto Rico Public Finance Corporation Bonds and certain loans held by the Public Entity Trust.

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.ra.kroll.com/puertorico/Home-DocketInfo.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. This financial report seeks to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Executive Director, Puerto Rico Fiscal Agency and Financial Advisory Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2021

ASSETS		
Cash	$	102,576,489
Accounts receivable		177,578
Due from Governmental Entities, net of allowance		296,899
Prepaid expenses		234,150
Capital assets, net		786,225
Cash - Restricted		4,656,838
Total assets		108,728,179
LIABILITIES AND NET POSITION		
Accounts payable and accrued liabilities		32,317,638
Unearned revenues		1,335,599
Liabilities payable within one year		
Compensated absences		297,745
Termination benefits		203,528
Liabilities payable after one year		
Compensated absences		793,295
Termination benefits		759,079
Total liabilities		35,706,884
NET POSITION		
Net investment in capital assets		786,225
Unrestricted		72,235,070
Total net position	$	73,021,295

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

Functions/Programs	Expenses	Charges for services	Program revenues contributions	Net revenues (expenses) and changes in net position
GOVERNMENTAL ACTIVITIES				
Economic Development	$ 85,963,292	$ 2,921,716	$ 75,389,520	$ (7,652,056)
Total governmental activities	$ 85,963,292	$ 2,921,716	$ 75,389,520	(7,652,056)
GENERAL REVENUES				
Interest income				61,003
Other income				110,860
Total general revenues				171,863
CHANGE IN NET POSITION				(7,480,193)
NET POSITION – Beginning of year				80,501,488
NET POSITION - End of year				$ 73,021,295

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2021

		General Fund
ASSETS		
Cash	$	102,576,489
Accounts receivable		177,578
Due from Governmental Entities, net of allowance		296,899
Cash - Restricted		4,656,838
Total assets	$	107,707,804
LIABILITIES		
Accounts payable and accrued liabilities	$	32,317,638
Unearned revenues		1,335,599
Total liabilities		33,653,237
FUND BALANCE		
Unassigned		74,054,567
Total fund balance		74,054,567
Total liabilities and fund balance	$	107,707,804

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
June 30, 2021

Fund balance of governmental fund	$	74,054,567
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental fund because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund		786,225
Prepaid expenses that are not reported in governmental fund and are reported in the statement of net position		234,150
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund		(1,091,040)
Termination benefits are not due and payable in the current period and, therefore, are not reported in the governmental fund		(962,607)
Net position of governmental activities	$	73,021,295

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUND
For the year ended June 30, 2021

	General Fund
REVENUES	
Contributions from Commonwealth of Puerto Rico	$ 67,712,173
Federal grants	7,677,347
Fiscal agency and administrative fees	2,921,716
Interest income	61,003
Other income	110,860
Total revenues	78,483,099
EXPENDITURES	
Economic development	85,750,604
Capital outlays	568,519
Total expenditures	86,319,123
NET CHANGE IN FUND BALANCE	(7,836,024)
FUND BALANCE - Beginning of year	81,890,591
FUND BALANCE - End of year	$ 74,054,567

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

Net change in fund balance – Governmental fund		$ (7,836,024)
Amount reported for governmental activities in the statement of activities are different because:		
Some expenses not reported in the statement of activities require the use of current financial resources and, therefore, are reported as expenditures in governmental fund		(65,831)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 568,519	
Less depreciation expense	(324,465)	
Subtotal		244,054
Generally, prepaid expenses are recorded as expenditures in the governmental fund when paid rather than capitalized as an asset. However, this asset is amortized in the statement of net position		177,608
Change in net position of governmental activities		$ (7,480,193)

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2021

	ERO Trust Fund	Improvements to Educational Institutions
ASSETS		
Cash	$ 3,116	$ 276,815,483
Accrued interest and dividends	213	-
Investments at fair value	12,627,738	-
Total assets	$ 12,631,067	$ 276,815,483
LIABILITIES		
Liabilities payable within one year		
Accounts payable	$ 5,225	$ 276,815,483
Due to Government Development Bank for Puerto Rico	51,415	-
Termination benefits	1,421,782	-
Liabilities payable after one year		
Termination benefits	5,206,423	-
Total liabilities	6,684,845	276,815,483
NET POSITION	$ 5,946,222	$ -

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - ERO TRUST FUND
For the year ended June 30, 2021

ADDITIONS	
Investment income:	
Interest and dividends	$ 31,079
Net investment income	31,079
Other	1,652,679
Total additions	1,683,758
DEDUCTIONS	
Net change in fair value of investments	199,680
Trust fees	22,023
Total deductions	221,703
Net increase in net position	1,462,055
NET POSITION - Beginning of year	4,484,167
NET POSITION - End of year	$ 5,946,222

The accompanying notes are an integral part of this basic financial statement.

1. REPORTING ENTITY

Puerto Rico Fiscal Agency and Financial Advisory Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth). The Authority was originally created by Act No. 21 of April 6, 2016, which was superseded by Act No. 2 of January 19, 2017. The Authority began operations on July 18, 2016. The Authority's responsibilities include, among other things: (i) overseeing compliance with the certified budget and fiscal plan approved by the Oversight Board pursuant to Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA); (ii) revising matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Government of Puerto Rico (the Government); (iii) entering into agreements with creditors and/or renegotiating or restructuring the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivisions.

The Early Retirement Obligation Trust (ERO)

The ERO was created by Act No. 109 of August 24, 2017, as amended, best known as Government Development Bank (GDB) Restructuring Act and the execution of the GDB Qualifying Modification on November 29, 2018, but was not until August 6, 2019 that the deed for the constitution of the ERO was created.

The GDB Restructuring Act authorized GDB to establish an irrevocable trust for the benefit of former employees of GDB receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The Trust Deed named the Authority as the Trustee of the ERO.

The Authority entered into a contract with a financial institution to delegate various of its trustee responsibilities in the ERO. As of June 30, 2021, the ERO had total assets of approximately $12.6 million and is making payments to around 40 active participants for aggregated monthly payments of approximately $125,000 to former employees of GDB as the major portion of the employees have already transitioned to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS). Termination of the trust is expected by year 2030 when the last participant will become part of the ERS.

Improvement for Educational Institutions

The Authority entered into a Memo of Understanding on February 11, 2021 during the fiscal year ended on June 30, 2021 with the Puerto Rico Infrastructure Financing Authority (PRIFA) in which the Authority will received in custody capacity state and federal grants for the improvement of educational institutions which are going to be made by PRIFA in subsequent years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the activities of the Authority. Governmental activities are financed mainly through contributions from the Commonwealth. The statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of bonds, mortgages, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those capital assets or related debt are included in the component of net position.

- *Restricted component of the net position* consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Restricted net assets result when constraints are placed on the use of net assets, either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted component of net position* consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories.

When both restricted and unrestricted components of net position are available for use, it is the Authority's policy to use restricted components of net position, and then, unrestricted components of net position as they are needed and available.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) contributions received from the Federal government and from the Commonwealth and charges for services made to other governmental entities, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are presented as general revenues.

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The Authority reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near term inflows, outflows, and balances of available resources. The Authority reports the following governmental fund:

General Fund – The General Fund is the primary operating fund of the Authority. It is used to account for and report all financial resources including federal funds received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. The General Fund includes transactions for services such as professional and legal services paid by the Authority in connection with the restructuring of the debts of the Commonwealth and its instrumentalities.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of fund balance is based on the extent to which the Authority is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – amounts that are restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – amounts that can be spent only for specific purposes determined by a formal action of the governments' highest level of decision-making authority.
- *Assigned* – intent to spend resources on specific purposes expressed by the governing body.
- *Unassigned* – amounts that do not fall into any other category above. Negative unassigned amounts are reported, if any, and represent expenditures for specific purposes exceeding the aggregate amounts of the restricted, committed, or assigned classification.

The Authority has only an unassigned fund balance.

The Authority does not have a formal minimum fund balance policy.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Authority in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Authority's fiduciary funds:

Early Retirement Obligation Trust (ERO) - The Authority is the trustee, for the benefit of former employees of GDB receiving payments under the Early Retirement Programs (ERP) to satisfy all its obligations under such programs. The fiduciary activities of the Authority are reported in a separate statement of fiduciary net position and of changes in fiduciary net position. The Authority exclude these activities from the Authority's government-wide financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Improvement for Educational Institutions - This is custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The Authority received approximately $277 million which were approved by the Coronavirus Relief Fund Disbursement Oversight Committee (created by the Governor of Puerto Rico with Executive Order EO-202-00040), and assigned by the Puerto Rico Office of Management and Budget in funds from Coronavirus State Fiscal Rescue Fund (CSFRF), which account for funds received from the American Rescue Plan Act of 2021 signed by President Joseph R. Biden on March 2021 (the American Rescue Plan). The funds assigned to the Authority are held in custody capacity because the funds are going to be used by PRIFA for the purpose of conducting the improvements to educational institutions affected by seismic activity and Hurricanes Irma and Maria.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the time the related cash flows takes place. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Other revenues are measurable and available only when cash is received. Federal Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Expenditures generally are recorded when a liability is incurred, as under accrual basis of accounting. However, compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

A summary reconciliation of the difference between total fund balances as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position, is presented in an accompanying reconciliation of the balance sheet of governmental fund to the statement of net position.

A summary reconciliation of the difference between net change in fund balances as reflected in the governmental funds statement of revenues, expenditures, and change in fund balances and change in net position in the statement of activities of the government-wide financial statements, is presented in the accompanying reconciliation of statement of revenues, expenditures, and change in fund balances of governmental fund to the statement of activities.

Fiduciary Funds Financial Statements

Fiduciary funds are used to account for assets held by the Authority in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The fiduciary funds financial statements are reported using the accrual basis of accounting. The Authority's fiduciary funds are: (1) the Early Retirement Obligation Fund, and (2) the Improvements to Educational Institutions Fund.

Restricted Cash

Restricted cash is related to federal funds received by the Authority to cover administrative expenses related to the technical assistance and oversight of CARES Act funds assigned to the Government of Puerto Rico. These funds are restricted for the supervision of federal grants received by the Commonwealth of Puerto Rico.

Investments

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Fiduciary Funds- Investments mainly include U.S. government and agencies' obligations. Investments are carried at fair value. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organization.

Accounts Receivable

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

Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Contributed assets are recorded at estimated fair value at the time received. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Estimated useful lives are as follows:

Capital assets	Years
Information systems	3-5 years
Furniture and equipment	5 years
Vehicles	5 years

The Authority follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No.34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate 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 impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others. The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the fiscal year ended June 30, 2021.

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and a maximum accumulation of 90 days. Act 26-2017 was enacted to modify these policies to be able to comply with the Fiscal Plan certified by the Oversight Board. In addition to accrual modifications, Act 26-2017 also altered the liquidation terms. After the enactment of Act 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sick days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide financial statements has been calculated using the vesting method, in which leave amount for an employee who currently is eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax).

Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the 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 government-wide 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. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Unearned Revenues

Resources received before the eligibility requirement are met (other than) timing are considered unearned revenues. Unearned revenues are recognized as revenues when expenses are incurred.

During the fiscal year ended June 30, 2021 the Authority received approximately $9 million from the CARES Act, to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by Commonwealth of Puerto Rico, from which approximately $7.7 million were presented as revenues and expenses in the Statement of Activities and the Statement of Revenues, Expenditures and Change in Fund Balance and $1.3 million are presented as part of unearned revenues in the statement of net position and in the balance sheet for governmental funds.

Risk Management

To minimize the risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen's compensation insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of Treasury of the Commonwealth. Insurance coverage is updated annually to account for changes in operating risk.

Use of Estimates

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

During the fiscal year ended on June 30, 2021, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Authority.

Accounting Pronouncements Issued but Not Yet Effective

The following new accounting standards have been issued but are not yet effective:

- **GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for an eighteen-month postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- **GASB Statement No. 91, *Conduit Debt Obligations*.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

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

- **GASB Statement No. 92**, ***Omnibus 2020***. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87*, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and Statement No. 74*, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

  This statement achieves its objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
  - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended.

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

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

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

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

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

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

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

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

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

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

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

  The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

- **GASB Statement No. 99, *Omnibus 2022*.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

  - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

  - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

  - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.

  - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).

  - Disclosures related to nonmonetary transactions.

  - Pledges of future revenues when resources are not received by the pledging government.

  - Clarification of provisions in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended, related to the focus of the government-wide financial statements.

  - Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

  - Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

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

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

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

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

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

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

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

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

3. UNCERTAINTY

The Authority's main source of revenue consists of legislative appropriations from the Commonwealth. As a result, the Authority's operations are dependent on the Commonwealth's ability to continue providing funding to the Authority through legislative appropriations.

Management's evaluation of the Authority's going concern has identified the financial condition of the Commonwealth as an external matter that may affect the ability of the Authority to continue as a going concern.

For many years, the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations.

In response to the Commonwealth's fiscal crisis, the United States Congress enacted PROMESA establishing the Oversight Board. 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).

After years of extensive litigations with creditors, on October 26, 2021, the Commonwealth enacted Act No. 53 to End the Bankruptcy of Puerto Rico to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. In addition, to approving the Commonwealth's restructuring transactions, Act No. 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 No. 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 with certain revisions on January 18, 2022 (as confirmed, the Commonwealth Plan of Adjustment), and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating the Commonwealth Plan of Adjustment.

As a, result of the approval and execution of the Commonwealth's Plan of Adjustment on March 15, 2022, management does not believe there is substantial doubt about the Authority's ability to continue as going concern as of the date of these basic financial statements.

4. CASH

Custodial credit risk is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico be fully collateralized for the amount deposited in excess of federal depository insurance.

The table presented below discloses the level of custodial credit risk assumed by the Authority as of June 30, 2021. As of June 30, 2021, none of the Authority's depository balance was uninsured and uncollateralized (in thousands):

GOVERNMENTAL ACTIVITIES

Cash of the Governmental Activities as of June 30, 2021, consisted of the following (in thousands):

	Carrying amount	Bank balance	Amount uninsured and uncollateralized
Cash-			
Unrestricted	$ 102,576	$ 103,175	$ -
Restricted	4,657	5,717	-
	$ 107,233	$ 108,892	$ -

FIDUCIARY FUNDS

Cash of the Fiduciary Funds as of June 30, 2021, consisted of the following (in thousands):

	Carrying amount	Bank balance
Cash	$ 276,818	$ 276,818

5. INVESTMENTS

FIDUCIARY FUNDS

As of June 30, 2021, the fair value of the ERO Trust Funds investments based on the hierarchy of inputs is as follows (in thousands):

Investment type	Level 1	Level 2	Level 3	Total
U.S. government securities	$ 12,628	$ -	$ -	$ 12,628

The following table summarizes the type and maturities of investments held by the ERO Trust Funds as of June 30, 2021 (in thousands):

	Maturity (in years)			
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**Total**
U.S. government securities	$ 1,680	$ 6,600	$ 4,348	$ 12,628

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ERO Trust's investment policies provide that investment transactions could only be entered into with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or its equivalent rating by Moody's Investors Service or Fitch Ratings (Fitch), depending on the type and maturity of the investment and the counterparty to the transaction.

As of June 30, 2021, the credit ratings of the investment securities are Aaa.

6. ACCOUNTS RECEIVABLE

As of June 30, 2021, the Authority's accounts receivable is composed of the following (in thousands):

Description	Amount
Municipalities	$ 172
Accrued Interest	5
Total accounts receivable	$ 177

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7. RELATED PARTY TRANSACTIONS

As of June 30, 2021, the Authority's due from governmental agencies, net of allowance is composed of the following (in thousands):

Description	Amount
University of Puerto Rico	$ 52
Puerto Rico Sales Tax Financing Corporation	66
Puerto Rico Public-Private Partnership Authority	18
The Children's Trust	25
Government Development Bank for Puerto Rico	42
Puerto Rico Municipal Finance Agency	63
Governor's Office	23
Puerto Rico Health Department	4
Puerto Rico Office of Management and Budget	17
Puerto Rico Infrastructure Financing Authority	10
Total accounts receivable	320
Less: allowance for uncollectible account	(23)
Accounts receivable, net of allowance	$ 297

Due from governmental entities are mainly related to an intra-agency agreement signed by the Authority with each governmental entity for services rendered by the Authority. Also, during the year ended on June 30, 2021, the Authority made a contribution amounting to $17.2 million to the Commonwealth in order to assist with Title III expenses.

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8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending balance
Capital assets:				
Furniture and equipment	$ 648	$ 159	$ (7)	$ 800
Vehicles	83	-	-	83
Information systems	161	410	-	571
Total capital assets	892	569	(7)	1,454
Less accumulated depreciation and amortization for:				
Furniture and equipment	(230)	(158)	7	(381)
Vehicles	(43)	(17)	-	(60)
Information systems	(77)	(150)	-	(227)
Total accumulated depreciation and amortization	(350)	(325)	7	(668)
Total capital assets - net	$ 542	$ 244	$ -	$ 786

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of June 30, 2021, the Authority’s accounts payable and accrued liabilities are composed of the following (in thousands):

Description	Amount
Debt restructuring and Title III bankruptcy cases	$ 26,104
Other services	1,813
Accrued expenses	4,400
	$ 32,317

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10. COMPENSATED ABSENCES

The activity for compensated absences during the year ended June 30, 2021, is as follows (in thousands):

Description	Beginning balance	Provision	Reductions	Ending balance	Due within one year
Accrued vacations	$ 796	$ 547	$ (252)	$ 1,091	$ 298

11. RETIREMENT BENEFITS SYSTEMS

PayGo Pension Reform

The Defined Benefit Pension Plan (the Plan) for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System or ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the Plan was administered by the System. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. In addition, the Commonwealth Plan of Adjustment preserved all accrued pension benefits for active and retired public employees covered under ERS plans, such that all ERS accrued pension benefit claims are not reduced or modified and will be paid under the PayGo system. However, JRS and TRS participants will be subject to benefits freeze and the elimination of any cost-of-living adjustments previously authorized under the JRS and TRS pension plans.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

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

The PayGo system was one component of Act No. 106-2017. The Act created the legal framework so that the Commonwealth makes direct benefit payments to current pensioners through the PayGo system subject to reimbursement from applicable government employers. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Future benefits will not be paid by the System.

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

Act No. 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new System members hired on and after July 1, 2017, have been enrolled in a new defined contributions program selected by the Retirement Board. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new defined contributions program, effective as of June 22, 2020. ERS's active members of the defined contributions program retained their benefits as stated under Act 91 of March 29, 2003.

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

As of June 30, 2021, the Authority does not have retirees; as a result GASB No. 73 does not apply to the Authority.

12. TERMINATION BENEFITS

GOVERNMENTAL ACTIVITIES

During the fiscal year ended June 30, 2017, the Authority extended to its employees a new voluntary early retirement program. This program was approved by the Authority's Board of Directors based on the provisions established in Act No. 211, which was enacted on December 8, 2015. Act No. 211 provided that eligible employees may retire from employment with the Authority in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participation in ERS who have not reached 61 years of age.

Act No. 211 provided that the employee would receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015, and until the participating member attained 61 years of age, which is the age at which the employee will become part of ERS. The Authority is responsible for the payment of the employer contribution to Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. The Authority is also responsible for the payment of the related employee and employer contributions to ERS based on the 100% of average salary as of December 31, 2015, for amounts which guarantee a 50% minimum compensation to an eligible employee of his or her average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years, and until he or she reaches 61 years old.

As of June 30, 2021, the total liability related to these early termination benefits was approximately $963 thousand. This liability is measured at the discounted present value of expected future benefit payments using a discount rate of 0.95%.

The activity of the termination benefits as of June 30, 2021, is as follows (in thousands):

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Termination benefits	$ 1,191	$ 96	$ (324)	$ 963	$ 204

FIDUCIARY FUNDS

As discussed in Note 1, pursuant to the GDB Restructuring Act, a trust was created to secure to manage and pay the benefits of former GDB employees related to early termination programs. On August 6, 2019, the ERO trust was created to managed different early termination programs that were approved by GDB board of directors on fiscal years 1994, 2000, 2007 and 2011 to GDB employees.

The activity of the termination benefits as of June 30, 2021, is as follows (in thousands):

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Termination benefits	$ 9,922	$ 99	$ (3,393)	$ 6,628	$ 1,422

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Authority leases office space in what is known as “Minillas” from the governmental sector. The office space was leased under an operating lease agreement that expired on July 1, 2018, and is currently on a month-to-month basis.

Rent charged to operations in fiscal year 2021 amounted to approximately $522 thousand.

Contingencies

GOVERNMENTAL ACTIVITIES

Legal contingencies were evaluated through July 14, 2022, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the basic financial statements for fiscal year 2021. Management, with the advice of external counsel, has evaluated all legal claims and concluded that an accrual for monetary damages is not necessary for these litigation contingencies.

Federal Awards

The Authority participates in federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantors.

14. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 14, 2022, to determine if any such events should either be recognized or disclosed in the 2021 basic financial statements. The subsequent events disclosed below are principally those related to the Authority's operations.

Authority's Budget

The Fiscal Oversight and Management Board approved a budget amounting to $89.3 million for the Authority for the fiscal year ended on June 30, 2022, for its operation. However, during fiscal year 2022 the Commonwealth assigned $15.8 million (in addition to the approved budget) to the Authority, to cover expenses related to Commonwealth Tittle III case, execution of the Commonwealth Plan of Adjustment and the payment to municipalities of federal funds that were deposited in the Government Development Bank (GDB) before the execution of the GDB Qualify Modification and which the Commonwealth guaranteed as part of the execution of the GDB Qualify Modification.

Federal Funds

CARES ACT - Coronavirus Relief Fund (CSFRF)

During fiscal year 2022, the Puerto Rico Office of Management and Budget (OMB) assigned to the Authority approximately $7.3 million to continue the implementation of the initiatives included in the Strategic Disbursement Plan and to cover administrative expenses related to the technical assistance and oversight of CARES Act funds received by Commonwealth of Puerto Rico.

AMERICAN RESCUE PLAN ACT (ARP) - CSFRF

During fiscal year 2022, the OMB assigned to the Authority approximately $7.9 million to cover: (1) administrative expenses related to the technical assistance and oversight of American Rescue Plan Act funds received by Commonwealth, (2) administrative and support services for the Project Management Program created to assist agencies and other governmental entities in planning key initiatives and the execution of key projects, (3) modernization of Puerto Rico Department of State's website to enable easier access digital service and (4) a premium pay program for workers performing essential work.

COMMONWEALTH 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 GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA 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. 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.

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 PRHTA plan of adjustment (Case No. 17-3567-LTS [ECF No. 1202]) (the PRHTA Plan of Adjustment), which was initially filed in the Title III Court on May 2, 2022, and was subsequently amended on June 7, 2022.

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.ra.kroll.com/puertorico/Home-DocketInfo.

Commonwealth Fiscal Plan

On April 21, 2022, the Fiscal Oversight Management Board approve the Commonwealth Fiscal Plan (Fiscal Plan). This fiscal plan allocates and complements federal programs with $400 million to be used in three years to accelerate growth in broadband access and expand resident adoption an use of online resources, develop necessary and reliable data through an assessment of broadband availability, incentivize private sector investment in broadband build out and to improve access to faster speed offerings in underserved areas. These investments should help overcome barriers to broadband expansion and ensure that all residents and enterprises in the Commonwealth benefit from this capacity. As part of this initiative the Authority is requesting to the Commonwealth of Puerto Rico Office of Management and Budget $5.4 million for administrative expenses related to this initiative which were approved by the Fiscal Oversight and Management Board on June 15, 2022.

Extension of Single Audit Submission

As a result of COVID-19, the United States Office of Management and Budget issued a memorandum granting various disaster relief flexibilities to reduce burden for financial assistance. One of these flexibilities was the extension for Single Audit submission. Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a). (2 CFR § 200.501). For the Authority, such flexibility extends the period for completion and submission from its original due date of March 31, 2022, to September 30, 2022.

PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of the Treasury:			
Puerto Rico Department of the Treasury			
Coronavirus Relief Fund	21.019	-	$ 4,426,559

The accompanying notes are an integral part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2021

1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Authority), a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth), under programs of the federal government, for the year ended June 30, 2021. 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 does not present the financial position and changes in financial position of the Authority. Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements. All federal agencies as well as federal award passed through from other local government agencies are included in the Schedule.

2) Summary of Significant Accounting Policies

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

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was subsequently signed into law by former President Donald J. Trump. As part of the CARES Act, the Authority received assistance through the Coronavirus Relief Fund ("CFR"). The CFR funds cover expenditures incurred due to COVID-19 during the period between March 1, 2020 and December 31, 2021.

3) Federal CFDA Number

The Catalog of Federal Domestic Assistance (CFDA) Numbers is a program identification number. The first two digits identify the federal department or agency that administers the program, and the last three numbers are assigned by numerical sequence.

4) Program Costs

The amounts shown as current year federal expenses represent only the federal grant portion of the program costs.

5) Submission of Single Audit Reporting Package

The Single Audit reporting package, as defined and required in the 2 CFR 200 for fiscal year ended June 30, 2021, was not be submitted on March 31, 2022, because of the effects of the Novel Coronavirus COVID-19.

The Compliance Supplement Addendum released in December of 2020 on page 117 states: “Due to the large size of the COVID-19 programs and the federal government dependency on single audit reports to assist with proper oversight over these funds, we strongly encourage the auditees and auditors to complete and submit their relevant portions of single audit reporting packages for fiscal year ends, subject to the provisions of the extension described herein, as early as possible prior to the normal due dates of the earlier of thirty days after the receipt of the auditor’s reports or nine months after the fiscal year end date. In light of the late issuance of audit guidance for the COVID-19 programs contained in this addendum, awarding agencies, in their capacity as cognizant or oversight agencies for audit, must allow recipients and subrecipients that received COVID-19 funding with original due dates from October 1, 2020, through June 30, 2021, an extension for up to three (3) months beyond the normal due date in the completion and submission of the Single Audit reporting package. No further action by awarding agencies is required to enact this extension”. Accordingly, the Authority do not comply with the submission of the Single Audit at the date stablished in the extensions.

Further, on March 19, 2021, the OMB issued the M-21-20, stated that: “Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a) and (2 CFR § 200.501)”.

6) Reconciliation to Financial Statements:

The reconciliation of expenses in the governmental funds’ financial statements to the schedule of expenditures of federal awards is as follows:

Description		Amount
Federal grant expenses per governmental fund on basic financial statements	$	7,677,347
Less: Accrued expenses subsequently disbursed with federal funds		(3,250,788)
Expenses per schedule of expenditures of federal awards	$	4,426,559

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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*

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Fiscal Agency and Financial Advisory Authority

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 and each major fund of Puerto Rico Fiscal Agency and Financial Advisory Authority, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Puerto Rico Fiscal Agency and Financial Advisory Authority's basic financial statements, and have issued our report thereon dated July 14, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Puerto Rico Fiscal Agency and Financial Advisory Authority's internal control over financial reporting (internal control) as a basis for designing 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 Puerto Rico Fiscal Agency and Financial Advisory Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Puerto Rico Fiscal Agency and Financial Advisory 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Fiscal Agency and Financial Advisory 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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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.

San Juan, Puerto Rico
July 14, 2022.

RSM Puerto Rico

Stamp No. E499093 was affixed to
the original of this report.

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Fiscal Agency and Financial Advisory Authority

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico Fiscal Agency and Financial Advisory Authority's 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 Puerto Rico Fiscal Agency and Financial Advisory Authority's major federal programs for the year ended June 30, 2021. Puerto Rico Fiscal Agency and Financial Advisory Authority's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Puerto Rico Fiscal Agency and Financial Advisory 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 Puerto Rico Fiscal Agency and Financial Advisory 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 Puerto Rico Fiscal Agency and Financial Advisory Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Puerto Rico Fiscal Agency and Financial Advisory 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, 2021.

Report on Internal Control over Compliance

Management of Puerto Rico Fiscal Agency and Financial Advisory 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 Puerto Rico Fiscal Agency and Financial Advisory 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 compliance for its 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 Puerto Rico Fiscal Agency and Financial Advisory 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

San Juan, Puerto Rico
July 14, 2022.

Stamp No. E499094 was affixed to
the original of this report.

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PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2021

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:	**Unmodified**	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X none reported
Type of auditors' report issued on compliance for major federal programs	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	___ yes	X no

Identification of major federal programs

Name of Federal Program or Cluster	CFDA Number
Coronavirus Relief Fund	21.019

Dollar threshold used to distinguish between type A and type B programs:	$187,500	
Auditee qualified as low-risk auditee?	___ yes	X no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2021

SECTION II – FINANCIAL STATEMENTS FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.