COMMONWEALTH OF PUERTO RICO

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS AUDIT, REQUIRED SUPPLEMENTARY INFORMATION, OTHER SUPPLEMENTARY INFORMATION AND SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

(WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)

CONTACT PERSON:

JOSE E. DIAZ MARTINEZ, CPA, CGMA, MBA
PRESIDENT
CPA DIAZ-MARTINEZ, CSP
E-MAIL: www.jose.diaz@cpadiazmartinez.com
Phones: (787) 746-0510 / -1185 / -1370
Fax: (787) 746-0525
Cel.: (787) 487-7722

CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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PART I

FINANCIAL

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CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

202 Gautier Benítez Ave.
Consolidated Mall Condominium, Suite C-31
Caguas Puerto Rico
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
Email: jose.diaz@cpadiazmartinez.com

"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the **Puerto Rico Industrial Development Company *(A Component Unit of the Commonwealth of Puerto Rico)* (PRIDCO)**, as of and for the fiscal year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise **PRIDCO**'s basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to **PRIDCO**'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 **PRIDCO**'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 opinion.

Opinion

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

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that **PRIDCO** will continue as a going concern. As discussed in Note 4 to the financial statements, **PRIDCO** has incurred in recurring losses, has significant balances and transactions with the Commonwealth of Puerto Rico (Commonwealth) and the Economic Development Bank of Puerto Rico, and is currently negotiating a restructuring of its debts under Title VI of the U.S. Congress Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). Also, **PRIDCO** is part of the Commonwealth. Management's evaluation of the events and conditions and plans regarding these matters are also described in Note 4. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion on the basic financial statements 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 5-11, employees' retirement systems information and employees' other postemployment benefits information, on pages 70 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to management's discussion and analysis 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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information, and employees' OPEB information, applicable to **PRIDCO**, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the **PRIDCO**'s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award,* on pages 74-76, is presented for purposes of additional analysis and is not required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2022 on our consideration of **PRIDCO**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 **PRIDCO**'s internal control over financial reporting and compliance.

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 2, 2022

Stamp No. E491021 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

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This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to PRIDCO's basic financial statements, which have the following components: (1) proprietary fund financial statements, (2) notes to the basic financial statements (3) required supplementary information, and (4) other supplementary information. The MD&A is designed to (a) assist the reader in focusing on significant matters, and (b) provide an overview of PRIDCO's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the PRIDCO's financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

- The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources of PRIDCO at the close of the fiscal year 2020 by $11.2 million (net position). This amount includes $374.4 million of deficit.

- Capital assets as of June 30, 2020, decreased by $17.3 million when compared with fiscal year 2019.

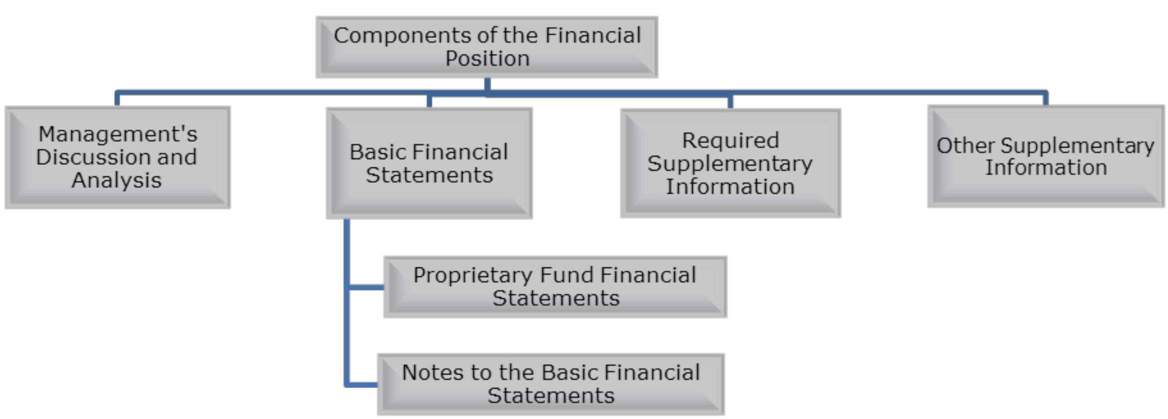
- Total liabilities decreased by $1.7 million when compared with fiscal year 2019.

- There were no bonds payments or bonds issuance during the year. PRIDCO failed to transfer payments of principal and interest when due on the referenced revenue bonds (the "Revenue Bonds" or "Bonds") starting August 1, 2016. Payments of principal and interest due were paid out of debt sinking reserve funds held by the Trustee until June 1, 2018.

- Total revenues decreased by $4.8 million or (7%) and total operating expenses decreased by $131.3 million or 71%, when compared with fiscal year 2019. The change in net position increased $109 million or 98%, with respect to prior year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to PRIDCO's basic financial statements. This report includes the management's discussion and analysis, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, required supplementary information and other supplementary information.



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Proprietary Fund Financial Statements

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Proprietary fund statements of net position and revenues, expenses, and changes in net position are presented using the economic resources measurement focus and the accrual basis of accounting.

The proprietary fund financial statements can be found on pages 12 through 16 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the proprietary financial statements. The notes to the basic financial statements can be found on pages 17 through 68 of this report.

Required Supplementary Information

The financial statements and notes are followed by the required supplementary information that includes the schedules related to pension plan as required by GASB No. 73 and GASB No. 75 and can be found on pages 70-72 of this report.

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Financial Analysis

The following is an analysis of the Statement of Net Position of PRIDCO's activities for fiscal year 2020:

Net Position

Condensed financial information from the statement of net position as of June 30, 2020 and 2019 is as follows (expressed in thousands):

	June 30,		Change	
	2020	2019	In Dollars	Percent
Assets:				
Current Assets	$ 73,763	$ 65,869	$ 7,894	12%
Capital Assets, Net	587,266	604,534	(17,268)	-3%
Other Noncurrent Assets	3,843	4,034	(191)	-5%
Total Assets	**664,872**	**674,437**	**(9,565)**	**-1%**
Deferred Outflows of Resources:				
Deferred Loss on Refundings	410	447	(37)	-8%
Other Post-Employment Benefits Related	443	444	(1)	0%
Pension Related	33,351	26,884	6,467	24%
Total Deferred Outflows of Resources	**34,204**	**27,775**	**6,429**	**23%**
Total Assets and Deferred Outflows of Resources	**$ 699,076**	**$ 702,212**	**$ (3,136)**	**0%**
LIABILITIES:				
Current Liabilities	114,845	91,511	23,334	25%
Noncurrent Liabilities	555,311	580,332	(25,021)	-4%
TOTAL LIABILITIES	**670,156**	**671,843**	**(1,687)**	**0%**
DEFERRED INFLOWS OF RESOURCES:				
Pension Related	17,765	17,249	516	3%
TOTAL DEFERRED INFLOWS OF RESOURCES	**17,765**	**17,249**	**516**	**3%**
NET POSITION:				
Net Investment in Capital Assets	381,673	383,024	(1,351)	0%
Restricted for Debt Service	3,843	4,034	(191)	-5%
Unrestricted (Deficit)	(374,361)	(373,938)	(423)	0%
TOTAL NET POSITION	**11,155**	**13,120**	**(1,965)**	**-15%**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 699,076**	**$ 702,212**	**$ (3,136)**	**0%**

Total assets and deferred outflows of resources decreased when compared with prior year, by $3.1 million. The decrease is related primarily to a net effect of an increase in current assets amounting to $7.9 million, a decrease in capital assets amounting to $17.3 million, a decrease in other non-current assets amounting to $191 thousand and an increase in total deferred outflows of resources amounting to $6.4 million.

Current assets increased by $7.9 million as a result of the following: a decrease in cash amounting to $2.9 million, an increase in net rent, loans and accounts receivable amounting to $511 thousand, an increase in prepaid expenses amounting to $4.0 million and an increase in due from Commonwealth of Puerto Rico of $6.3 million.

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Capital assets decreased by $17.3 million mainly related to current year depreciation amounting to $17.6 million.

Other noncurrent assets decreased $191 thousand related to a decrease of the Sinking Fund Reserve.

Total deferred outflows of resources increased by $6.4 million or 23% when compared to prior fiscal year, related primarily to the increase in Pension related Outflows of resources.

Current liabilities increased by $23.3 million primarily due to an increase amounting to $615 thousand in accounts payable and accrued liabilities, an increase in the current portion of bonds payable amounting to $11.7 million, an increase in current portion of loans and notes payable to commercial banks amounting to $617 thousand and an increase in accrued interest of $10.4 million.

Non-current liabilities decreased by $25 million or 4% when compared to prior year due to a decrease in bonds payable amounting to $11.8 million, a decrease on loans and notes payable to commercial banks amounting to $9.5 million, a decrease in due to Commonwealth amounting to $5.3 million, an increase in pension liability of $2.5 million and a decrease in terminations benefits accrual of $1.1 million.

As of June 30, 2020, net position amounting to $11.2 million is composed of $382 million of net investment in capital assets, $3.8 million Restricted for Debt Service and a deficit of $374.4 million. Total net position changed from $13.1 million in fiscal year 2019 to $11.2 million in fiscal year 2020, a decrease of approximately $2.0 million or 15%.

Restricted net position is mainly composed of an investment in certificate of deposits amounting to $1.8 million and amounts deposited in the sinking fund reserve for payments of Bonds payable and related interest amounting to $2.2 million. Restricted net position decreased approximately $191 thousand or 5%. There were no bonds payments or issuance during the year.

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Revenues, Expenses, and Changes in Net Position

Condensed financial information of the statement of revenues, expenses and changes in net position for the years ended on June 30, 2020 and 2019 is as follows (expressed in thousands):

	June 30,		Change	
	2020	2019	In Dollars	Percent
Revenues:				
Rental Income, Net	$ 56,947	$ 57,165	$ (218)	0%
Recovery of Custodial Credit Loss on GDB Deposits	-	2,066	(2,066)	-100%
Total Non-Operating Revenues	4,693	7,255	(2,562)	-35%
Total Revenues	**61,640**	**66,486**	**(4,846)**	**-7%**
Operating Expenses:				
Salaries and Wages	8,173	9,457	(1,284)	-14%
Pension Expense	10,991	131,031	(120,040)	-92%
Other Post-Employment Benefits	392	256	136	53%
Administrative, General and Other Expenses	15,759	25,535	(9,776)	-38%
Custodial Credit Loss on Deposits with the Economic Development Bank	14	-	14	0%
Depreciation and Amortization	17,553	18,716	(1,163)	-6%
Total Operating Expenses	**52,882**	**184,995**	**(132,113)**	**-71%**
Total Non-Operating Expenses	14,573	15,371	(798)	-5%
Total Expenses	**67,455**	**200,366**	**(132,911)**	**-66%**
Loss Before Capital Contributions	**(5,815)**	**(133,880)**	**128,065**	**-96%**
Capital Contributions	3,850	23,031	(19,181)	-83%
Change in Net Position	**(1,965)**	**(110,849)**	**108,884**	**-98%**
Net Position, Beginning of Fiscal Year	**13,120**	**123,969**	**(110,849)**	**-89%**
Net Position, End of Fiscal Year	**$ 11,155**	**$ 13,120**	**$ (1,965)**	**-15%**

PRIDCO reported a change in net position of approximately $2.0 million, an increase of $108.9 million or 98%, with respect to prior year's change in net position. This increase is the result of a decrease in total revenues amounting to $4.8 million or 7%, a decrease of total operating expenses amounting to $132.1 million or 71%, and a decrease in capital contributions of $19.2 million or 83%, when compared with fiscal year 2019.

Total revenues decrease amounting to $4.8 million when compared to prior fiscal year is related primarily to a decrease in non-operating revenues amounting to $2.6 million or 35% and $2.1 million in custodial credit loss recovery on deposits previously held by GDB recorded during prior year.

Operating expenses decreased by approximately $132.1 million or 71%, as a result of a decrease in salaries and wages amounting to $1.3 million, a decrease in pension expense of $120.0 million, a decrease in depreciation expense amounting to $1.2 million, and an increase in administrative and general expenses of approximately $9.8 million. Decrease in pension expense is directly related to the adoption of GASB No. 73 during prior year.

Non-operating expenses decreased by approximately $798 thousand or 5%, mostly due to a decrease in interest expense amounting to $1.5 million.

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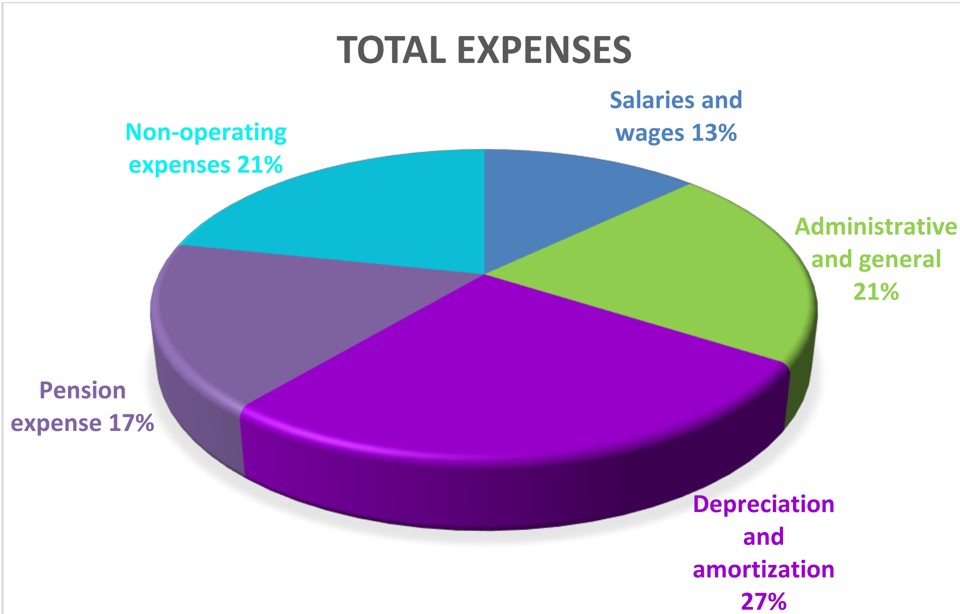
PRIDCO's expense distribution for the year ended on June 30, 2020 is as follows:



Capital Assets

At the end of the fiscal year, PRIDCO has invested $587.3 million, net of accumulated depreciation, in a broad range of capital assets, including land held for improvements, land on leased projects, building and improvements, machinery and equipment, among others.

Long-Term Debts

At the end of the fiscal year, PRIDCO reported $258.1 million in Revenue Bonds, loans and notes payable and obligations under capital leases. This represented a reduction of $9 million, with respect to the prior year.

PRIDCO failed to transfer payments of bond principal and interest when due starting August 1, 2016. Payments of principal and interest due were paid out of debt sinking reserve funds held by the Trustee until June 1, 2018.

Additional information on the PRIDCO's capital assets and long-term liabilities, including recent payments made on the Revenue Bonds under a Standstill Agreement (as defined below) can be found in Notes 11, 13 and 14 to the basic financial statements on pages 39-45 of this report.

Current Known Facts

On May 20, 2022, the Oversight Board certified its most recent fiscal plan for PRIDCO (the Fiscal Plan).

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately achieve the intended results. Achieving the results projected in the Oversight Board Fiscal Plan depends on a number of factors and risks, some of which are not wholly within PRIDCO's control.

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GoldenTree Assets Management ("Golden Tree"), holder of over two-thirds of the outstanding Revenue Bonds and PRIDCO are party to a standstill agreement (the "Standstill Agreement"), under which Golden Tree agrees to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of any legal action with respect to alleged defaults under the Bonds. In exchange, PRIDCO committed to pay to the Trustee monthly interest payments on the Bonds. The Standstill Agreement has been extended multiple times and currently is scheduled to expire on September 30, 2022.

As of the date of the report, payments were made as established by the Standstill Agreement.

Contacting PRIDCO's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the PRIDCO's finances and to demonstrate PRIDCO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

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(In Thousands)

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	50,042
Rent, Loans and Accounts Receivable, Net		12,783
Due from Commonwealth of Puerto Rico		6,940
Prepaid Expenses and Other Assets		3,998
Total Current Assets		73,763
Noncurrent Assets:		
Sinking Fund Reserve Account, at Accreted Cost, Restricted		2,043
Investment in Certificate of Deposit		1,800
Capital Assets, Net		587,266
Total Noncurrent Assets		591,109
Total Assets		**664,872**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refundings		410
Other Post-Employment Benefits Related		443
Pension Related		33,351
Total Deferred Outflows of Resources		**34,204**
Total Assets and Deferred Outflows of Resources	**$**	**699,076**

continue

(In Thousands)

LIABILITIES		
Current Liabilities:		
Accounts Payable and Other Accrued Liabilities	$	6,504
Obligations Under Capital Leases		344
Bonds Payable		38,728
Loans and Notes Payable to Commercial Banks		9,493
Compensated Absences		511
Environmental Liabilities		418
Accrued Interest		42,395
Total Pension Liability		14,416
Total Other Postemployment Benefits Liability		443
Termination Benefits Accrual		1,593
Total Current Liabilities		114,845
Noncurrent Liabilities:		
Bonds Payable		111,109
Notes Payable to Debt Restructuring Authority		52,860
Loans and Notes Payable to Commercial Banks		45,917
Due to Southern Industrial Development Company		450
Due to the Commonwealth of Puerto Rico		26,724
Compensated Absences		699
Total Pension Liability		261,738
Total Other Postemployment Benefits Liability		5,031
Termination Benefits Accrual		6,406
Rent and Other Deposits		7,249
Legal Liabilities		850
Contract Retention		1,053
Environmental Liabilities		25,235
Unearned Rent Revenues		8,772
Undistributed Proceeds from Sale		1,216
Obligations Under Capital Leases		2
Total Noncurrent Liabilities		555,311
Total Liabilities		**670,156**
DEFERRED INFLOWS OF RESOURCES		
Pension Related		17,765
Total Deferred Inflows of Resources		**17,765**
NET POSITION		
Net Investment in Capital Assets		381,673
Restricted for Debt Service		3,843
Unrestricted (Deficit)		(374,361)
Total Net Position		**11,155**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$**	**699,076**

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

(In Thousands)

OPERATING REVENUES:	
Rental Income, Substantially from Industrial Properties, Net	$ 56,947
Total Operating Revenues	56,947
OPERATING EXPENSES:	
Salaries and Wages (Including Voluntary Termination Benefits)	8,173
Pension Expenses	10,991
Other Post-Employment Benefits	392
Administrative and General	11,559
Depreciation and Amortization	17,553
Custodial Credit Loss on Deposits with the Economic Development Bank	14
Maintenance and Repairs, Net	4,200
Total Operating Expenses	52,882
Operating Income	4,065
NONOPERATING REVENUES (EXPENSES):	
Net Gain on Sales of Properties	2,933
Net Investment Income	372
Interest Income on Loans	84
Other Income	746
Grants and Contributions	558
Impairment loss in capital assets	(766)
Interest Expenses	(13,807)
Total Non-Operating Revenues (Expenses), Net	(9,880)
Loss Before Capital Contributions	(5,815)
CAPITAL CONTRIBUTIONS:	
Contribution from Commonwealth of Puerto Rico	3,850
Changes in Net Position	**(1,965)**
NET POSITION, BEGINNING OF FISCAL YEAR	13,120
NET POSITION, END OF FISCAL YEAR	**$ 11,155**

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

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(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Collected from Rental Income	$ 55,770
Custodial Credit Loss on Deposits with the Economic Development Bank	(14)
Cash Paid for Salaries and Benefits	(25,484)
Cash Paid for Suppliers and Services	(24,795)
Net Cash Provided by Operating Activities	5,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Sales of Capital Assets	6,329
Payment for Acquisition of Capital Assets	(4,341)
Payments of Obligations Under Capital Leases	(105)
Payments of Notes and Loans Payable to Commercial Banks	(8,896)
Interest Paid	(3,304)
Net Cash Used in Capital and Related Financing Activities	(10,317)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributions from Federal Grants	558
Collections from Other Non-Operating Revenues	746
Net Cash Provided by Non-Capital and Related Financing Activities	1,304
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Change in Sinking Fund-Redemption, and Bond Service Accounts	191
Interest Collected on Investments and Loans	456
Net Cash Provided by Investing Activities	647
Net Change in Cash and Cash Equivalents	**(2,889)**
Cash and Cash Equivalents, Beginning of FiscalYear	52,931
Cash and Cash Equivalents, End of Fiscal Year	**$ 50,042**

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(In Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	$ 4,065
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	17,553
Provision for Doubtfull Accounts	4,397
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable and Deposits	(4,908)
Prepaid Expenses and Other Assets	(3,941)
Due from Commonwealth of Puerto Rico	(2,481)
Pension related deferred outflows of resources	1
OPEB related deferred outflows of resources	(6,467)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	615
Termination Benefits Accrual	(1,134)
Compensated Absences	179
Unearned Rent Revenues	(666)
Contract Retention	(26)
Pension Liability	2,525
Other Postemployment Benefits Liability	(52)
Rent and Other Deposits	(538)
Undistributed Proceeds from Sale	505
Environmental Liabilities	653
Due to Commonwealth of Puerto Rico	(5,319)
Pension related deferred inflows of resources	516
Total Adjustments	1,412
Net Cash Provided by Operating Activities	**$ 5,477**
SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Acquisition of Capital Assets Under Lease Obligation	$ 106
Amortization of Bond Discount	$ 17
Contribution from Commonwealth of Puerto Rico	$ 3,850

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

1. REPORTING ENTITY

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

a. Component Units – The basic financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14 and No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*.

   Based on the above criteria the following component units are presented blended in the financial statements:

   i. Puerto Rico Industrial Investment Corp. (PRIICO), which owns a building in San Juan, where PRIDCO offices are located. These premises are leased to PRIDCO and other entities.

   ii. Puerto Rico Industrial Incentives Fund, Inc. (PRIIF), which was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of employment in the industrial and service sectors of the Puerto Rico economy. Since 2014 it has no operational activities and the amount presented corresponds to a receivable due in 2023. The information presented was not subject to audit.

The financial statements of PRIICO and PRIIF, even though they are legally separate, are reported as it they are part of PRIDCO because its governing body is in substance the same as the component units and PRIDCO's management has operational responsibility for PRIICO and PRIIF.

Condensed financial information as of June 30, 2020 and for the fiscal year then ended of the component units is as follows:

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continue

1. REPORTING ENTITY – continuation

	PRIICO	(Unaudited) PRIIF
Statements of Net Position as of June 30, 2020 (In Thousands):		
Current Assets	$ 5,661	$ 172
Due from PRIDCO	133,401	-
Capital Assets, Net	9,629	-
Total Assets	148,691	172
Deferred Outflows of Resources	410	-
Total Assets and Deferred Outflows of Resources	$ 149,101	$ 172
Current Liabilities	$ 9,936	$ -
Due to PRIDCO	192,018	-
Noncurrent Liabilities	46,062	-
Total Liabilites	248,016	-
Net Position (Deficit):		
Net Investment in Capital Assets	9,629	-
Net Position (Deficit)	(108,544)	172
Total Net Position (Deficit)	(98,915)	172
Total Liabilities and Net Position (Deficit)	$ 149,101	$ 172
Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Year Ended June 30, 2020 (In Thousands):		
Operating Revenues	$ 1,395	$ -
Operating Expenses	(4,738)	-
Operating Loss	(3,343)	-
Non-Operating Expense:		
Interest Expense	(3,394)	-
Loss Before Capital Contributions	(6,737)	-
Operating Expenses	3,850	-
Changes in Net Position	(2,887)	-
Net Position (Deficit), Beginning of Fiscal Year	(96,028)	172
Net Position (Deficit), End of Fiscal Year	$ (98,915)	$ 172
Statements of Cash Flows for the Fiscal Year Ended June 30, 2020 (In Thousands):		
Net Cash Provided (Used) in Operating Activities	$ (3,259)	$ -
Net Cash Used In Capital and Related Financing Activities	(12,199)	-
Net Cash Provided by Non-Capital and Related Financing Activities	15,107	-
Net Change in Cash	(351)	-
Cash, Beginning of Fiscal Year	1,052	172
Cash, End of Fiscal Year	$ 701	$ 172

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of PRIDCO conform to U.S. GAAP, as applicable to governmental entities. PRIDCO follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for rent and loan losses, custodial credit loss on deposits with Economic Development Bank for Puerto Rico (EDB), useful lives of fixed capital assets, capital assets and contingencies (environmental and legal).

a. Measurement Focus, Basis of Accounting and Financial Statement Presentation – The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid.

b. Concentration of Credit Risk – PRIDCO maintains cash on deposits with high rated financial institutions, the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth. The laws of the Commonwealth require commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with EDB, are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the banks, PRIDCO would not recover its deposits. (Refer to Note 5).

c. Cash Equivalents – PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

d. Investments – Governmental Accounting Standard Board 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

e. Rent, Loans and Notes Receivable and Allowance for Doubtful Accounts – PRIDCO's rent receivable arises from the leasing of industrial facilities to its customers. Rent is calculated based on agreed rates on executed contracts. The allowance for doubtful accounts is established through provisions recorded as an offset of rental income. PRIDCO provides for an allowance for doubtful accounts on notes receivable and loans receivable upon an evaluation of the risk's characteristics of those accounts, loss experience, economic conditions and other pertinent factors. Write-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously written-off are credited to the allowance. Notwithstanding, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

Notes and loans receivable are presented at the outstanding unpaid principal balance reduced by the allowances for losses. These are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement.

f. Assets Restricted for Payments of Bonds – Restricted assets for payment of Revenue Bonds as of June 30, 2020, consist of the following (in thousands):

Restricted Assets	
Sinking Fund Required by Trustee	$ 18,150
Unfunded Balance	(16,107)
Sinking Fund Balance as of June 30, 2020	2,043
Liabilities Payable from Restricted Assets consists of the following:	
Bonds and Discount Payable within One Year	38,728
Interest Payable as of June 30, 2020	42,395
Total Liabilites Payable from Restricted Assets	81,123
Deficit	$ (79,080)

g. Capital Assets – Capital assets are stated at cost, net of accumulated depreciation and amortization. Cost of construction includes, among other things, interest costs, and indirect costs consisting of payroll taxes and other fringe benefits. Depreciation and amortization are computed on the straight-line method at rates considered adequate to allocate the cost of the various types of property over their estimated useful lives. Expenditures for maintenance and repair costs that do not improve or extend the life of the respective assets are charged to operations as incurred. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Estimated useful lives and capitalization thresholds are as follows:

	Useful Life (Years)	Capitalization Threshold (In Thousands)	Capitalization Threshold (In Thousands)
Buidings and Improvements	50	$1	$1
Machinery and Equipment	15	$1	$1
Furnitures and Vehicles	5-15	$1	$1

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of their carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

h. Operating Revenue and Expenses – PRIDCO distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

i. Revenue Recognition – Revenue from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the lease based on the monthly rental fees established by each lease agreement. Most of the leases in effect are cancelable, subject to penalty in case of early termination. Revenue from non-exchange transactions consists of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met.

j. Compensated Absences – The vacation policy of PRIDCO 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 No. 26-2017 was enacted to modify the existent legal framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act No. 26-2017 also altered the liquidation terms. After the enactment of Act No. 26-2017, only compensation of accrued vacation leaves, 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 sickness days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide and proprietary fund 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).

k. Voluntary Termination Benefits – PRIDCO 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

l. Accounting for Pension Costs – As further disclosed in Note 17, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the ERS were liquidated, and its proceeds to be transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the "Pay-Go" system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 (*GASB Statement No. 68) to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, it was necessary to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements Nos. 67 and 68* (GASB Statement No. 73). GASB Statement No. 73 maintains the "accrual basis" model under Statement No. 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act No. 106-2017 eliminated all contribution requirements for the Plan and converted it into a "Pay-Go" system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, PRIDCO recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the "Pay-Go" system was caused by the impact of legislation not under PRIDCO's management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new "Pay-Go" system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 17.

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

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020 (see Note 17).

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 18.

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

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of PRIDCO subsequent to the measurement date, of approximately $444 thousand.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2020 (see Note 18).

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

n. Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statement Nos. 67 and 68, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

o. Reclassifications

Certain reclassifications were made to prior year figures in order to conform with this year presentation.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

p. Accounting Pronouncements Issued but Not Yet Effective

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

  Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred after the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA).* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67 of paragraph 3 of Statement No. 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert GASB 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.

- GASB Statement No. 99, *Omnibus 2022*, this Statement 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 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 No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance (April 2022).
  - 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 No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
  - Earlier application is encouraged and is permitted by topic.

- GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62*. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

  That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

  With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

  The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

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

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

On June 30, 2016, President Obama signed PROMESA into law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territories. More specifically, PROMESA did the following: (a) it established an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and other instrumentalities and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

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

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets". On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members (some of whom have been replaced with new members in the interim).

Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government."

The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board".

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

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

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

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

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(c) *Title III – In-Court Restructuring Process*

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

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

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

plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

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

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

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment), through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015.

A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016.

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

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

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

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

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

(e) *Title V – Infrastructure Revitalization*

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

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

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government-related issuer based upon relative priorities.

After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

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

(g) *Title VII – Sense of Congress*

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

4. GOING CONCERN AND UNCERTAINTIES

The discussion in the following paragraphs regarding PRIDCO's financial and liquidity risks provide the necessary background and support for management's evaluation as to whether there is substantial doubt about PRIDCO's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting obligations as they become due, are factors that are considered in this evaluation.

continue

4. GOING CONCERN AND UNCERTAINTIES – continuation

Management believes there is substantial doubt about PRIDCO's ability to continue as a going concern because of the following factors:

- PRIDCO has experienced recurring losses from operations.
- PRIDCO has been unable to fund all its outstanding obligations from operating cash flows and, pursuant to Act 2 of 2017, AAFAF, on behalf of PRIDCO, is pursuing a restructuring of PRIDCO's obligations under mechanisms available under PROMESA. To this end, PRIDCO signed the Standstill Agreement, which requires PRIDCO and GoldenTree to explore restructuring options during the standstill period.
- The Oversight Board has already approved 3 fiscal plans for PRIDCO, the latest one approved on May 20, 2022. The 2022 PRIDCO Fiscal Plan outlined several strategic initiatives necessary to reinvigorate PRIDCO's relevance in providing real estate solutions, however the implementation of these initiatives was delayed largely due to the COVID-19 pandemic. Such initiatives remain central to PRIDCO's ability to operate effectively and should be a primary focus during FY2022. Certain initiatives will encourage more accurate and disciplined long-term capital plans to increase the desirability of the available real estate. Other initiatives investigate alternative operating or ownership models that could maximize the value of PRIDCO to its stakeholders.
- There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

PRIDCO's management is working with some of the initiatives included in the Oversight Board Fiscal Plan. This plan will include a series of initiatives for increasing revenues through the renewal of existing leases contracts and sale of properties, and reducing administrative costs, including payroll costs, by the transfer of employees to the Department of Economic Development and Commerce, as considered in the Reorganization Plan.

5. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2020 consist of the following (in thousands):

	Book Balance	Accumulated Custodial Credit Risk Loss	Book Balance After Accumulated Custodial Credit Risk Loss	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash Deposit in Commercial Banks	$ 50,042	$ -	$ 50,042	$ 60,366	$ -
Cash Equivalents:					
Deposits Accounts With:					
Economic Development Bank	2,085	(2,085)	-	2,085	2,085
Total Cash and Cash Equivalent, Net	$ 52,127	$ (2,085)	$ 50,042	$ 62,451	$ 2,085

continue

5. CASH AND CASH EQUIVALENTS – continuation

Custodial Credit Risk Loss on Deposits with Economic Development Bank for Puerto Rico

The Commonwealth's credit rating downgrade in 2014 led private entities to retire their businesses from EDB and prevented the Government Development Bank (GDB) from receiving capital. GDB crisis made many public agencies and corporations move their deposits from EDB to GDB, leading EDB to the point of liquidating its entire investment portfolio.

Even though EDB took several measures to control the decline in its operations, they were not enough. On October 23, 2018, the Financial Oversight and Management Board (the Oversight Board), a seven-member board established under PROMESA, approved the Commonwealth Fiscal Plan which included the closure of the EDB. Even though EDB took several measures to control the decline in its operations, they were not enough. On October 23, 2018, the Financial Oversight and Management Board (the Oversight Board), a seven-member board established under PROMESA, approved the Commonwealth Fiscal Plan which included the closure of the EDB which was not executed, instead EDB continued its operations. However, EDB faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligation as they become due in the ordinary course of its operations, without restructuring its debt or other initiatives to restructure its obligations.

6. SINKING FUND RESERVE ACCOUNT, AT ACCRETED COST, RESTRICTED

The Trust Indenture agreement requires three separate accounts in the Sinking Fund, designated "Bond Service Account", "Redemption Account", and "Reserve Account", respectively. The money in each of these accounts shall be held in trust and applied as hereinafter provided and, pending such application, shall be subject to a lien and charge in favor of the holders of the Revenue Bonds issued and outstanding under this Indenture and for the further security of such holders until paid out or transferred, to the extent set forth in the Trust Indenture.

Due to the Moratorium Act, PRIDCO has no legal obligation to, and has not transferred funds, into the Sinking Fund.

As of August 1, 2016, PRIDCO did not transfer payment of principal and interest on the Revenue Bonds to the Sinking Fund. As result, payments of principal and interest due were paid out of reserve funds held by the Trustee until June 2, 2018.

Due to the Moratorium Act, PRIDCO no longer makes deposits into the Sinking Fund in accordance with the Trust Indenture; but (ii) it has agreed to make certain interest payments on the Bonds in accordance with the Standstill Agreement, as discussed in the subsequent event note below.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For additional information regarding payment of the Bonds under the Standstill Agreement refer to the Subsequent Events disclosures in Note 23.

7. INVESTMENTS

As of June 30, 2020, PRIDCO holds a certificate of deposits in a private bank amounting to $1.8 million. This certificate bears monthly interest at 1.40% and renew automatically every three years since its opening in November 2014. The certificate principal balance is restricted for debt service purposes. In addition, PRIDCO invested approximately $4 million in a private Company which entered into a bankruptcy process in prior years. PRIDCO already has an allowance reserve for the entire balance of this investment. The fair value of this investment amounts to zero and is not rated as of June 30, 2020.

continue

8. RENT, LOANS AND ACCOUNTS RECEIVABLE

Rent, loans and accounts receivable as of June 30, 2020 consist of the following (in thousands):

Rent Receivable	$ 36,862
Other	4,171
Total Receivables	41,033
Less: Allowance for Doubtful Accounts	(28,250)
Rent, Loans and Accounts Receivable, Net	$ 12,783

Changes in the allowance for doubtful accounts during the year ended June 30, 2020 are as follows (in thousands):

Allowance for Doubtful Accounts, Beginning of Fiscal Year	$ 23,853
Plus: Provision for Doubtful Accounts	4,397
Less: Accounts Written-Off	-
Allowance for Doubtful Accounts, End of Fiscal Year	$ 28,250

In September 2017 Puerto Rico was impacted by Hurricanes Irma and María, major category 4 hurricanes, causing a level of widespread destruction in many areas including infrastructure, housing, environment, public and private property, and disrupting the Commonwealth and Company's operations. Hurricanes Irma and María severely damaged 9% and 74% of PRIDCO's property, respectively. PRIDCO performed significant mitigation and recovery efforts financed by operating funds.

PRIDCO estimated that damages sustained as result of the Hurricanes totaled $187 million. At present, management has submitted claims to PRIDCO's and tenants' insurance companies, and evidence of recovery related costs to the Federal Emergency Management Agency (FEMA) for reimbursement through public assistance grants. Currently, PRIDCO continues negotiations with FEMA and the insurance company, but amounts to be collected from these entities cannot be determined at this time.

PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3), a division within the Puerto Rico Public Private Partnership Authority authorized to receive all disaster recovery grants of FEMA.

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9. RELATED PARTY TRANSACTIONS

DUE FROM AND TO GOVERNMENTAL ENTITIES AND RELATED

PRIDCO is a party to various transactions with other governmental entities and related parties.

Amounts due from (to) these entities as of June 30, 2020, consist of the following (in thousands):

Entity	Purpose	Due From	Due To
Commonwealth of Puerto Rico	Administration Services	$ 6,940	$ -
Southern Industrial Development Company	Cash Advances	-	450
Commonwealth of Puerto Rico	"Pay-Go" Charge	-	17,247
Commonwealth of Puerto Rico	Administration Services	-	602
Commonwealth of Puerto Rico	Cash Advances	-	1,800
Commonwealth of Puerto Rico	Cash Advances	-	7,075
		$ 6,940	$ 27,174

Due From Commonwealth

Due from Commonwealth is composed of amount owed by Rums of Puerto Rico (RPR), Department of Economic Development and Commerce (DDEC), Bioprocess Development and Training Complex (BDTC), a blended entity of the Special Fund for Economic Development (SFED) and related to administrative charges. RPR and the SFED are funds of the Commonwealth of Puerto Rico, administered by PRIDCO.

PRIDCO has an agreement for administrative services with RPR. The amount due from RPR amounts to $1.2 million.

PRIDCO has an agreement to administer the Bioprocess Development and Training Complex (BDTC) in Mayagüez, Puerto Rico. PRIDCO has provided administration services to BDTC at no cost. In addition, under the agreement, PRIDCO rented facilities to BDTC. Due from BDTC amounted to $372 thousand as of June 30, 2020.

PRIDCO and PRIICO have agreements with DDEC for reimbursement of building repairs paid by PRIICO on behalf of the DDEC and other expenses paid by PRIDCO. Due from DDEC amounted to $4.6 million as of June 30, 2020.

PRIDCO have rent agreement with agencies of the Commonwealth of Puerto Rico, combined balance amounts to $1.1 million.

Due To Commonwealth and Related

Due to Puerto Rico Southern Industrial Development Company (SIDCO)

SIDCO is a related organization engaged in promoting the development of the economy of Puerto Rico, with its sole facility in Guayama, Puerto Rico that is currently leased to a pharmaceutical company. The rental agreement calls for the payment of annual rent equal to the amounts due and payable by SIDCO under various notes payable and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus $750,000.

continue

9. RELATED PARTY TRANSACTIONS – continuation

Pursuant to the terms of the agreement, the pharmaceutical company exercised the right to extend the initial term of the lease for two successive renewal periods; the first renewal for a period of 20 year after the later of (i) date of commencement of operations or (ii) the pharmaceutical company's tax-exemption grant, and the second renewal for an additional period of 7 years commencing upon the expiration of the first renewal period. The first renewal period of the lease expired on October 31, 2018. The second renewal period was extended until October 31, 2025.

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land facility by entering into a promissory note in the amount of $1.6 million. Pursuant to the terms of the promissory note, the parties agreed upon as follows:

- SIDCO shall not be obligated to pay the unpaid balance of principal under the promissory note, and this obligation shall become null and void, in the event the pharmaceutical company terminates the lease early option agreement entered within.

- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been blended within PRIDCO's financial statements.

Due to SIDCO amounts to $450,000.

Due to Commonwealth

Due to Commonwealth is composed of amount owed by PRIDCO to the Puerto Rico Treasury of Department (DT), the Puerto Rico Department of Economic Development (DDEC), SFED, BDTC and RPR.

Balance due to the DT as of June 30, 2020, related to pension payments made on behalf of PRIDCO under the “Pay-Go” system amounts to approximately $17.2 million.

Balance due to BDTC is related to a cash advance amounting to $147 thousand made to PRIDCO for BDTC building improvements.

During fiscal year 2016-2017 PRIDCO and the Puerto Rico Department of Economic Development (the Department) reached an agreement for restructuring the amount due amounting to $12.8 million for management fees from previous years. The Department agreed to forgive one-third of the amount due, totaling approximately $3 million. In addition, PRIDCO applied to the debt the amount of $3 million of certain administrative expenses paid on behalf of the Department.

The remaining balance at the agreement date of $10.1 million is payable in 23 installments of $272,000 beginning on August 19, 2016, and a final payment of $4 million due not later than October 19, 2018. The final payment was not made on October 2018, and instead PRIDCO management agreed to pay amount owed to the Department in different installments which were completed during the fiscal year ended on June 30, 2020.

Due to SFED is related to a cash advance amounting to $1.8 million made to PRIDCO in order to enter into financing agreement with a commercial bank for the construction of a building for a tenant.

Due to the RPR is related to cash advances amounting to $7.1 million made to PRIDCO for its operations.

continue

9. RELATED PARTY TRANSACTIONS – continuation

Due From (To) Other Governmental Entities

In addition, as part of its regular operations, PRIDCO has transactions with other governmental entities for different type of services such as electric power, water and sewer. Most significant related party transactions for the year ended June 30, 2020, are described below.

Entity	Type of Service	Service Fee	Due From	Due To
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer	$ 60	$ 235	$ 5
Puerto Rico Electric Power Authority	Electric Power	1,274	461	222
Governmental Agencies	Rent	N/A	35	-
Governmental Public Corporation	Rent	N/A	869	-
			$ 1,600	$ 227

Balances due from these related parties are included in rent, loans and accounts receivable balance, while balance due to these related parties are included in accounts payable and other accrued liabilities.

Capital Contribution from Commonwealth of Puerto Rico

PRIDCO received approximately $3.9 million from the DDEC during the year ended June 20, 2020.

10. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO to qualified exempt businesses for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. The notes agreements provide that the outstanding principal may be prepaid without penalty. Notes receivable as of June 30, 2020 consist of the following (in thousands):

Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 4.25% during the term of the loan. This note is due in monthly installments of $5 thousand commencing on March 1, 2010 to September 1, 2023 and a final payment of $4 thousand due on October 1, 2023 and is collateralized by a lien on machinery and equipment and isurance policies covering the replacement value of equipment and machinery.	$ 439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 8% during the term of the loan. This note is due in monthly installments of $2 thousand commencing on December 1, 2004 over a 20-year period and is collateralized by a lien on machinery and equipment and isurance policies covering the replacement value of equipment and machinery.	452
Subtotal	891
Less: Allowance for Doubtful Accounts	(891)
Notes Receivable, Net	$ -

continue

11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 consists of the following (in thousands):

	Balance at June 30, 2019	Additions	Reclassification	Retirements	Balance at June 30, 2020
Capital Assets, Not Being Depreciated:					
Land Held for Improvement	$ 162,563	$ -	$ (13,546)	$ (2,388)	$ 146,629
Land on Leased Projects	71,406	4	13,542	(373)	84,579
Construction in Progress	917	4,055	(3,928)	-	1,044
Total Capital Assets, Non Being Depreciated	**234,886**	**4,059**	**(3,932)**	**(2,761)**	**232,252**
Capital Assets, Being Depreciated:					
Buidings and Improvements	809,563	194	3,889	(3,319)	810,327
Machinery and Equipment	67,777	-	-	(102)	67,675
Furnitures and Vehicles	18,578	194	44	(106)	18,710
Total Capital Assets, Being Depreciated	**895,918**	**388**	**3,933**	**(3,527)**	**896,712**
Less: Accumulated Depreciation:					
Buidings and Improvements	(444,748)	(16,450)	829	1,956	(458,413)
Machinery and Equipment	(63,391)	(917)	(700)	64	(64,944)
Furnitures and Vehicles	(18,131)	(186)	(130)	106	(18,341)
Total Accumulated Depreciation	**(526,270)**	**(17,553)**	**(1)**	**2,126**	**(541,698)**
Total Capital Assets, Being Depreciated, Net	**369,648**	**(17,165)**	**3,932**	**(1,401)**	**355,014**
TOTAL CAPITAL ASSETS, NET	**$ 604,534**	**$ (13,106)**	**$ -**	**$ (4,162)**	**$ 587,266**

PRIDCO evaluated its capital assets for impairment and recorded a charge of $766 thousand during fiscal year ended June 30, 2020.

On December 5, 2014, the Puerto Rico Ports Authority (Ports), another component unit of the Commonwealth, entered into an $8 million financing agreement with GDB and used the proceeds for the development of certain repair, maintenance, and overhaul aerospace facilities, at Rafael Hernandez Airport, in Aguadilla, Puerto Rico, a property of Ports. In addition, the Special Development Economic Fund agreed to provide a $6.4 million incentive for the creation of new employment at that project, and the Special Incentives Fund, agreed to provide $40 million to supplement the construction of the facilities at the Airport. Both funds are funds of the Commonwealth.

To secure the $8 million financing provided by GDB to Ports, on that same date, PRIDCO entered into a voluntary mortgage agreement with GDB, and mortgaged certain non-bonded properties, with a carrying value of $4.2 million, as collateral for this financing, for an amount not to exceed $10 million. The agreement established that PRIDCO is not a debtor or co-debtor for the Ports financing, and does not have any other responsibility, other than to provide these properties as collateral in case of default or non-compliance by Ports, up to $10 million. The mortgage note is due and payable on December 5, 2044.

As part of the GDB Qualify Modification executed, on November 29, 2018, the financing agreement and mortgage agreement were transferred to the DRA.

continue

12. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2020 consist of the following (in thousands):

Accounts Payable	$	4,495
Accrued Payroll Related Expenses		216
Other Accrued Liabilities		1,793
	$	6,504

13. LONG-TERM DEBT ACTIVITY

Long-term debt activity for the fiscal year ended June 30, 2020 is as follows (in thousands):

Bonds Payable

As required by the Trust Indenture dated July 1, 1964, as amended, PRIDCO has pledged and assigned to the Trustee the gross revenue from certain properties (known as trusteed properties) to the extent set forth in the Trust Indenture for the payment of the Revenue Refunding Bonds and General-Purpose Revenue Bonds, Series 1991 to 1997.

During fiscal year 1998, PRIDCO issued approximately $150 million in revenue refunding and general-purpose Revenue Bonds. The proceeds of the fiscal year 1998 bond issuance destined to refund the previous outstanding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, all the Series prior to 1997, except for the Series 1991 serial and capital appreciation bonds, were considered defeased and the liability for those bonds was considered extinguished and has been removed from the accompanying basic financial statements.

Revenue Refunding Bonds and General-Purpose Revenue Bonds outstanding as of June 30, 2020 are as follows (in thousands):

Series A 1997, Term Bonds, 6.70%, Due on July 1, 2021	$	15,190
Series 2003 General Purpose Revenue Bonds:		
Series Bonds, 5.15%, Due on July 1, 2018		1,225
Capital Appreciation Bonds, Implicit Annual Interest Rates of 5.15% to 5.20%, Due on July 1, 2017 and 2018		5,797
Term Bonds, 5.20%, Due on July 1, 2023		48,925
Term Bonds, 5.25%, Due on July 1, 2028		78,700
		149,837
Less: Current Maturities		(38,728)
Bonds Payable, Noncurrent	$	111,109

Series 2003 of the capital appreciation bonds will accrete to a maximum of $11.6 million, through their corresponding maturity dates.

continue

13. LONG-TERM DEBT ACTIVITY – continuation

Bonds payable activity for the fiscal year 2020 is as follows (in thousands):

	Balance at June 30, 2019	Addition	Accretions	Reductions	Balance at June 30, 2020	Due within One (1) Year	Long-Term Portion
Bonds Payable	$ 146,937	$ -	$ -	$ -	$ 146,937	$ 35,828	$ 111,109
Plus: Accreted Discount	3,091	-	-	-	3,091	3,091	-
Less: Bonds Discount	(208)	-	17	-	(191)	(191)	-
Bonds Payable, Net	$ 149,820	$ -	$ 17	$ -	$ 149,837	$ 38,728	$ 111,109

The annual debt service requirements to maturity, including principal and interest, for Revenue Bonds payable as of June 30, 2020 are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	$ 38,728	$ 26,412	$ 65,140
2022	12,465	5,684	18,149
2023	13,140	5,011	18,151
2024	13,825	4,319	18,144
2025	14,570	3,586	18,156
2026-2029	57,300	6,172	63,472
	$ 150,028	$ 51,184	$ 201,212
Less: Unamortized Bond Discount	(191)		
Bonds Payable, Net	$ 149,837		

PRIDCO failed to transfer payments of principal and interest when due on the referenced Bonds starting August 1, 2016. Payments of principal and interest due were paid out of debt sinking reserve funds held by the Trustee until June 1, 2018. Current portion of bonds payable amounting to approximately $38.7 million includes $26.9 million of principal due. In addition, interest payable amounting to approximately $42.3 million includes $20.7 million of accrued bond interest that are due. As of the date hereof, PRIDCO is making certain interest payments under the terms of the Standstill Agreement. For further information Refer to the subsequent events disclosures note.

Line of Credit Owed to Debt Recovery Authority (DRA)

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA), which was created under Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act) GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio (including loan made to PRIDCO), its real estate owned assets and its unencumbered cash. This GDB Restructuring Act required certain offsets between financial instruments assets and liabilities held by GDB. As a result, the deposits held by PRIDCO at GDB were applied to notes payable owed by PRIDCO to GDB.

continue

13. LONG-TERM DEBT ACTIVITY – continuation

Line of credit and notes payable to DRA as of June 30, 2020 are comprised as follows (in thousands):

Non-revolving line of credit up to $75 million (restructured as of November 24, 2014) to provide for the payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 90 days LIBOR plus 1.25%, with a floor of 5% and a ceiling of 12% due November 24, 2024. PRIDCO identified several non-trusted properties to be disposed of for the repayment of this debt and placed them as collateral.	$ 24,550
Lines of credit facilities that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. The lines are due on June 30, 2040, and bear interest at prime plus 1.25%, with a floor of 5% and a ceiling of 12% due on June 30, 2040.	28,310
Line of Credit, and Notes Payable to DRA	$ 52,860

Line of credit, and notes payable to DRA activity for the fiscal year 2020 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance
$ 52,860	$ -	$ -	$ 52,860

For the year ended June 30, 2020, PRIDCO did not received appropriations from the Commonwealth for the payment of interest accrued under line of credit, nor did it receive appropriations for the payment of the note's principal. Accrued interest payable as of June 30, 2020 amounts to $21.7 million.

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13. LONG-TERM DEBT ACTIVITY – continuation

Loans and Notes Payable to Commercial Banks

Loans and Notes Payable to Commercial Banks consist of the following (In thousands):

Term-loan payable in 180 monthly installments of $268 thousands including interest with a balloon payment for the remainder balance plus interest and due in June 2022. The loan bears annual interest at 6.0585%.	$ 6,455
Term-loan payable in 138 monthly installments of $208 thousands including interest with a balloon payment for the remainder balance plus interest and due in June 2022. The loan bears annual interest at 5.375%.	5,069
Non-revolving line of credit with 24 interest only payments then converted into a term-loan payable in 216 monthly installments of $110 thousands including interest, and due in December 2024. The loan bears annual interest at 6.061%.	5,388
Non-revolving line of credit with 24 interest only payments then converted into a term-loan payable in 216 monthly installments of $72 thousands including interest, and due in December 2024. The loan bears annual interest at 6.061%.	3,400
Promissory note payable in 180 monthly payments of $229 thousands including interests, and due in December 2030. The note bears annual interest at 6.25%.	21,112
Note payable in monthly installments of $139 thousand including interest, and due in December 2030. The note bears annual interest at 4.65%.	13,986
	55,410
Less Current Maturities	(9,493)
Loans and Notes Payable to Commercial Banks, Noncurrent Portion	$ 45,917

Loans and notes payable to commercial banks activity for the fiscal year 2020 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year	Long-Term Portion
$ 64,306	$ -	$ (8,896)	$ 55,410	$ 9,493	$ 45,917

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continue

13. LONG-TERM DEBT ACTIVITY – continuation

Debt service requirements for the loans and notes payable to commercial banks are as follows (in thousands):

Fiscal Year Ending June 30,	Due to Commercial Banks Prncipal	Interest	Total
2021	$ 9,493	$ 2,973	$ 12,466
2022	10,781	2,356	13,137
2023	4,724	1,876	6,600
2024	4,529	1,594	6,123
2025	5,006	1,302	6,308
2025-2029	18,701	3,258	21,959
2030-2031	2,176	36	2,212
Total	$ 55,410	$ 13,395	$ 68,805

PRIDCO is subject to compliance with certain covenants on its lines of credit, loans and notes payable with two commercial banks.

Two non-revolving lines of credit with Banco Popular de Puerto Rico are collateralized with real property located in the Municipality of San German, Puerto Rico and the rights to receive rents. The notes contain a provision that in an event of default the unpaid principal and accrued interest will become immediately due and payable, and the bank may foreclose on the collateral and exercise all rights under the lines of credit.

Two term-loans payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipality of Humacao, Puerto Rico. The loans contain a provision that in an event of default the unpaid principal and accrued interest will become immediately due and payable at an interest rate of two hundred (200) basis points above the applicable rate, until such time as the event of default is cured or waived, and the bank may exercise any and all rights it has under the loans.

Two promissory notes payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipalities of Juana Diaz and Moca, Puerto Rico. The notes contain a provision that in an event of default the unpaid principal and accrued interest will become immediately due and payable, and the bank may exercise any and all rights it has under the notes.

Obligations Under Capital Lease

PRIDCO finances the acquisition of certain office equipment through capital leases from various financial institutions. Capital leases outstanding as of June 30, 2020, are payable in monthly installments of principal and interest ranging from 1% to 1.5% from $1,200 to $7,700 through the year 2021.

Obligations under capital leases as of June 30, 2020, are as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year	Long-Term Portion
$ 345	$ 106	$ (105)	$ 346	$ 344	$ 2

continue

13. LONG-TERM DEBT ACTIVITY – continuation

Debt service requirements of future minimum payments under capital lease obligations are as follows (in thousands):

Fiscal Year Ending June 30,		
2021	$	348
Total Minimum Lease Payments		348
Less: Amount Representing Interest		(2)
Present Value of Minimum Lease Payments		346
Less: Current Maturities		(344)
Obligations Under Capital Lease, Noncurrent	$	2

14. COMPENSATED ABSENCES

Compensated absences as of June 30, 2020 are as follows:

	Balance at June 30, 2019	Addition	Reductions	Balance at June 30, 2020	Due within One (1) Year	Long-Term Portion
Vacation Accrual	$ 1,031	$ 349	$ (170)	$ 1,210	$ 511	$ 699

15. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

This is the deferred loss on refunding reported in the Statement of Net Position, and deferred amounts related to pension and OPEB. The deferred loss on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price.

16. VOLUNTARY TERMINATION BENEFITS

The Legislature of the Commonwealth of Puerto Rico approved two retirement incentive plans for all regular employees of the central government agencies and certain public corporations under Act No. 70 of July 2, 2010 and Act No. 211 of December 8, 2015, as amended by Act No. 170 of August 9, 2016.

Act No. 70 included early retirement incentives for employees not eligible for retirement and retirement incentives for employees who are eligible. Under this plan, employees could select one of three options as follows:

Article 4(a) provides economic incentives based on the following parameters:

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 Year	1 Month of Salary
From 1 Year and 1 Day Up to 3 Years	3 Months of Salary
From 3 Years and 1 Day and Up	6 Months of Salary

continue

16. VOLUNTARY TERMINATION BENEFITS – continuation

Article 4(b) provides early retirement, for employees meeting certain number of years of service criteria (between 15 and 29 years) and will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but lower than what they would have been entitled to under full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of Salary)
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20 to 29	50.00%

PRIDCO will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or 4(b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive awarded on article 4(a) but not entitled to the incentives awarded on article 4(b). Employees who have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. On June 30, 2020 voluntary termination benefits granted under Act No. 70 were discounted at present value.

Act No. 211, as amended, and commonly known as Voluntary Pre-Retirement Program, aims to provide incentives for employees of the Commonwealth of Puerto Rico, who have begun to quote for the Puerto Rico Retirement System before April 1, 1990 or who having begun to quote after that date have paid services accrued prior to April 1, 1990 without having received a refund of their contributions and have a minimum of twenty years of service quoted under the structure of benefits of the Act No. 447, supra.

Incentives under Act No. 211, as amended, include employee's compensation equivalent to sixty percent of their average remuneration as of December 31, 2015 while participating in the program; the settlement of payment of licenses of vacation and sick leave, exempt of contributions and limited to a maximum established by Law. It also provides for the payment of the employer contribution to Social Security and Medicare, to either maintain the coverage of the health plan or to keep on receiving the employer contribution to health plans under same terms and conditions as if employed for up to a term of two years. Even more, PRIDCO should continue making both employee and employer contributions to the Retirement System, which will ensure an increase in employee's future retirement annuity to at least fifty percent of its average remuneration on June 30, 2015.

continue

16. VOLUNTARY TERMINATION BENEFITS – continuation

Voluntary termination benefits, as detailed below, are discounted at a rate of 1.09%, which is the average of the prevailing annual interest rate over outstanding certificates of deposits as of June 30, 2020:

	Beginning Balance	Net Change	Ending Balance	Due Within One Year	Due After One Year
Act No. 70	$ 3,345	$ (576)	$ 2,769	$ 376	$ 2,393
Act No. 211	5,788	(558)	5,230	1,217	4,013
Total	$ 9,133	$ (1,134)	$ 7,999	$ 1,593	$ 6,406

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO

(1) Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including PRIDCO) and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the ERS was administered by the Board of Trustees of the ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-As-You-Go" ("Pay-Go") system for the payment of pensions. Also pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer make any contributions to ERS, and ERS will be funded on a "Pay-Go" basis.

Under Act No. 106-2017, the ERS's board of trustees was eliminated, and a new Retirement Board was created. 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 Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement Systems (TRS). Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. 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 into this new Defined Contributions Plan program. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new Defined Contributions Plan, effective as of June 22, 2020.

On January 18, 2022, the Title III Court entered an order confirming the Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al. [ECF No. 19367] (as confirmed, the Commonwealth Plan of Adjustment), which resolved all obligations against the Commonwealth, ERS, and the Puerto Rico Public Buildings Authority (PBA). The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS, TRS, and JRS. However, participants of JRS and TRS will be subject to a benefits freeze and the elimination of any cost of living adjustments (or COLAs) previously authorized under the JRS and TRS pension plans. For further information on the impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

As a result of the implementation of the "Pay-Go" system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, *Accounting and Financial Reporting for Pension*, 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 No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 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.

(2) Pension Benefits

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program).
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program).
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age. Pursuant to a settlement incorporated into the Commonwealth Plan of Adjustment, on the effective date of the Commonwealth Plan of Adjustment (which occurred on March 15, 2022), all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program were discharged.

Al regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) Service Retirement Eligibility Requirements

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

   Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

3) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise. System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

4) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

(b) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

   If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

   If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

   For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

   For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

1) Minimum Benefits

– *Past Ad hoc Increases:* The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.

– *Minimum Benefit for Members who Retired before July 1, 2013*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013).

– *Coordination Plan Minimum Benefit:* A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

2) *Cost-of-Living Adjustments (COLA) to Pension Benefits*

Under the Commonwealth Plan of Adjustment, all COLAs have been eliminated from and after the Effective Date (i.e. on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo.

3) *Special "Bonus" Benefits*

– *Christmas Bonus:* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. *(Act No. 144-2005, as Amended by Act No. 3-2013)*

– *Medication Bonus:* An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. *(Act No. 155-2003, as Amended by Act No. 3-2013)*

(e) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Department of the Treasury of the Commonwealth in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS. Total employee contributions for the different retirement programs during the year ended June 30, 2020, were approximately $610,000.

(3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

(4) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB Statement No. 73 is now implemented in substitution of GASB Statement No. 68. PRICO's Total Pension Liability was measured as of June 30, 2019, later audited financial information. The Total Pension Liability used was determined by an actuarial valuation as August 6, 2021.

(a) Total Pension Liability

Effective July 1, 2014, the PRIDCO implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the PRIDCO's accounting for pension amounts. The information disclosed below is presented in accordance with GASB Statement No. 73, after the implementation of ACT No. 106-2017. PRIDCO's Total Pension Liability was measured as of June 30, 2019, later audited financial information. The measurement Date is June 30, 2019, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2019 through June 30, 2020.

As June 30, 2020, PRIDCO's proportional share of the Total Pension Liability used was as follows:

The corresponding PRIDCO's proportion of the Total Pension Liability		1.11127%
The corresponding PRIDCO's Proportionate Share of the Total Pension Liability	$	276,154

As June 30, 2020, PRIDCO reported $276,154 thousand as Total Pension Liability for its proportionate share of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2020	
	Total	Proportionate Share (1.11127%)
Total Pension Liability - Central Government	$ 24,850,437,978	$ 276,154,355

(b) Pension Expense

For the fiscal year ended June 30, 2020, PRIDCO recognized pension expense of $11.0 million of total pension payments of the "Pay-As-You-Go" system.

(c) Deferred Outflows/Inflow of Resources

As of June 30, 2020, PRIDCO reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 14,417	$ 9,363
Changes in assumptions	8,967	7,139
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	1,263
Employer pension payments made subsequent to the measurement date	9,967	-
Total	$ 33,351	$ 17,765

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	$ 3,897
2022	3,897
2023	3,897
2024	3,895
Total	$ 15,586

(d) *Actuarial Methods and Assumptions*

Changes in Actuarial Methods since the Prior Evaluation

The GASB Statement No. 73 discount rate has increased from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019. The projected mortality improvement scale was updated from Scale MP-2018 to Scale MP-2019 to reflect the projected mortality improvement scale issued in the valuation year.

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly-used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that , if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by ERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2019 are based on projecting the System obligations determined as of the census data collection date of July 1, 2018 for one year using roll-forward methods, assuming no liability gains or losses.

Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019 is provided below, including any assumptions that differ from those used in the June 30, 2017 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Municipal Bond Rate: 3.50% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.50% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as result of the Act No. 3-2017 four year extension of the Act No. 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

Define Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to "Pay-As-You-Go" funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2018.

Basis for Demographic Assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with ERS staff for reasonableness and are documented in this Section.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scales MP-2019 from the 2006 base year, and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scales AA. These base rates are projected using Mortality Improvement Scales MP-2019 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scales MP-2019 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For members retiring after June 30, 2013 under Act No. 127-1958, a Joint & 100$ Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016 but was not provided as of July 1, 2018 for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2017, and any new retirees as of July 1, 2018, a joint and survivor annuity was assumed (as shown in the following table), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No, 211-1958 and those not married were assumed to have a modified cash refund (as shown in the following table). The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

continue

17. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Discount Rate

On July 1, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation, see Note 2. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2019, was as follow:

	June 30, 2019
Discount Rate	3.50%
20 Year Tax-Exempt Municipal Bond Yield	3.50%

(e) Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate

The following presents PRIDCO's proportionate share of the Total Pension Liability calculated using the discount rate, as well as what PRIDCO's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrese 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total Pension Liability	$ 314,031	$ 276,154	$ 245,383

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

18. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 17, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Plan Description

PRIDCO is a participating employer in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the OPEB Plan).

The OPEB Plan is an unfunded, cost sharing multi-employer defined benefit other postemployment healthcare benefit plan sponsored by the Commonwealth. The Plan is administered on a "Pay-As-You-Go" basis as required by Act No. 106 of 2017. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other than Pensions* (GASB Statement No. 75).

continue

18. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

GASB Statement No. 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Total OPEB Liability will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers, like PRIDCO.

Benefits Provided

The OPEB Plan provides a payment of up to $100 per month to the eligible medical insurance plan selected by retired participants of the employees' retirement system-provided that the participants retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Employees Covered

Commonwealth' employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. Act No. 3 of 2013 eliminated this healthcare benefit to Commonwealth's employees that retired after June 30, 2013.

On July 1, 2018, the Commonwealth's OPEB Plan members covered by the benefit terms consisted of 97,708 retired members of which 569 were from PRIDCO.

Contributions

The contribution requirement of the OPEB Plan is established by Act No. 95 approved on June 29, 1963. There is no contribution requirement from the plan members during their active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

This up to $100 monthly benefit to the eligible medical insurance plan selected by the member provided that the member retired prior to July 1, 2013, is financed by the Commonwealth on a "Pay-As-You-Go" basis. The funding of the OPEB Plan is provided through legislative appropriations each July 1 by the Commonwealth's General Fund for primary government and certain public corporations without their own treasuries' employees, and by certain public corporations with their own treasuries and municipalities. The legislative appropriations are considered estimates of the payments to be made for-healthcare benefits throughout the year. However, the Commonwealth claims reimbursement from each employer, on a monthly basis, for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

Total OPEB Liability

On June 30, 2020, PRIDCO reported a liability of $5,474 thousand for its proportionate share of total collective OPEB liability. Total OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

continue

18. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Total OPEB Liability	June 30, 2020	
	Total	Proportionate Share (0.65773%)
Total OPEB Liability - Central Government	$ 832,231,462	$ 5,473,846

PRIDCO's proportion of total OPEB liability was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date, which is consistent with the manner in which the amounts that are paid as benefits come due are determined. The discount rate to measure total OPEB liability as of June 30, 2019 was 3.50%.

PRIDCO's annual OPEB expense for the year ended June 30, 2020 amounted to approximately $392 thousand and the OPEB liability as of June 30, 2020 amounted to approximately $5.5 million.

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

The implementation of GASB Statement No. 75 required to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2020, $443 thousand reported as deferred outflows of resources related to OPEB resulting from benefits payments made subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2020.

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial Assumptions:

Valuation Date	July 1, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	Not Applicable
Municipal Bond Index	3.50%, as per Bond Buyer General Obligation 20-Bond Municipal bond Index
Projected Salary Increases	Not Applicable
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected formward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from 2006 base year, and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100.0% of deaths while in active service are assumed to be occupational for members covered under under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These rates are projected using Mortality Improvement Scales MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These rates are projected using Mortality Improvement Scales MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement health and disabled mortality assumptions used in the June 30, 2019 valuation were based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement.

Discount Rate

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index and was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate to measure total OPEB liability as of June 30, 2019 was 3.50%.

Sensitivity of PRIDCO's Proportionate Share of Total OPEB Liability to changes in the Discount Rate

The following presents PRIDCO's proportionate share of total OPEB liability as well as what PRIDCO's proportionate share of total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate (in thousand).

continue

18. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

	1% Decrese 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	$ 6,004	$ 5,474	$ 5,024

19. COMMITMENTS

PRIDCO has only administrative responsibilities with regards to the Special Incentives Fund, Special Fund Economic Development, and Rums of Puerto Rico Fund.

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez, Puerto Rico. Under this agreement, PRIDCO constructed a modern building with state-of-the-art facilities for rental to pharmaceutical and high-end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC.

PRIDCO maintains a joint interagency agreement with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide $1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. In prior years, PRIDCO received $1 million from PRTC and total expenditures amounted to $672,000. PRTC did not make any contribution during the year ended June 30, 2020.

20. CONTINGENCIES

A. Federal Awards

PRIDCO is a grantee in Federal financial assistance programs. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, PRIDCO is required to comply with the audit requirements established by the Uniform Guidance.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance for the year ended June 30, 2020, disclosed instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. PRIDCO's management believes that required reimbursements, if any, would not be material.

B. Litigation

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2020, amounted to $850,000 separately disclosed as legal liabilities.

21. POLLUTION REMEDIATION OBLIGATIONS

The nature of PRIDCO tenants' manufacturing operations is highly susceptible to the incurrence of pollution obligations. PRIDCO, as owner, has the financial responsibility for cleanup costs and pollution remediation process in case of tenants' default.

continue

21. POLLUTION REMEDIATION OBLIGATIONS – continuation

Pollution remediation obligations, are obligations incurred to address the current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. On June 30, 2020, PRIDCO's liability for pollution remediation amounted to $25.6 million.

Pollution remediation is a process that can last several years and involves different stages. PRIDCO has called upon former or current tenants to make them accountable for cleanup or pollution remediation costs; otherwise PRIDCO has assumed the responsibility. Notwithstanding, PRIDCO has been considered a responsible party in a lawsuit, at initial stage, and in several claims, at the regulating agencies level, related to pollution remediation obligations. Federal Environmental Protection Agency (EPA), the Puerto Rico Department of Environment and Natural Resources (DENR) and the Puerto Rico Environmental Quality Board (EQB) have the oversight and the enforcement responsibility in cases of pollution.

Federal claims are covered pursuant the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), which provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment, and the Resource Conservation Recovery Act (RCRA) of 1976, which provides for proper disposal of solid waste and hazardous waste.

Agencies are authorized by law to identify parties responsible for the pollution of sites and compel the parties to remediate it.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A definite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a series of events and activities that help to frame and define a liability.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites, and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, such costs could be material to the results of operations in a future year.

22. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible of assuring that PRIDCO’s property is properly insured. Annually, the Treasury Department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, such information is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

continue

23. SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

PRIDCO Fiscal Plan

On May 20, 2022, the Oversight Board certified its most recent fiscal plan for PRIDCO (the Oversight Board Fiscal Plan), which seek to support cost reductions and improve property management resulting in a more efficient and effective government structure including the following:

- (i) Payroll Measures
- (ii) “Pay-Go” Measures
- (iii) Delinquency Rate Improvement Measure
- (iv) Expired Lease Measures
- (v) Third-Party Manager Measures
- (vi) Shared Services Measures on the MOU
- (vii) Capital Expenditures Improvement Measures
- (viii) Rent Escalation Measure
- (ix) Occupancy Process Optimization
- (x) Needs Assessment of Real Estate Information Systems
- (xi) Divestment of non-rentable properties
- (xii) Update Rental Rate Card
- (xiii) Inter-Government Real Estate Representation
- (xiv) Implementation of Fiscal Controls
- (xv) Skills and Knowhow Transfer from Consultants to Public Sector Personnel

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results

Standstill Agreement

On June 13, 2019, AAFAF, on behalf of PRIDCO, entered into a restructuring support agreement (the “RSA”) with GoldenTree, holder of over two-thirds of the outstanding Revenue Bonds. The RSA contemplated a financial restructuring of the Revenue Bonds through a Qualifying Modification (the “Qualifying Modification”) under Title VI of PROMESA.

On April 16, 2021, PRIDCO received a Notice of termination of the RSA from Golden Tree Asset Management and the RSA is no longer effective.

On May 6, 2021, GoldenTree commenced a legal action United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO’s purported failure to abide by its obligation to holders of Revenue Bonds issued in 1997 and 2003 by, among other things, not paying principal and interest on the Bonds. GoldenTree and PRIDCO entered the Standstill Agreement, which resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agrees to forbear from exercising any rights or remedies available with respect to the Revenue Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to pay to the Trustee monthly interest payments on the Bonds, totaling $672,354.38 per month. The Standstill Agreement extended on multiple occasions and currently is set to expire on September 30, 2022.

The failure of PRIDCO to make any such interest payment, if not cured within three business days, shall result in the automatic termination of the Forbearance Period, without any further action by any party.

continue

23. SUBSEQUENT EVENT – continuation

COMMONWEALTH PLAN OF ADJUSTMENT

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), and the Puerto Rico Public Buildings Authority (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 Title III Court.

On October 26, 2021, the Governor signed into law Act No. 53 of 2021, known as the “Law to End the Bankruptcy of Puerto Rico”, which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of 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 for 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 November 28, 2021 [ECF No. 19367] (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 No. 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. On July 18, 2022, the First Circuit affirmed the Title III Court's finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. Oral argument on the merits of the remaining three appeals [Case Nos. 22-1079, 22-1092, 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.

continue

23. SUBSEQUENT EVENT – continuation

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 PRHTA, the Puerto Rico Convention Center District Authority (PRCCDA), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Metropolitan Bus Authority (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.

continue

23. SUBSEQUENT EVENT – continuation

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. The First Circuit has affirmed the takings appeal, but if the issue is appealed to the United States Supreme Court and reversed, then the Eminent Domain/Inverse Condemnation Claims could be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive 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 a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

continue

23. SUBSEQUENT EVENT – continuation

In their respective appeals, the teachers' association and judges' association argued that (i) the Commonwealth Plan of Adjustment's freeze of pension accruals and the elimination of COLAs were inconsistent with Act 53 and, therefore, those provisions were unauthorized by the legislature, and (ii) the Commonwealth laws authorizing the continued accruals for the JRS and TRS pension plans were not properly preempted by the Commonwealth Plan of Adjustment. See In re The Fin. Oversight & Mgmt. Bd. for P.R., Case No. 17-3283-LTS, 2022 WL 620624, at *3-4 (D.P.R. Mar. 3, 2022). The First Circuit rejected these arguments, concluding that the operative provisions of Act 53 conditioned authority to issue securities under the Commonwealth Plan of Adjustment on the elimination of the "Monthly Benefit Modification" in the Seventh Amended Plan, which only concerned accrued pension rights of pension plan participants and retirees, not the defined benefit freeze or elimination of COLAs. See In re The Fin. Oversight & Mgmt. Bd. for P.R., 32 F.4th 67, 81-82 (1st Cir. 2022). In addition, the First Circuit held that PROMESA preempts Commonwealth law—such as the JRS and TRS pension statutes—insofar as those laws purport to dictate contrary to the Commonwealth Plan of Adjustment the Commonwealth's financial obligations to participants in its pension plans. Id. at 78. As a result, the First Circuit affirmed the Title III Court's Confirmation Order as to the JRS and TRS pension provisions implementing a benefits freeze and the elimination of COLAs.

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, which is currently expected to be proposed in April 2022.

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

Commonwealth Fiscal Plan

On April 21, 2022, the Oversight Board approved 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 residential adoption and 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 allocate $5.4 million for administrative expenses related to this initiative which were approved by the Oversight 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.

continue

23. SUBSEQUENT EVENT – continuation

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 PRIDCO, such flexibility extends the period for completion and submission of the June 30, 2021 Single Audit from its original due date of March 31, 2022, to September 30, 2022. This extension did not cover this Single Audit.

PRIDCO has evaluated subsequent events through August 2, 2022, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

END OF NOTES

Required Supplementary Information

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SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	2020	2019	2018
Proportion of theTotal Pension Liability *	1.11127%	1.11733%	1.06432%
Proportionate Share of the Collective Total Pension Liability	$ 276,154	$ 273,629	$ 300,188
Covered - Employee Payroll	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2019 was the first year that PRIDCO transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the "Pay-Go" implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL OTHER POSTEMPLOYMENT BENEFITS LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	2020	2019	2018	2017
Proportion of Total Other Post-Employment Benefit Liability *	$ 5,474	$ 5,526	$ 5,729	$ 7,088
Proportionate Share of Total Other Post-Employment Benefit	0.65773%	0.65621%	0.62236%	0.59804%
Covered - Employee Payroll	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented by PRIDCO. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to PRIDCO and not Employee's Retirement System of the Government of the Government of Puerto Rico as a whole.

2. The data provided in the schedules is based as of the measurement date of the total pension liability and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

3. On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "*pay as you go*" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

END OF NOTES

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PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed-Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Defense:				
Procurement Technical Assistance for Business Firms	12.002		$ -	$ 272,928
Total U.S. Department of Defense			-	272,928
U.S. Department of Homeland Security:				
Pass-Through Puerto Rico Office of Disaster and Emergencies Administration:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4339-PR	-	1,563,841
Total U.S. Department of Homeland Security			-	1,563,841
Total Expenditures of Federal Awards			**$ -**	**$ 1,836,769**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the Federal grant activities of the Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO) for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. PRIDCO reporting entity is defined in Note (1) (A) to the financial statements. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized when the liability is incurred, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for the public assistance disaster grant program are recognized in the period when: (1) the Federal Emergency Management Agency (FEMA) has approved the Project Worksheet (PW), and (2) eligible expenditures are incurred. It is drawn primarily from the PRIDCO's internal accounting records, which are the basis for the PRIDCO's Statement of Revenues, Expenses, and Changes in Net Position (the "Statement").

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available and applicable.

D. PRIDCO has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to Federal granting agencies.

4. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

After a presidentially declared disaster, FEMA provides Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) to reimburse eligible costs associated with repair, replacement or restoration of disaster-damaged facilities. The federal government makes reimbursements in the form of cost-shared grants that commonly require state matching funds. PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3). COR3 is a division of the Puerto Rico Public Private Authority created through Executive Order 2017-65 to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María.

continue

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS – continuation

COR3 was authorized by the Governor to receive all disaster recovery grants of FEMA. In Fiscal Year (FY) 2020, FEMA approved $1.5 million eligible expenditures that were incurred in the prior fiscal years 2018 and 2019. Of this approved amount, FEMA disbursed $285 thousands from projects approved in FY2019. As of June 30, 2020, $1.5 million approved eligible expenditures were incurred in the prior fiscal year and are included in SEFA.

6. SUBMISSION OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2020, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. As further discussed in PRIDCO's Notes to the Financial Statement included in its audited financial statements for the same year, PRIDCO's activities were affected by the Executive Orders issued by the Governor of Puerto Rico, and subsequently a waiver was granted by the OMB through the issuance of the memorandum M-20-17.

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, PRIDCO did not comply with the submission of the Single Audit at the date established in the extensions.

7. GENERALLY ACCEPTED GOVERNMENTAL AUDIT STANDARD (GAGAS 2018 REVISION)

The Yellow Book is used by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. It outlines the requirements for audit reports, professional qualifications for auditors, and audit organization quality control. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports.

The 2018 revision of the Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

END OF NOTES

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CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

202 Gautier Benítez Ave.
Consolidated Mall Condominium, Suite C-31
Caguas Puerto Rico
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
Email: jose.diaz@cpadiazmartinez.com

"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)**, for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise **PRIDCO**'s basic financial statements, and have issued our report thereon dated August 2, 2022.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statement, that raised substantial doubt about the **PRIDCO** and Commonwealth's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **PRIDCO**'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 **PRIDCO**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **PRIDCO**'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **PRIDCO**'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 weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **PRIDCO**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 **PRIDCO**'s internal control or on compliance. This report is an integral part of an audit reformed 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.

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 2, 2022

Stamp No. E491022 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

202 Gautier Benítez Ave.
Consolidated Mall Condominium, Suite C-31
Caguas Puerto Rico
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
Email: jose.dias@cpadiazmartinez.com

"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)**'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 **PRIDCO**'s major Federal programs for the fiscal year ended June 30, 2020. **PRIDCO**'s major Federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statements, that raised substantial doubt about **PRIDCO** and the Commonwealth's ability to continue as a going concern.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **PRIDCO**'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 **PRIDCO**'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 **PRIDCO**'s compliance.

Basis for Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

As described in the accompanying Schedule of Findings and Questioned Costs, **PRIDCO** did not comply with requirement regarding CDFA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster) in Finding Number 2020-001 for reporting. Compliance with such requirement is necessary, in our opinion, for **PRIDCO** to comply with the requirements applicable to this program.

Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

In our opinion, except for the noncompliance described in the *"Basis for Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program*" paragraph, **PRIDCO** 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 other major Federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2020.

Other Matters

PRIDCO's response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **PRIDCO** 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 **PRIDCO**'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 each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **PRIDCO**'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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identify certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be material weakness.

PRIDCO's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 2, 2022

Stamp No. E491023 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

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PART III

FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued on whether the Financial Statement audited were prepared in accordance with special reporting framework:

☒ Unmodified Opinion
Modified: ☐ Qualified Opinion ☐ Adverse Opinion ☐ Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statement noted? ☐ Yes ☒ No

Federal Awards

Internal control over Major Federal Programs:

- Material weakness (es) identified? ☒ Yes ☐ No
- Significant deficiency (ies) identified? ☐ Yes ☒ None Reported

Type of auditors' report issued on compliance for Major Federal Programs:

☐ Unmodified Opinion
☒ Qualified Opinion
- Disaster Grants – Public Assistance (Presidentially Declared Disasters)

☐ Adverse Opinion ☐ Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ Yes ☐ No

Identification of Major Federal Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B Programs: $750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed no findings that are required to be reported herein under the Government Auditing Standards.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2020-001**
FEDERAL PROGRAM	**ALL FEDERAL PROGRAMS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
AWARD NUMBER	**ALL AWARDS**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR § 200.512 Report Submission, (a) (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
CONDITION	**PRIDCO** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period.
QUESTIONED COSTS	None
CONTEXT	**PRIDCO** was unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
EFFECT	**PRIDCO** did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years **PRIDCO** cannot be considered by the auditor as a low risk auditee.
CAUSE	**PRIDCO** did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2019-004).
RECOMMENDATION	We recommend **PRIDCO** to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurate and in a timely manner. In addition, **PRIDCO** need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2020-001– continuation**

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

PRIDCO's Management will implement, as soon as possible, all applicable recommendations from an external consulting firm evaluation of the DEDC's controls in place in to address, among other things, the timely preparation of financial statements and timely filing of federal reporting as well as compliance with the Federal Funding Accountability and Transparency Act reporting requirements. PRIDCO's Management expects audited financial statements issuance and federal filing to occur as follows: 2020 single audit report on or before August 31, 2022, and 2021 single audit report on or before November 30, 2022 (depending on the availability of the corresponding actuarial valuation reports for compliance with GASB 73 and GASB 75.

IMPLEMENTATION DATE August 31, 2022 & November 30, 2022

RESPONSIBLE PERSON Jamille Muriente, CFO

END OF SCHEDULE

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:

NONE

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:

FISCAL YEAR 2019

Findings Related to the Financial Statements:

Finding Number **2019-001** **Significant Deficiencies in Prepared Financial Statements**
Significant adjustments were made after the initial trial balances and financial statements were made available to audit.

Auditee Comments Pending of final action of **PRIDCO**'s Management.

Finding Number **2019-002** **Significant Deficiencies**
Differences in the SEFA for both programs with the audited financial statements.

Auditee Comments Pending of final action of the Oversight Agency and **PRIDCO**'s Management.

Findings Related to the Federal Programs:

Finding Number **2019-003** **Reporting**
Differences in the SEFA for both programs with the audited financial statements.

CFDA Numbers All Awards

Questioned Cost None

Auditee Comments Pending of final action of the Oversight Agency.

Finding Number **2019-004** **Reporting**
PRIDCO did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2019 during the required period.

CFDA Numbers All Awards

Questioned Cost None

Auditee Comments Pending of final action of the Oversight Agency.

(3) CORRECTIVE ACTION TAKEN IS SIGNIFICANTLY DIFFERENT FROM CORRECTIVE ACTION PREVIOUSLY REPORTED:

NONE

continue

(4) AUDIT FINDINGS IS NO LONGER VALID:

NONE

END OF SCHEDULE

FINDING NUMBER	COMPLIANCE SECTION	AUDITOR'S DESCRIPTION	AUDITOR'S RECOMMENDATION
2020-001		**Condition:** PRIDCO did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period. **Context:** PRIDCO was unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures. **Effect:** PRIDCO did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years PRIDCO cannot be considered by the auditor as a low risk auditee. **Cause:** PRIDCO did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.	We recommend PRIDCO to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurate and in a timely manner. In addition, PRIDCO need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.

Approve: Jamille E. Muriente Díaz
Date: 7/21/2022

CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM	DELIVERABLE	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
PRIDCO's Management will implement, as soon as possible, all applicable recommendations from an external consulting firm evaluation of the DEDC's controls in place in to address, among other things, the timely preparation of financial statements and timely filing of federal reporting as well as compliance with the Federal Funding Accountability and Transparency Act reporting requirements. PRIDCO's Management expects audited financial statements issuance and federal filing to occur as follows: 2020 single audit report on or before August 31, 2022, and 2021 single audit report on or before November 30, 2022 (depending on the availability of the corresponding actuarial valuation reports for compliance with GASB 73 and GASB 75.	**Jamille Muriente, CFO**	N/A	NO	August 31, 2022 & November 30, 2022