



GOBIERNO DE PUERTO RICO
ADMINISTRACIÓN DE TERRENOS

RECIBIDO 43726/22-03-20

PRESIDENCIA DEL SENADO

8 de marzo de 2022

A LA MANO

Hon. José L. Dalmau Santiago
Presidente
Senado de Puerto Rico
El Capitolio
San Juan, Puerto Rico

Estimado señor Presidente:

Le incluimos el Estado Financiero Auditado de la Administración de Terrenos de Puerto Rico, correspondiente al año fiscal que terminó el 30 de junio de 2020.

De necesitar información adicional, pueden comunicarse con el director de nuestra Oficina de Presupuesto y Finanzas, el Sr. Héctor Serrano Valle, a través del 753-9470 o 753-9300 extensión 259.

Cordialmente,

Dalcia Lebrón Nieves
Directora Ejecutiva

MSV/ld

anejo

OFICINA DEL SECRETARIO
SENADO DE PUERTO RICO

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787.250.7150



www.terrenos.pr.gov



GOBIERNO DE PUERTO RICO
Administración de Terrenos

HOJA DE MENSAJE

A :	Hon. José L. Dalmau Santiago Presidente		
Dirección :	Senado de Puerto Rico El Capitolio San Juan, PR		
Enviado por :	Héctor Serrano Valle Director <i>por C. Quiroz</i>		
Oficina de :	Presupuesto y Finanzas		
Fecha :	25 de abril de 2022	Hora :	

Asunto :

Entrega de Estado Financiero correspondiente al año fiscal que terminó el 30 de junio de 2020.

RECIBIDO ABR 28 2022 9:28

[Signature]
PRESIDENCIA DEL SENADO

Recibido por :			
Fecha :		Hora :	
Entregado a :			
Mensajero :			

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PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information
Fiscal Year Ended June 30, 2020



PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Land Administration

We have audited the accompanying financial statements of Puerto Rico Land Administration, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Puerto Rico Land Administration's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Schedule of Proportionate Share of the Collective Total Pension Liability and Related Ratios, the Schedule of Proportionate Share of the Collective Total Postemployment Benefit Liability and Related Ratios and the Notes to the Required Supplementary Information, on pages 40 through 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
Febrero 28, 2022.

Stamp No. E484460 was affixed to
the original of this report.

A handwritten signature in cursive script that reads "RSM Puerto Rico".



MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

This section of the Puerto Rico Land Administration (the Administration) financial statements presents a narrative overview and analysis of the Administration's financial performance and is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the Administration as of and for the fiscal year ended June 30, 2020. The information presented herewith should be read in conjunction with the Administration's basic financial statements and accompanying notes.

1. FINANCIAL HIGHLIGHTS

- The Administration's total assets increased by approximately \$4 million (or 1.77%)
- Deferred outflows of resources increased by approximately \$2.1 million (or 64.70%)
- Cash increased by approximately \$5 million (or 35.20%)
- Land and properties leased under long-term contracts decreased by approximately \$233 thousand (or 1.17%)
- Capital assets decreased by approximately \$727 thousand (or 16.16%)
- Notes, interest and other receivables, net, increased by approximately \$183 thousand (or 16.43%)
- The Administration's total liabilities increased by approximately \$1.8 million (or 2.32%)
- Total pension liability increased by approximately \$1.4 million (or 3.83%)
- Rental income increased by approximately \$30 thousand (or 0.24%)
- Gain on sale of land and properties increased by approximately \$311 thousand (or 501.61%)
- Land donations decreased by approximately \$4.8 million
- Operating expenses decreased by approximately \$10.2 million (or 54.68%)

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Administration's basic financial statements, which are comprised of the financial statements and the notes to the financial statements. Since the Administration is comprised of a single proprietary fund, no fund level financial statements are shown.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

Basic Financial Statements – The basic financial statements are designed to provide readers with a broad overview of the Administration's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Administration's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. Increase to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.

The statement of revenues, expenses, and changes in fund net position presents information showing how an entity's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

3. FINANCIAL ANALYSIS OF THE ADMINISTRATION

Condensed financial information on assets, deferred outflows of resources, liabilities deferred inflows of resources and net position is presented below (all amounts in thousands):

Description	2020	2019	Increase (Decrease)	Percentage
ASSETS:				
Cash	\$ 19,252	\$ 14,240	\$ 5,012	35.20%
Notes, interest, and other receivables, net	1,297	1,114	183	16.43%
Other assets	175	177	(2)	(1.13%)
Land and properties leased under long-term contracts	19,650	19,883	(233)	(1.17%)
Land and properties held-for- sale and held-for-future use	187,333	187,530	(197)	(0.11%)
Capital assets	3,772	4,499	(727)	(16.16%)
	<u>231,479</u>	<u>227,443</u>	<u>4,036</u>	<u>1.77%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>5,402</u>	<u>3,280</u>	<u>2,122</u>	<u>64.70%</u>
LIABILITIES	<u>83,191</u>	<u>81,308</u>	<u>1,883</u>	<u>2.32%</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,418</u>	<u>2,452</u>	<u>(34)</u>	<u>(1.39%)</u>
NET POSITION:				
Net investment in capital assets	3,772	4,499	(727)	(16.16%)
Unrestricted	<u>147,499</u>	<u>142,465</u>	<u>5,034</u>	<u>3.53%</u>
	<u>\$ 151,271</u>	<u>\$ 146,964</u>	<u>\$ 4,307</u>	<u>2.93%</u>

The Administration's net position increased by approximately \$4.3 million, mainly due to the result of operations during fiscal year ended June 30, 2020; which includes an adjustment for pension expense for approximately \$1.7 million, and an increase in operating income of approximately \$5.7 million.

Total assets and deferred outflows of resources increased by approximately \$6.2 million, which is net of an increase of approximately \$5 million in cash, and a decrease of approximately \$430 thousand in land and properties mainly related to a sale of property with a cost of approximately \$197 thousand, and the depreciation expense of the year for approximately \$233 thousand. In addition, there was a decrease in capital assets of approximately \$727 thousand mainly related to the depreciation expense of the year. Also, there was an increase in deferred outflows of resources for approximately \$2.1 million related to pension and other postemployment benefits.



MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

The increase in cash of approximately \$5 million is mainly related to the sale of land and property by approximately \$570 thousand; in addition, the average Administration's operating revenues for the last two years is approximately \$12.2 million and average operating expenses approximates \$8.4 million, these annual results creates an annual increase in cash for approximately \$4 million.

The increase in deferred outflows corresponds to the adjustments made related to GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, net from payments and accruals of the Pay-as-you-go (Pay-Go) for approximately \$2.2 million and \$547 thousand, respectively. In addition, the Administration recorded a liability due to the Commonwealth of Puerto Rico (Commonwealth) for approximately \$2.5 million related to the Pay-Go.

Condensed financial information on revenues, expenses, and changes in fund net position is presented below (all amounts in thousands):

Description	2020	2019	Increase (Decrease)	Percentage
OPERATING REVENUES:				
Land and properties sales, net	\$ 373	\$ 62	\$ 311	501.61%
Rental income	12,308	12,278	30	0.24%
Land donations	-	4,800	(4,800)	100.00%
	<u>12,681</u>	<u>17,140</u>	<u>(4,459)</u>	<u>(26.02%)</u>
OPERATING EXPENSES	<u>8,477</u>	<u>18,705</u>	<u>(10,228)</u>	<u>(54.68%)</u>
NON-OPERATING REVENUES	<u>103</u>	<u>134</u>	<u>(31)</u>	<u>(23.13%)</u>
CHANGE IN NET POSITION	<u>\$ 4,307</u>	<u>\$ (1,431)</u>	<u>\$ 5,738</u>	<u>(400.98%)</u>

The Administration enters into lease agreements on the land and properties it owns with government and private entities. The agreements vary in prices and terms depending on the intended public use and benefits to the Commonwealth of Puerto Rico residents.

The Administration also acquires and sells to other government agencies and instrumentalities or private entities, land and property that have been determined to be used or developed for public interest.

Operating expenses comprising principally of administration expenses, are mostly payroll, pensions and payment of real property taxes to which certain land and property are subject.



**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

During the year ended June 30, 2020, there were net sales of land and properties of approximately \$373 thousand, while during the year 2019, there were net sales of approximately \$62 thousand. The Administration's strategy is focused on long-term ownership of the current resources and leased them. During the year, the Administration remain constant in terms of operations related to the lease of land and properties.

Operating expenses decreased by approximately \$10.2 million (or 54.68%), mostly caused by the following:

- Decrease in personnel services for approximately \$10.4 million (or 85.04%), is net from increase in salaries for approximately \$111 thousand, termination benefits recognized during the year for Act No. 211 for approximately \$35 thousand, adjustment related to Act No. 70 increasing balance of personnel services for approximately \$79 thousand, and adjustment related to the implementation of GASB Statement No. 75 for approximately \$34 thousand.
- Pension costs of current year amounted to approximately \$10.4 million less than prior year.
- Increase in property tax expense for approximately \$207 thousand is mainly related to the fact that during last year, the Administration used approximately \$400 thousand from reserve maintained for property taxes.

During the year ended June 30, 2019, the Administration implemented the GASB Statement No. 73. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for assets accumulated for purposes of providing those pensions. As result of the implementation of GASB Statement No. 73, the Administration recognized an operating expense for the amount of approximately \$11 million.

Capital Assets: The Administration acquires, invests and or develops existing facilities, vacant business sites, unimproved land and other real estate for future development by the government or private sector. Site developed and buildings along with land held for lease, sale or future use are segregated from the capital assets being used in the Administration's operations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

The following table summarizes the capital assets of the Administration as of June 30, 2020 and 2019 (all amounts in thousands):

Description	2020	2019	Increase (Decrease)	Percentage
CAPITAL ASSETS:				
Land	\$ 106	\$ 106	\$ -	0.00%
Building and improvements	14,928	14,928	-	0.00%
Furniture and equipment	1,292	1,291	1	0.08%
Vehicles	191	191	-	0.00%
Computer software	103	103	-	0.00%
Less: Accumulated depreciation and amortization	(12,848)	(12,120)	(728)	6.01%
	<u>\$ 3,772</u>	<u>\$ 4,499</u>	<u>\$ (727)</u>	<u>(16.16%)</u>

Change in accumulated depreciation is due to the net effect of depreciation of buildings and improvements for approximately \$679 thousand, furniture and equipment for approximately \$46 thousand, and computer software for approximately \$4 thousand for the year ended June 30, 2020. For a detailed activity of capital assets, please refer to Note 7 of the basic financial statements.

4. COMMITMENT

The Administration serves as absolute, unconditional and irrevocable guarantor to the US Government, represented by the Department of the Navy, for an acquisition of properties made by the Local Redevelopment Authority for Naval Station Roosevelt Roads. For additional details on this commitment, please refer to Note 17 of the accompanying basic financial statements.

5. CURRENTLY KNOWN FACTS AND EVENTS

Earthquake

On January 7, 2020, Puerto Rico experienced a 6.4 magnitude earthquake that shook its southern coast, which was one of the most damaging quakes that the island has seen. Puerto Rico's governor declared a state of emergency and requested direct federal assistance and emergency protective measures. The Administration identified one property with structural damages related to the events of earthquakes, this property is referred as "Antiguo Casino de Ponce" which is located in the municipality of Ponce. Refer to Note 18 of the accompanying basic financial statements for additional details.



MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

Coronavirus disease ("COVID-19")

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. Effective on March 16, 2020, a lockdown executive order was issued by the Governor of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget (PROMB) to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities.

Subsequent executive orders, including curfew directives and other protective measures have been issued in response of the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico in response to the economic distress caused by the COVID-19 pandemic.

6. SUBSEQUENT EVENTS

Act No. 164 of December 30, 2020

On December 30, 2020, Act No. 164 was approved to amend the Articles 4, 7, 11, 14 and 15 of the Act No. 13 of May 16, 1962. Pursuant to this Act, the Administration is exempt from payments related to property taxes.

Claim to Federal Management Administration (FEMA)

During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, on December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million.

7. REQUEST FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Administration's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Land Administration, 171 Carlos Chardon Avenue, Suite 101, San Juan, Puerto Rico, 00918.



PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2020

ASSETS

CURRENT ASSETS:

Cash	\$ 19,251,688
Notes, interest and other receivables, net	1,296,551
Other assets	175,492
	<u>20,723,731</u>

NON-CURRENT ASSETS:

Land and properties:

Leased under long-term contracts-

Cataño Fuel Storage and Pier Facilities, net	2,817,919
Other properties, net	<u>16,831,757</u>

19,649,676

Held-for-sale	169,000,220
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Held-for-future use	<u>18,332,914</u>
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206,982,810

Capital assets, net	<u>3,772,011</u>
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210,754,821

231,478,552

DEFERRED OUTFLOWS OF RESOURCES:

Pension related	5,323,255
Other postemployment benefits related	<u>78,700</u>

5,401,955

\$ 236,880,507

Continues...

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2020

Continued...

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 1,748,275
Due to governmental entities	3,896,220
Compensated absences	337,279
Termination benefits	383,413
Total pension liability	2,410,619
Other postemployment benefits liability	78,700
	<u>8,854,506</u>

NON-CURRENT LIABILITIES:

Unearned rent	1,337,541
Guaranty rent deposits	738,464
Termination benefits	1,299,851
Total pension liability	38,055,886
Other postemployment benefits liability	937,449
Deposits on sales of land and properties held-for-sale	31,967,777
	<u>74,336,968</u>
	<u>83,191,474</u>

DEFERRED INFLOWS OF RESOURCES, pension related	<u>2,418,101</u>
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NET POSITION:

Net investment in capital assets	3,772,011
Unrestricted	<u>147,498,921</u>
	<u>\$ 151,270,932</u>

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the fiscal year ended June 30, 2020

OPERATING REVENUES:

Land and properties sales -

To entities, agencies or component units of the

Commonwealth of Puerto Rico

\$ 570,000

Less: Cost of land and properties sold

(197,188)

Gain on sales of land and properties

372,812

Rental income

12,307,862

12,680,674

OPERATING EXPENSES:

Salaries and fringe benefits

3,425,771

Pension expense

1,736,245

Professional services

652,238

Utilities

251,395

Property taxes

242,980

Insurance

364,455

Repairs and maintenance

77,075

Depreciation and amortization

961,785

Other

765,154

8,477,098

OPERATING INCOME

4,203,576

NON-OPERATING REVENUE, Interest income

103,473

INCREASE IN NET POSITION

4,307,049

NET POSITION, beginning of year

146,963,883

NET POSITION, end of year

\$ 151,270,932

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Sales of properties and rental income	\$ 12,684,117
Payment to employees and related payroll costs	(5,684,643)
Payments for goods, services and taxes, substantially real property tax	(2,089,851)
Net cash provided by operating activities	4,909,623

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital expenditures	(1,500)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest collected on cash deposit accounts	103,473
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NET INCREASE IN CASH

5,011,596

CASH, beginning of year

14,240,092

CASH, end of year

\$ 19,251,688

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 4,203,576
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation and amortization of capital assets	728,764
Depreciation and amortization of properties under long-term contracts	233,021
Bad debt expense	387,818
Gain on sales of land and properties	(372,812)
Proceeds on sales of land and properties	570,000
Changes in operating assets and liabilities:	
(Increase) decrease in assets -	
Notes, interest, and other receivables	(570,612)
Other assets	1,773
(Increase) decrease in deferred outflows of resources -	
Pension related	(2,127,694)
Other postemployment benefits related	5,552
Increase (decrease) in liabilities -	
Accounts payable and accrued liabilities	281,085
Due to governmental entities	178,914
Compensated absences	104,454
Termination benefits	(270,151)
Total pension liability	1,571,708
Other postemployment benefits liability	28,898
Unearned rent	(16,474)
Deposits on sales of land and properties held-for-sale	5,523
Increase in deferred inflows of resources - pension related	(33,720)
Net cash provided by operating activities	\$ 4,909,623

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

PUERTO RICO LAND ADMINISTRATION *(A Component Unit of the Commonwealth of Puerto Rico)*

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2020

1) Reporting Entity:

The Puerto Rico Land Administration (the Administration) is a public corporation and a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Administration was created by Act No. 13 of May 16, 1962, as amended, to promote the welfare of the community through efforts and programs designed for the efficient utilization of public land in Puerto Rico. Among its programs, the Administration acquires, through negotiation or expropriation, parcels of land, on behalf of government entities, for future development or for reserve. The Administration is also dedicated to the rental of certain tracts of land through lease contracts for public and private use.

The Administration is exempt from the payment of Puerto Rico taxes, except real property taxes (see Notes 19 and 20), and excise taxes on certain purchases.

2) Basis of Presentation and Summary of Significant Accounting Policies:

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America (US GAAP), for governments as prescribed by the Governmental Accounting Standards Board (GASB). Following is a description of the most significant accounting policies:

Measurement focus basis of accounting and financial statements presentation – Financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Proprietary funds present three basic financial statements, which include a statement of net position, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows. The statement of net position presents the Administration's assets and liabilities, with the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources, reported as net position. Net position may be reported in three categories:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of related debt when such debt is attributable to the acquisition, construction, or improvement of those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.
- Restricted component of net position – Consists of restricted assets reduced by related liabilities. Restricted net assets result when constraints are placed on the use of net assets, either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted component of net position – Is the net amount of (i) assets plus deferred outflows of resources, less (ii) liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. Unrestricted component of net position often is assigned in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on the use that are imposed by management, but such constraints may be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Administration's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of revenues, expenses and changes in fund net position distinguishes operating revenues and expenses from non-operating items. The operating revenues of the Administration are those generated from the activities related to the sales and rental of land and properties. Operating expenses include payroll and related-payroll benefits, depreciation and amortization, property taxes, insurance, repair and maintenance and other. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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

Use of estimates – The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for uncollectible receivables, useful life of capital assets, impairment on properties held-for-sale and held-for-future-use, total pension liability, and other postemployment benefits liability.

Notes, interest and other receivables – Notes, interest and other receivables are stated net of estimated allowance for uncollectible accounts. The allowance for uncollectible amounts is maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Land and properties – Land and properties are recorded at cost, plus allocable interest, costs of appraisals, related acquisition studies and improvements, and other capitalizable costs or market value, whichever is lower. Donated land properties are stated at fair market value at date of donation.

Management of the Administration is of the opinion that the cost to appraise all land and property would represent a significant and unwarranted expense. Appraisals of certain properties were made during the fiscal year 2020, as well as current market value information of certain land and properties obtained from sales transactions and other sources were reviewed as part of the impairment evaluation. During the year ended June 30, 2020, no impairment was recognized by management.

Capital assets – Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The Administration defines capital assets as assets with an individual cost of more than \$500 and a useful life of five (5) years or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective capital assets, as follows:

Description	Useful life (In years)
Building and improvements	10-30
Furniture and equipment	5-15
Vehicles	5
Computer software	5

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any, is credited or charged to operations.

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The amount of the impairment of these assets is determined by comparing the carrying value with the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Management understands that there are no instances of impairment of capital assets during the year ended June 30, 2020.

Compensated absences – Based on Act No. 26 of 2017, employees are granted for the accumulation of 1.25 days per month (15 days annually) of vacation time. 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 an accumulated maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed (60 days).

Termination benefits – The Administration accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Land and properties sales – Land and properties sales are recognized when title to the land and property is conveyed to the buyer. When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date of sale, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land under the full accrual method of accounting.

Rental income – Consists principally of the leasing of the Cataño Fuel Storage Facilities and land parcels subject to lease contracts at varying terms. All leases have been classified as operating leases. Rental income is presented as operating revenues in the accompanying statement of revenues, expenses and changes in fund net position.

Risk management – The Administration is responsible for assuring that the Administration's property is properly insured. Annually, the Administration evaluates the information regarding all property owned and the respective replacement values, and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2020 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Non-exchange transactions – GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Administration recorded as deferred outflows of resources certain pension and other postemployment benefits related items.

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Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Of the other postemployment benefits related items only other postemployment benefits payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment benefits (OPEB) liability after the next measurement date.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Administration has deferred inflows of resources related to pensions. The pension related items include changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions; these items are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period.

Accounting for pension costs – The Administration accounts for pension costs under the provisions 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, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

Under the guidance of GASB No. 73, the Commonwealth and its component units (including the Administration) are considered to be one employer and are classified for financial reporting purpose as a single-employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions made subsequent to the measurement date.

Accounting for OPEB – Effective July 1, 2017, the Administration adopted the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Qualified retired employees of the Administration participate in the Other Postemployment Plan of the Commonwealth for Retired Participants of the Employee's Retirement System (the OPEB Plan). The OPEB Plan is an unfunded, multi- employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis. Therefore, in accordance with GASB Statement No. 75, the Administration reports its proportionate share of OPEB liability and the related OPEB amounts.

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

- GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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- **GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period.** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in the 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. Earlier application is encouraged.
- **GASB Statement No. 90, Majority Equity Interests.** The primary objectives of this 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 91, Conduit Debt Obligations.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

This statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when a LIBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of LIBOR's does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended.
- Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace a LIBOR as the rate upon which variable payments depend.

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

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

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

- **GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance***. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The new effective dates for the applicable statements to the Administration were included in each statement included above.
- **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

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

- GASB Statement 98, The Annual Comprehensive Financial Report. This Statement amends National Council on Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, Summary Statement of Principles No. 12, paragraphs 4, 12, 128, 135, 138, 139, 143, 155, 157, 173, and 175, and footnote 22; Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, paragraph 13; Statement No. 14, *The Financial Reporting Entity*, paragraph 50; Statement No. 30, *Risk Financing Omnibus*, paragraph 7; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, footnote 7; NCGA Interpretation 10, *State and Local Government Budgetary Reporting*, paragraph 14; Implementation Guide No. 2015-1, Questions 2.4.1, 3.35.2, 4.28.11, 4.43.2, 7.5.1, 7.5.2, 7.48.2, 7.69.1, 7.91.3, 9.2.1, 9.2.2, 9.14.2, and 9.33.3; and Implementation Guide No. 2016-1, *Implementation Guidance Update—2016*, Question 5.10. 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. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

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3) Deposits Placed with Bank:

The Administration is authorized to deposit funds in the custody of financial institutions approved by the Commonwealth. Commonwealth's regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount in excess of federal insurance coverage.

Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Administration may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2020, cash in commercial banks have a carrying amount of approximately \$19,252,000 and a depository bank balance of approximately \$19,844,000.

4) Claim receivable from Public Entity Trust:

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

Pursuant to Act 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Trust, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (*i.e.*, November 29, 2018) (the Closing Date), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Trust (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included the Administration, received their pro rata share of interests on the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. As a result of the execution of the Qualifying Modification the Trust received beneficial units of the PET amounting to \$36,553,000 in exchange for the deposits held at GDB.

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

The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

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

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5) Notes, Interest and Other Receivables, net:

As of June 30, 2020, notes, interest and other receivables had a balance of \$1,296,551, net of allowance for doubtful accounts of \$3,362,318. Balance is composed of the following:

Receivables from government entities:

Description	Amount
Puerto Rico Land Authority	\$ 15,000
Ponce Ports Authority (formerly America's Port Authority)	609,610
Roosevelt Roads Local Redevelopment Authority	523,500
	1,148,110
Less: Allowance for doubtful accounts	(615,610)
	<u>\$ 532,500</u>

Rent and land leases from governmental entities:

Description	Amount
Municipality of San Juan	\$ 747,885
Municipality of Ponce	265,806
Municipality of Arecibo	156,429
Puerto Rico Metropolitan Bus Authority	321,539
Other governmental entities	95,533
	1,587,192
Less: Allowance for doubtful accounts	(1,526,671)
	<u>\$ 60,521</u>

Notes, interest and other receivables:

Description	Amount
Notes and other receivables from third parties	\$ 166,502
Interest receivable	10,408
Rent and land leases	1,746,657
	1,923,567
Less: Allowance for doubtful accounts	(1,220,037)
	<u>\$ 703,530</u>
Total notes, interest and other receivables, net	<u>\$ 1,296,551</u>

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6) Land and Properties:

The Administration's land and properties inventory is segregated into the following categories:

Leased under long-term contracts – Represent the investment in land and properties subject to lease contracts for varying terms. Long-term lease agreements cover initial periods of five to thirty years with renewal option periods of up to ten years. Real estate taxes, insurance and maintenance expenses are usually obligations of the lessees. Contracts provide, in certain cases, for rent increases during renewal periods to be based on fixed percentages of land market values at dates of renewal:

Cataño Fuel Storage and Pier Facilities – The Administration owns certain fuel storage and pier facilities in Cataño, Puerto Rico. These facilities are fully depreciated and amortized. The following summarizes the Administration's investment in these facilities as of June 30, 2020:

Description	Useful life (In years)	Amount
Structures and improvements	10 -15	\$ 3,603,578
Machinery, equipment and tanks	25	12,295,933
		15,899,511
Less: Accumulated depreciation and amortization		(15,899,511)
		-
Land		2,817,919
		<u>\$ 2,817,919</u>

Other properties – As of June 30, 2020, other properties consist of the following:

Description	Useful life (In years)	Amount
Land – Frente Portuario	-	\$ 11,584,006
Project – Frente Portuario	25	2,114,375
Improvements – Finca Multeada	25	3,403,920
Plaza Isabela	18	1,596,878
		18,699,179
Less: Accumulated depreciation and amortization		(1,867,422)
		<u>\$ 16,831,757</u>

During the year ended June 30, 2020, amortization expense of improvements amounted to approximately \$233,000.

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Held-for-sale – Land and properties held for sale (principally to other governmental entities) include land purchased by the Administration on behalf of other governmental entities. Land that is acquired on behalf of other governmental entities generally includes certain holding costs, which are subject to reimbursement by the acquiring entity. Funds received under this program from the acquiring governmental entities are classified as deposits on sale of land and properties held-for-sale in the accompanying statement of net position, until title is transferred to the buyer. As of June 30, 2020, the deposits received for optioned land and properties amounted to approximately \$32,000,000.

Held-for-future use – This category includes undeveloped lots of land, some of which are designated for possible sale to third parties, and properties under development and/or held-for-sale to third parties. As of June 30, 2020, properties held-for-future use consist of the following:

Description	Amount
Project – San Juan Waterfront	\$ 2,880,500
Project – Paramount Theater	10,652,414
Project – “Antigua Sede del Departamento de Salud”	4,800,000
	<u>\$ 18,332,914</u>

7) Capital Assets, net:

During the year ended June 30, 2020, activity of capital assets is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated, land	\$ 106,428	\$ -	\$ -	\$ 106,428
Capital assets being depreciated:				
Buildings and improvements	14,927,953	-	-	14,927,953
Furniture and equipment	1,290,862	1,500	-	1,292,362
Vehicles	191,179	-	-	191,179
Computer software	102,737	-	-	102,737
	<u>16,512,731</u>	<u>1,500</u>	<u>-</u>	<u>16,514,231</u>
Less: Accumulated depreciation and amortization -				
Buildings and improvements	(10,679,228)	(674,494)	-	(11,353,722)
Furniture and equipment	(1,181,494)	(50,558)	-	(1,232,052)
Vehicles	(172,124)	-	-	(172,124)
Computer software	(87,038)	(3,712)	-	(90,750)
	<u>(12,119,884)</u>	<u>(728,764)</u>	<u>-</u>	<u>(12,848,648)</u>
	<u>\$ 4,499,275</u>	<u>\$ (727,264)</u>	<u>\$ -</u>	<u>\$ 3,772,011</u>

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8) Deferred Outflows of Resources:

As of June 30, 2020, deferred outflows of resources is composed of pension related items for approximately \$5,323,000 and other OPEB related items for approximately \$79,000. Refer to additional details on Notes 11 and 12.

9) Due to Governmental Entities:

Amounts due to governmental entities as of June 30, 2020, consisted of the following:

Description	Amount
Commonwealth of Puerto Rico	\$ 2,529,559
Department of Natural Resources	1,054,398
"Centro de Recaudación de Ingresos Municipales (CRIM)"	257,717
Other entities	54,546
	<u>\$ 3,896,220</u>

10) Deferred Inflows of Resources:

As of June 30, 2020, deferred inflows of resources consist of the change in proportion and net difference between projected and actual earnings in pension plan investments for approximately \$2,418,000. Refer to additional details on Note 11.

11) Pension and Plan Description:

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities ("ERS participants"). Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also, pursuant to Act No. 106-2017, the Plan was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

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

Act No. 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the Plan. Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board established under Act No. 106-2017.

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

Defined Benefit Program

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 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.

Service Retirement Eligibility Requirements

- *Eligibility for Act No. 447 – Members* – Act No. 447 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 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, and (3) any age with 30 years of credited service. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below:

Date of Birth	Attained Age as of June 20, 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

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- *Eligibility for Act No. 1 Members* - Act No. 1 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 members could retire upon (1) attainment of age 55 with 25 years of credited service, or (2) attainment of age 65 with 10 years of credited service.

Act No. 1 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.

- *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.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire 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

Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution 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.

- *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

If the Act No. 447 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 the member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attained 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.

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Member contributions received from Act No. 447 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 Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 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 up to \$6,600 multiplied by years of credited service in excess of 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. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

- *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For Act No. 1 members, as applicable to the Administration's participants, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

Retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by the Plan. The annuity, for which a plan member was eligible, was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation.

Refer to the standalone financial statements of the Plan for further information on additional benefits.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2020, the Administration reported a liability of approximately \$40.5 million for its proportionate share of the total pension liability.

The total pension liability was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019). The Administration's proportion of the total pension liability was based on the ratio of the Administration'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. As of June 30, 2020, the Administration's proportionate share was 0.16284%, which resulted in a decrease of 0.00402% from its proportionate as of June 30, 2019 (using the measurement date as of June 30, 2019).

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Actuarial Assumptions and Methods

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Discount Rate

The discount rate for June 30, 2019 was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2019 actuarial valuation were as follows:

- *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 forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale 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.

- *Post-retirement Healthy Mortality*

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

- *Post-retirement Disabled Mortality*

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

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method:

Entry age normal

Inflation rate:

Not applicable

Salary increases:

3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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Sensitivity of the Administration's Proportionate Share of Total Pension Liability to Changes in the Discount Rate

The following table presents the Administration's proportionate share of the total pension liability calculated using the current discount rate of 3.50%, as well as what the Administration's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

Description	1% Decrease or 2.50%	Current Discount Rate or 3.50%	1% Increase or 4.50%
Total pension liability	\$ 46,016,776	\$ 40,466,505	\$ 35,957,297

For the year ended June 30, 2020, the Administration recognized pension expense of approximately \$1,736,000. Deferred outflows and deferred inflows of resources from pension activities by source reported by the Administration in the statement of net position as of June 30, 2020, are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 1,371,933
Changes of assumptions	1,314,048	1,046,168
Changes in proportion	1,598,588	-
Benefits paid and accrued subsequent to measurement date	2,410,619	-
	<u>\$ 5,323,255</u>	<u>\$ 2,418,101</u>

The benefits paid and accrued subsequent to the measurement date and reported as deferred outflows of resources, are related to the Pay-Go System and are due to the Commonwealth of Puerto Rico. These benefits will be recognized as a reduction of the total pension liability after June 30, 2020.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions as of June 30, 2019 will be recognized in pension expense in future years, as follows:

Years ending June 30,	Amount
2020	\$ 123,634
2021	123,634
2022	123,634
2023	123,633
	<u>\$ 494,535</u>

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5 years for 2019.

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12) Other Postemployment Benefit Plan (OPEB Plan):

In addition to the pension benefits described in Note 11, the Administration participates in the OPEB Plan of the Commonwealth for Retired Participants of the Employee's Retirement System. The OPEB is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. 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 Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be the one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

The OPEB plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims 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. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

OPEB Liability, OPEB Expense and Deferred Outflows of Resources

As of June 30, 2020, the Administration reported a liability of \$1,016,149 for its proportionate share of the OPEB liability. The total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

As of June 30, 2020, the Administration's proportionate share was 0.12210%, which resulted in an increase of 0.00487% from its proportionate as of June 30, 2020 (using the measurement date as of June 30, 2018). The Administration recognized an OPEB expense for approximately \$34,000, during the fiscal year ended June 30, 2020.

The deferred outflows of resources related to the OPEB plan results from the benefits paid subsequent to measurement date amounting to approximately \$79,000 as of June 30, 2020, and will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2020. 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 year.

Actuarial Assumptions and Methods

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Valuation date:	July 1, 2018
Measurement date:	June 30, 2019
Actuarial cost method:	Entry age normal
Medical trend rate:	Not applicable

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Discount rate – The discount rate was of 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality – The mortality tables used for valuation were as follows:

- *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 forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale 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 occupied only for members covered 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 the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Disable Mortality*

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

Sensitivity of the Administration's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Administration as of June 30, 2020 calculated using the discount rate of 3.50%, as well as the Administration's total OPEB liability if it were calculated using the discount rate of 1 – percentage point lower (2.50%) or 1 – percentage point higher (4.50%) than the current rate:

Description	1% Decrease or 2.50%	Current Discount Rate of 3.50%	1% Increase or 4.50%
Total OPEB liability	\$ 1,114,526	\$ 1,016,149	\$ 932,602

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13) Termination Benefits:

Voluntary termination benefits

On July 2, 2010, the Legislature of the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 47.5% to 50% of each employee's salary, as defined.

In this early retirement benefit program, the Administration will make the employee and employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one month to six months' salary, based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement, or have the age for retirement, the Administration will make the employee and employer contributions to the Retirement System for a five-year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by the Administration's management.

As of June 30, 2020, unpaid benefits on this program were discounted for employees under the Article 4b at 1.50%.

As of June 30, 2020, the present value of future incentive payments reported as a liability amounted to approximately \$1,097,000. During the fiscal year ended June 30, 2020, the Administration recorded an expense for approximately \$79,200, which is included in the statement of revenues, expenses and changes in net position and previously considered in the present value of future incentive payments computation.

From the total aggregate liability of the program as of June 30, 2020, the amount of approximately \$161,300 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$936,000. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

Voluntary pre-retirement program

On December 8, 2015, Act No. 211-2015 was approved to create a Voluntary Pre-retirement Program. This Act establishes that employees who have been working for the Commonwealth and enrolled in the Employees' Retirement System (ERS) before April 1, 1990 with at least 20 years of service may be eligible to participate in the payment of employer contributions on account of Social Security and Medicare; and the payment of the participant's healthcare plan during the first two years of the program. This program also provides for the employer to continue making both individual and employee contributions to the ERS. The Act No. 2011-2015 stipulate that the review and approval of Puerto Rico Office Management and Budget (PROMB) is required before implementation.

In August 2016, nine (9) employees signed an agreement to select the Voluntary Preretirement Program for a total complete program and liquidation impact of approximately \$1,368,000. On August 1, 2017, PROMB approved the program for the Administration.

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As of June 30, 2020, unpaid benefits on this program were discounted for employees at 0.95%. During the fiscal year ended June 30, 2020, the Administration recognized expenses for approximately \$35,000 related to this program. As of June 30, 2020, the present value of future incentive payments reported as a liability amounted to approximately \$586,100. From the total aggregate liability of the program as of June 30, 2020, the amount of approximately \$222,100 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$364,000.

14) Non-current Liabilities:

The summarized activity on non-current liabilities for the fiscal year ended June 30, 2020, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Accrued vacations	\$ 232,825	\$ 156,437	\$ (51,983)	\$ 337,279	\$ 337,279
Unearned rent	1,354,015	797,891	(814,365)	1,337,541	-
Guaranty rent deposits	732,941	5,523	-	738,464	-
Termination benefits	1,953,415	113,769	(383,920)	1,683,264	383,413
Total pension liability	38,894,797	4,323,899	(2,752,191)	40,466,505	2,410,619
Other post-employment benefits liability	987,251	34,450	(5,552)	1,016,149	78,700
Deposits on sales of land and properties held-for-sale	31,967,777	-	-	31,967,777	-
	<u>\$ 76,123,021</u>	<u>\$ 5,431,969</u>	<u>\$ (4,008,011)</u>	<u>\$ 77,546,979</u>	<u>\$ 3,210,011</u>

15) Interagency Agreement:

On July 16, 2015, the Administration entered into a three (3) years agreement with the Port Authority of Ponce (the Authority). Under the agreement, the Administration assists in payments on behalf of the Authority for professional services. The Authority then reimburses the amount to the Administration. Total receivable for this service as of June 30, 2020, amounted to \$609,610, which is fully reserved as an uncollectible account.

16) Rental Income Commitments:

The Administration has entered into various long term rental agreements of certain land and properties available.

The Cataño Fuel Storage and Pier facilities are leased to several companies engaged in the fuel distribution industry. Lease agreements establish a minimum annual lease payment or a "thruput" fee based on a U.S. gallon of bulk petroleum products at 60° F, passing through the facilities, whichever is greater. The leases' expiration dates fluctuate from March 20, 2023 through December 26, 2028. The leases contain renewal options that go from one additional ten-year period to extensions of 15 years.

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The rental agreements have a quarterly rental payment that ranges from approximately \$105,000 to \$681,000, with an aggregate average monthly payment of approximately \$620,000 as of June 30, 2020. During the fiscal year ended June 30, 2020, net rental income under these lease agreements amount approximately \$7.8 million.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2020, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 7,989,524
2022	7,965,524
2023	7,965,524
2024	7,965,524
2025	7,965,524
2026-2030	24,942,428
2031-2035	2,119,040
	<u>\$ 66,913,088</u>

The rental agreements related to Other Properties have a monthly or semi-annual rental payment that ranges from \$1 to \$137,500, with an aggregate average monthly payment of approximately \$1,600, as of June 30, 2020. For the fiscal year ended June 30, 2020, rent revenues on such rental agreements amounted to approximately \$4,500,000, which are reported as part of rental income.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2020, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 4,142,570
2022	4,138,281
2023	3,935,301
2024	3,865,065
2025	3,865,065
2026-2030	19,283,200
2031-2035	5,961,033
2036-2040	5,289,488
2041-2045	3,914,747
2046-2050	2,828,536
2051-2055	2,612,500
2056-2060	2,237,500
2061-2065	1,720,000
2066-2070	1,375,000
2071-2074	1,100,000
	<u>\$ 66,268,286</u>

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2020

17) Other Commitment:

Guarantees – The Administration has entered into a purchase option agreement with the Authority for the Local Redevelopment of the Naval Station Roosevelt Roads (the Authority). Under the terms of this purchase agreement, the Administration will acquire the real estate properties located at Naval Station Roosevelt Roads. The agreement established an estimated price of \$2,500,000 for such properties. As part of the purchase option, the Administration will pay a deposit of \$600,000.

The purchase option agreement expired on June 30, 2016 and the Authority will have to reimburse the deposit amount to the Administration. The Authority presented a payment plan for the reimbursement of the deposit amount due to their current economic conditions and cash flows difficulties which was approved on May 4, 2017 by both parties. As of June 30, 2020, the balance due from the Authority amounted to approximately \$523,000, which was recorded as part of the notes, interest and other receivables balance in the accompanying statement of net position.

18) Contingencies:

Claims

The Administration is a party in legal claims arising from land condemnations principally on behalf of other government entities. The management of the Administration, after consulting with legal counsels, is of the opinion that any liabilities arising from claims of land condemnations on behalf of others, which for the most part represent additional costs of land acquired and not yet sold, will be assumed by the governmental instrumentality that will ultimately acquire the land.

The Administration was notified in 1992 by the Environmental Protection Agency (EPA) that it was a Potential Responsible Party (PRP) under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The EPA also named other private and governmental sector PRPs. The public sector PRPs are the Municipality of Juncos and the Puerto Rico Housing Administration.

EPA alleged that the private PRPs deposited and/or arranged for disposal of hazardous substances at the Juncos Landfill. EPA also alleged that the governmental PRPs were either aware of the land and/or operations, and therefore, were responsible for part of the liability associated to the disposal of hazardous substances at the site.

According to the case file, the governmental PRPs must enter into an interagency agreement to allocate to each governmental PRP responsibility and duties, which currently include monthly maintenance activities. It was preliminarily agreed that the governmental PRPs will pay \$2,000 monthly for one year to the Municipality of Juncos for the acquisition of equipment to be used in maintenance activities. The Administration argues that its share of responsibility is 10% of said amount. It should be noted, however, that the maintenance activities would, in effect, for at least 25 years. The governmental PRPs have been negotiating each one's share of liability in order to contribute accordingly. As of the date of these financial statements, the governmental PRPs have not reached an agreement. In addition to the foregoing, the EPA was claiming \$645,758 from the governmental PRPs as alleged costs incurred in the relocation of nearby residents of the condemned site. The governmental PRPs and the EPA reached an agreement on June 22, 2010 to settle the EPA's claim for \$367,753. While the governmental PRPs reached jointly that agreement with the EPA, they were supposed to reach an internal agreement to allocate each other's liability in order to pay its share of the agreed amount to the EPA. The governmental PRPs were not able to reach an internal agreement on to allocate each one's liability.

The Administration decided it would pay one third (\$122,584) of the amount owed to the EPA as its share in order to bring the case to an end and to avoid potential future litigation costs and additional efforts. Since the agreement with the EPA was made jointly by the governmental PRPs, in the event that there is an outstanding balance not satisfied by any of the other governmental PRPs, the EPA may still come after the Administration for collection of such balance.

PUERTO RICO LAND ADMINISTRATION
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

The Administration is also a party in other claims arising in the ordinary course of business. Management, based on consultation with its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Administration's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to \$748,000 has been reflected as part of the accounts payable and accrued liabilities balance in the accompanying statement of net position.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

As of today, the Administration's management had not identified any adverse effect from the COVID-19 pandemic emergency in its operational cash flows.

Earthquake

On January 7, 2020, Puerto Rico experienced a 6.4 magnitude earthquake that shook its southern coast, which was one of the most damaging quakes that the island has seen. Puerto Rico's governor declared a state of emergency and requested direct federal assistance and emergency protective measures. The Administration identified one property with structural damages related to the events of earthquakes, this property is referred as "Antiguo Casino de Ponce", which is located in the municipality of Ponce, and it is actually under a long-term contract with the same municipality to operate the casino. At June 30, 2020, the Administration is in the process to sign a Memorandum of Understanding (MOU), in order to FEMA considers the municipality as a subrecipient and obtain federal funds to repair damages of the property.

19) Real Property Taxes:

In 2010, the Administration decided to make use of the benefits provided by Article No. 14 of Law 71 of July 2, 2010. Such Act authorized the elimination of penalties and interests on real property taxes and provided discounts to those taxpayers who pay the property tax debt in its entirety. A reserve of approximately \$258,000 is included in the accompanying financial statements to cover any tax assessment on properties owned by the Administration.

As described in Note 20, pursuant to Act No. 164 of 2020, the Administration will be exempt from real property taxes.

PUERTO RICO LAND ADMINISTRATION
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

20) Subsequent Events:

Act No. 164 of December 30, 2020

On December 30, 2020, Act No. 164, was approved, to amend the Articles 4, 7, 11, 14 and 15 of the Act No. 13 of May 16, 1962. Pursuant to this Act, the Administration is exempt from payments related to property taxes.

Claim to Federal Management Administration (FEMA)

During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, on December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million.

The Administration has evaluated subsequent events from the statement of net position date through February 28, 2022, the date at which the financial statements were available to be issued and determined that there are no additional subsequent events to be disclosed.

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PUERTO RICO LAND ADMINISTRATION
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**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL PENSION LIABILITY
AND RELATED RATIOS (UNAUDITED)**

Fiscal years ended June 30, 2020, 2019 and 2018

Description	2020*	2019*	2018*
Proportion of Total Pension Liability	0.16284%	0.15882%	0.15477%
Proportionate Share of Total Pension Liability	\$ 40,466,505	\$ 38,894,797	\$ 43,652,509
Covered - Employee Payroll	-	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A

* The amounts presented have a measurement date of the previous fiscal year end.

* Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2019 was the first year that the Administration transitioned from GASB No. 68 to GASB No. 73 resulting from the enactment of Act No. 106-2017. This schedule is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

PUERTO RICO LAND ADMINISTRATION
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**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL POSTEMPLOYMENT BENEFIT LIABILITY
AND RELATED RATIOS (UNAUDITED)**

Fiscal years ended June 30, 2020, 2019 and 2018

Description	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.12210%	0.11723%	0.11435%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 1,016,149	\$ 987,251	\$ 1,052,621
Covered - Employee Payroll	-	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A

* The amounts presented have a measurement date of the previous fiscal year end.

* Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2018 was the first year that the new requirements of GASB No. 75 were implemented at the Administration. 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.

See accompanying independent auditors' report.

PUERTO RICO LAND ADMINISTRATION
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
Fiscal years ended June 30, 2020 and 2019

1) Criteria in paragraph 4:

Act No. 106-2017 provided that the Plan would be funded on a PayGo basis and no assets would be accumulated in a pension trust the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 3.50% as of June 30, 2019.

As a result of the enactment of Act No. 106-2017, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

2) Factors that significantly affect trends in the amounts reported:

Factors that significantly affect trends in the amounts reported were identified as follows:

Actuarial assumptions – There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the decrease in the discount rate from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

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