GOBIERNO DE PUERTO RICO
Administración de Terrenos

An. vega
5-4-21
1:28pm

26 de febrero de 2021

A LA MANO

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

Estimado señor Presidente:

Le incluimos los Estados Financieros Auditados de la Administración de Terrenos de Puerto Rico correspondientes al año fiscal que terminó el 30 de junio de 2018.

De necesitar información adicional pueden comunicarse con nuestro director de la 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

HSV/lld

Anejo

171 Ave. Carlos Chardón, Suite 101, San Juan, PR 00918 • Apartado 363767, San Juan PR 00936-3767
787.753.9300 787.250.7150 www.terrenos.pr.gov

GOBIERNO DE PUERTO RICO
Administración de Terrenos

HOJA DE MENSAJE

A :	Hon. José L. Dalmau Santiago Presidente del Senado
Dirección :	El Capitolio Viejo San Juan
Enviado por :	Héctor Serrano Valle Director por [firma]
Oficina de :	Presupuesto y Finanzas
Fecha :	4 de marzo de 2021 — **Hora :**

Asunto :

Carta de trámite y Estados Financieros Auditados de la Administración de Terrenos para el año fiscal que terminó el 30 de junio de 2018.

Recibido por :	M. [firma]
Fecha :	5-3-21 — **Hora:** 1:28 pm
Entregado a :	
Mensajero :	

Ave. Carlos Chardón 171, Suite 101, San Juan, PR 00918-0903 • Apartado 363767, San Juan, PR 00936-3767
Tel. 787.753.9300 Fax 787.250.7150
www.terrenos.pr.gov

RSM Puerto Rico

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, 2018

RSM

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

RSM

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2018

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RSM Puerto Rico
PO Box 10528
San Juan, PR 00922-0528

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F 787 759 7479
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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, 2018, 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.

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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, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Effect of Adopting a New Accounting Standard

As discussed in Note (3) to the accompanying basic financial statements, the net position balance as of July 1, 2017 has been restated to reflect the adoption of the Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which was effective for fiscal years beginning after June 15, 2017. Our opinion is not modified with respect to this matter.

Restatement to Net Position

As discussed in Note (3) to the accompanying basic financial statements, the 2017 financial statements have been restated to correct a misstatement related to classifications of land and properties, land and properties held-for-future use, capital assets and the net position related to investment in capital assets. Our opinion is not modified with respect to this matter.

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 11, the Schedule of Statutorily Required Employer Contributions, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Changes in the Total Postemployment Benefits Other than Pensions (OPEB) Liability and Related Ratios, on pages 48 through 50, 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
February 26, 2021.

Stamp No. E444528 was affixed to
the original of this report.

RSM Puerto Rico

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2018 (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, 2018. 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 and deferred outflows of resources decreased approximately by $2.7 million (or 5.23%)
- Cash increased by approximately $3.2 million (or 49.78%)
- Notes, interest and other receivables, net, increased by approximately $249 thousand (or 13.45%)
- Land and properties leased under long-term contracts decreased by approximately $233 thousand (or 1.15%)
- Land and properties held-for-sale decreased by approximately $4.9 million (or 2.60%)
- Capital assets decreased by approximately $739 thousand (or 12.34%)
- Notes, interest and other receivables, net, increased by approximately $249 thousand (or 13.45%)
- The Administration's total liabilities and deferred inflows of resources increased by approximately $2.1 million (or 60.19%)
- The Administration reported a net pension liability decrease by approximately by $3 million (or 8.76%)
- Gain on sales of land and properties amounted to approximately $32 thousand during the year and decreased by approximately $333 thousand (or 91.29%) as compared with prior year
- Rental income increased by approximately $796 thousand (or 7.77%)
- There were no land donations nor grant income during the year
- Operating expenses increased by approximately $1.8 million (or 13.44%)

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.

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.

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	2018	2017 (As restated)	Increase (Decrease)	Percentage
ASSETS:				
Cash	$ 9,583	$ 6,398	$ 3,185	49.78%
Notes, interest, and other receivables, net	2,100	1,851	249	13.45%
Other assets	169	160	9	5.63%
Land and properties leased under long-term contracts	20,116	20,349	(233)	(1.15%)
Land and properties held-for-sale and held-for-future use	182,739	187,610	(4,871)	(2.60%)
Capital assets	5,248	5,987	(739)	(12.34%)
	219,955	222,355	(2,400)	(1.08%)
DEFERRED OUTFLOWS OF RESOURCES	7,272	7,587	(315)	(4.15%)
LIABILITIES	74,886	74,260	626	0.84%
DEFERRED INFLOWS OF RESOURCES	3,947	2,477	1,470	59.35%
NET POSITION:				
Invested in capital assets	5,248	5,987	(739)	(12.34%)
Unrestricted	143,146	147,217	(4,071)	(2.77%)
	$ 148,394	$ 153,204	$ (4,810)	(3.14%)

Overall, the Administration's net position decreased by approximately $4.8 million, due to the result of business operations during fiscal year ended June 30, 2018, which includes an impairment loss of approximately $3 million recorded during the year due to change in fair value of properties held-for-sale, a loss of approximately $1.9 million related to damages to inventory of properties held-for-sale caused by the Hurricane Maria, and a loss of approximately $1.1 million related to impairment of deposits held in the Economic Development Bank for Puerto Rico (EDB).

Total assets and deferred outflows of resources decreased by approximately $2.7 million, which is net of an increase of approximately $4.3 million in cash, an impairment loss recognized on deposits held in EDB for approximately $1.1 million, and a decrease of approximately $4.9 million in land and properties held-for-sale related to (i) an impairment loss of approximately $3 million for decrease in the fair value of properties, (ii) and approximately $1.9 million related to damages caused by the Hurricane Maria. On the other hand, there was a decrease in capital assets of approximately $739 thousand mainly related to the depreciation expense of the year. Also, there was a decrease in deferred outflows of resources for approximately $315 thousand.

The increase in cash of approximately $4.3 million is due to during the current period the commercial bank account balances increased by approximately $4 million due to the fact that the Administration registered all of its deposits in the commercial banks while in prior periods some of such deposits were made in Government Development Bank for Puerto Rico (GDB) accounts (which were fully reserved in the prior period). In addition, the Administration signed a new contract for land and properties leased, which is collected on a quarterly basis. There was an increase in notes, interest and other receivables of approximately $249 thousand primarily due to a net effect of an increase in notes and other receivables of approximately $480 thousand and an increase in the allowance for uncollectible receivables of approximately $231 thousand, resulting from the write-off of accounts receivable of approximately $16 thousand and bad debt expense of approximately $247 thousand.

The decrease in deferred outflows of resources responds to the adjustments made related to GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment* to GASB Statement No.27, and to GASB Statement No. 75 *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions.* In addition, a liability due to the Commonwealth of Puerto Rico (Commonwealth) for approximately $2 million was recorded related to the Pay-as-you-go (Pay-Go) retirement system.

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

Description	2018	2017 (As restated)	Increase (Decrease)	Percentage
OPERATING REVENUES:				
Land and properties sales, net	$ 32	$ 365	$ (333)	(91.23%)
Rental income	11,045	10,249	796	7.77%
Land donations	-	1,520	(1,520)	(100.00%)
Grant	-	1,000	(1,000)	(100.00%)
	11,077	13,134	(2,057)	(15.66%)
OPERATING EXPENSES	14,777	13,026	1,751	13.44%
NON-OPERATING INCOME (LOSS)	(1,110)	(64)	(1,046)	1,634.38%
CHANGE IN NET POSITION	$ (4,810)	$ 44	$ (4,854)	(11031.82%)

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 dependent 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 and payment of real property taxes to which certain land and property are subject.

During the year ended June 30, 2018, there were net sales of land and properties of approximately $32 thousand, while during the year 2017, there were net sales of approximately $365 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 increased by approximately $1.8 million (or 13.44%), mostly caused by the following:

- Impairment loss on land and properties of approximately $3 million recognized during the current year, while the impairment recognized during the prior year was for approximately $1.6 million.

- Loss for damages on properties held-for-sale caused by the Hurricane Maria for approximately $1.9 million was recognized during the year ended June 30, 2018.

- Decrease in personnel services for approximately $1 million (or 21.12%), is net from decrease in salaries for approximately $400 thousand, termination benefits recognized during the year for Act No. 211 for approximately $1.4 million, adjustment related to Act No. 70 decreasing balance of personnel services for approximately $767 thousand, and adjustment related to the implementation of GASB Statement No. 75 that decrease personnel services for approximately $250 thousand was recognized, while the adjustment to prior year balance to restate the balance for implementation of GASB Statement No. 75 was approximately $1.2 million.

- Increase in professional services of approximately $430 thousand due to Act No. 147 of 1980 limits the expenses on governmental agencies in election years, celebrated in November 2016. Professional services were limited by law and resulted in a significant decrease in such expenses in prior period.

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 as it is customary in the real estate industry.

The following table summarizes the capital assets of the Administration as of June 30, 2018 and 2017 (all amounts in thousands):

Description	2018	2017 (As restated)	Increase (Decrease)	Percentage
CAPITAL ASSETS:				
Land	$ 106	$ 106	$ -	0.00%
Building and improvements	14,928	14,928	-	0.00%
Furniture and equipment	1,277	1,258	19	1.51%
Vehicles	191	191	-	0.00%
Computer software	103	102	1	0.98%
Less: Accumulated depreciation and amortization	(11,357)	(10,598)	(759)	7.16%
	$ 5,248	$ 5,987	$ (739)	(12.34%)

Change in accumulated depreciation is due to the net effect of depreciation of buildings and improvements for approximately $674 thousand, furniture and equipment for approximately $57 thousand, vehicles for approximately $17 thousand, and computer software for approximately $1 thousand; less retirement of equipment for approximately $10 thousand for the year ended June 30, 2018. 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 16 of the basic financial statements.

S. CURRENTLY KNOWN FACTS AND EVENTS

GDB Restructuring Process

On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB's Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). Under the Qualifying Modification, holders of the GDB Senior Notes and certain deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"). The GDB Restructuring Act created two special purpose entities (the GDB Debt Recovery Authority and the Public Entity Trust (the "PET")).

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA and under the Act No. 109 of August 24, 2017, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by the GDB Debt Recovery Authority and GDB transferred to PET its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets, and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interests of the PET. The assets of the PET (the "PET Assets") consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

The Administration has a claim of approximately $37 million against the PET in respect of its deposits with GDB. Such claim is payable from the revenues, if any, generated by the PET Assets. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Administration will be able to collect on its claim against the PET.

Custodial Credit Loss on Deposits at EDB

Due to the economic deterioration affecting the Puerto Rico government, including downgrades in credit ratings of the Commonwealth's bonds, the private sector retired deposits and exercised their put options on notes payable from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB over the past few years, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these factors, the investments held by EDB declined in value and EDB operated only on the interest income generated by its loan's portfolio. This posed a difficult liquidity situation for EDB, because due to the high default rate on its loans portfolio, the ability to raise cash through loan repayments was limited. Therefore, the Administration's intent and ability to use its funds deposited with EDB have been significantly restricted. Based on the evaluation of the availability and recoverability of such deposits (all time deposits), a custodial credit loss on them has been recognized for the Administration for the amount of approximately $1,159,000. On October 23, 2018, the Oversight Board approved the Commonwealth Fiscal Plan which included the closure of EDB.

Claim to Federal Management Administration (FEMA)

During the year 2019, the Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimate its losses. Accordingly, up to December 2019, the Administration has presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). The claim is pending to be evaluated by FEMA.

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 20 for details.

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 Váquez-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 or 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. 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.

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PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2018

ASSETS	
CURRENT ASSETS:	
Cash	$ 9,583,141
Notes, interest and other receivables, net	2,099,631
Other assets	169,203
	11,851,975
NON-CURRENT ASSETS:	
Land and properties:	
Leased under long-term contracts-	
Cataño Fuel Storage and Pier Facilities, net	2,817,919
Other properties, net	17,297,799
	20,115,718
Held-for-sale	169,206,208
Held-for-future use	13,532,914
	202,854,840
Capital assets, net	5,248,476
	208,103,316
	219,955,291
DEFERRED OUTFLOWS OF RESOURCES:	
Pension related	7,190,114
Other postemployment benefits related	81,999
	7,272,113
	$ 227,227,404

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

Continues...

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2018

Continued...

LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$	5,211,442
Compensated absences		233,077
Termination benefits		496,858
		5,941,377
NON-CURRENT LIABILITIES:		
Net pension liability		31,493,914
Other postemployment benefits liability		1,052,621
Termination benefits		1,858,710
Guaranty rent deposits		639,747
Deposits on sales of land and properties held-for-sale		31,967,777
Unearned rent		1,931,988
		68,944,757
		74,886,134
DEFERRED INFLOWS OF RESOURCES, pension related		3,946,663
NET POSITION:		
Net investment in capital assets		5,248,476
Unrestricted		143,146,131
	$	148,394,607

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

RSM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the fiscal year ended June 30, 2018

OPERATING REVENUES:	
Land and properties sales -	
To entities, agencies or component units of the	
Commonwealth of Puerto Rico	$ 45,700
Less: cost of land and properties sold	(13,874)
Gain on sales of land and properties	31,826
Rental income	11,045,431
	11,077,257
OPERATING EXPENSES:	
Salaries and fringe benefits	3,910,026
Pension expense	2,561,323
Professional services	839,258
Utilities	304,273
Property taxes	462,612
Insurance	276,157
Repairs and maintenance	166,364
Depreciation and amortization	1,001,067
Impairment loss on land and other properties	2,999,748
Loss on damages on property held-for-sale	1,857,634
Other	398,617
	14,777,079
OPERATING LOSS	(3,699,822)
NON-OPERATING REVENUES (EXPENSES):	
Investment income	19,953
Impairment loss on deposits held in Economic Development Bank	(1,129,813)
	(1,109,860)
DECREASE IN NET POSITION	(4,809,682)
NET POSITION, beginning of year (As restated, see Note 3)	153,204,289
NET POSITION, end of year	$ 148,394,607

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

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

RSM

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:		
Sales of properties and rental income	$	10,720,219
Payment to employees and related payroll costs		(2,541,293)
Payments for goods, services and taxes, substantially real property tax		(4,305,225)
Other receipts		451,118
Net cash provided by operating activities		4,324,819
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital expenditures		(29,535)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from redemption of investments in debt securities		19,953
NET INCREASE IN CASH		4,315,237
CASH, beginning of year		5,267,904
CASH, end of year	$	9,583,141
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(3,699,822)
Adjustments to reconcile operating loss to net cash provided by operating activities -		
Depreciation and amortization of capital assets		768,046
Depreciation and amortization of properties under long-term contracts		233,021
Bad debt expense		247,042
Land donation and exchange		13,874
Impairment loss on land and properties		2,999,748
Loss on damages on property held-for-sale		1,857,634
Changes in operating assets and liabilities:		
Increase in assets -		
Notes, interest, and other receivables		(495,933)
Other assets		(9,470)

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

Continues...

STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2018

Continued...

Increase in deferred ouflows of resources:	
Pension related	2,108,663
Other postemployment benefits related	6,201
Increase (decrease) in liabilities -	
Accounts payable and accrued liabilities	240,108
Termination benefits	(61,450)
Net pension liability	(3,024,995)
Other postemployment benefits liability related	(265,866)
Deposits on sales of land and properties held-for-sale	6,373
Unearned rent	115,648
Increase in deferred inflows of resources:	
Pension related	3,285,997
Net cash provided by operating activities	$ 4,324,819

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

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 Note 18) 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:

<u>Measurement focus basis of accounting and financial statements presentation</u> – 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 and deferred inflows of resources, reported as net position. Net position may be reported in three categories:

- <u>Net investment in capital assets</u> – This component of net position 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. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

- <u>Restricted net position</u> – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets' use are either externally imposed by creditors, grantors, contributions, and like, or imposed by law through constitutional precisions or enabling legislation.

- <u>Unrestricted net position</u> – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. 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 and other. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 disclosures 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.

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 2018, 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, 2018, management recognized an impairment in land and properties of approximately $3,000,000.

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

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 wherever 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.*

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, 2018.

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. 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, it 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. Refer to Note 13 to the accompanying financial statements for additional information.

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. The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Administration also pays premiums for workmen's compensation insurance to another component unit of the Commonwealth.

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 postemployment benefits other than pensions related items.

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.

Pension costs – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS) plan and additions to/deductions from the fiduciary net position of the plan have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB) – The postemployment benefits other than pensions of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan (OPEB).

OPEB expense is recognized and disclosed using the accrual basis of accounting. The Administration recognizes the total OPEB liability since the plan is administered on a pay-as-you-go basis, measured as of the Administration's prior year-end. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Employer's contributions made after the measurement date of the date of the total OPEB liability are recorded as a deferred outflow or resources.

The adoption of GASB Statement No. 75 requires the Administration to obtain, from the ERS, technical information regarding actuarial valuations, discount rates, the Administration's proportionate share of the OPEB liability, and deferred outflows and inflows of resources related to OPEB.

As of June 30, 2018, the ERS provided the required information described above, and the Administration was able to adopt the dispositions of GASB Statement No. 75. Consequently, the accompanying financial statements contain adjustments necessary, and the disclosures and supplementary information required by GASB Statement No. 75.

Accounting Pronouncements Issued But Not Yet Effective – The following new accounting standards have been issued but are not yet effective:

- GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- 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, 2019.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- GASB Statement No. 90, *Majority Equity Interests*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain components 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, 2018. 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.

- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3*, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and *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 an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  This statement achieves its objective by:

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

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 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 IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- *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 effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - Statement No. 83, Certain Asset Retirement Obligations
  - Statement No. 84, Fiduciary Activities
  - Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
  - Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
  - Statement No. 90, Majority Equity Interests
  - Statement No. 91, Conduit Debt Obligations
  - Statement No. 92, Omnibus 2020
  - Statement No. 93, Replacement of Interbank Offered Rates
  - Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
  - Implementation Guide No. 2018-1, Implementation Guidance Update—2018
  - Implementation Guide No. 2019-1, Implementation Guidance Update—2019
  - Implementation *Guide No. 2019-2, Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

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

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

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

  The 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.

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

3) Restatement to Net Position:

The Administration has determined that a restatement to the July 1, 2017 beginning net position was required to recognize the change in accounting principles for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), as amended,* through which accounting for OPEB plan and the related disclosure requirements were modified.

In addition, during the year ended June 30, 2018, the Administration identified the following misstatements related to the prior year financial statements:

- Other properties leased under long-term contracts was understated and capital assets was overstated by $1,117,812. This understatement is related to misleading in classification of land and properties.
- Land and properties held-for-future use was understated and capital assets was overstated by $10,652,414. This understatement is related to misleading in classification of land and properties held-for-future use.
- Net position related to net investment in capital assets was understated and unrestricted net position was overstated by $184,924. This understatement is related to a misleading in classification of the net position.

These adjustments resulted in a change to the beginning net position of the Administration, as follows:

Description	Net Investment in Capital Assets	Unrestricted Net Position	Total Net Position
Net position July 1, 2017, as previously reported	$ 5,802,063	$ 148,632,513	$ 154,434,576
Reclassification to investment in capital assets	184,924	(184,924)	-
Implementation of GASB No. 75:			
OPEB liability	-	(1,318,487)	(1,318,487)
Defered outflow of of resources - OPEB plan	-	88,200	88,200
Net position July 1, 2017, as restated	$ 5,986,987	$ 147,217,302	$ 153,204,289

4) Custodial Credit Risk:

It is the risk that in the event of a bank failure, the Administration's deposits may not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance and carrying amount of the Administration's accounts with commercial banks as of June 30, 2018 amounted to approximately $9,583,000 and $9,786,000, respectively.

Deposits maintained at the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank (EDB), are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk that in the event of GDB's or EDB's failure, the Administration may not be able to recover these deposits. GDB and EDB are component units of the Commonwealth.

The Commonwealth and its component units have not been able to repay their loans from GDB, which has significantly affected GDB´s liquidity and ability to pay its obligations. GDB crisis made many public agencies and corporations move their deposits from EDB to GDB. In addition, EDB´s operational deterioration commenced with the downgrade of the Commonwealth credit rating in 2014. This action led private entities to retire their businesses from EDB, leading EDB to the point of liquidating its entire investment portfolio.

<u>Impairment of deposits held in GDB and EDB</u> – On April 6, 2016, the Governor of the Commonwealth signed the law Act 21-2016, known as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Act 21"). The Sections 201 and Section 203 of the Act, respectively, authorize to the governor to declare a state of emergency for GDB, and to take any and all actions that are reasonable and necessary to allow GDB to continue carrying out its operations.

Pursuant to Act No. 21, on April 8, 2016, the Governor of the Commonwealth signed Executive Order EO 2016-10, declaring GDB to be in a state of emergency. In accordance with the emergency powers provided in Act No. 21, EO 2016-10 implanted a regulatory framework governing GDB's operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB. To that effect, EO 2016-10 restricts the withdrawal, payment and transfer of funds held on deposit at GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements. The procedures implemented by EO-2016-10 resulted in restrictions on the ability of the Administration to withdraw funds held on deposit at GDB.

The Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) was created pursuant to Act. No. 2 of 2017. FAFAA is an independent public corporation and governmental instrumentality to assume all fiscal agency, financial advisory, and reporting functions of GDB.

On May 15, 2017, the Governor announced that FAFAA and GDB entered into a restructuring support agreement (the" RSA") with a significant portion of GDB's major stakeholders holding more than $2.45 billion in claims against GDB, including more than 300 on-island bondholders, 50 on-island credit unions, and the Ad Hoc Group of Bank's Bondholders, which holds more than $1 billion of GDB's public bonds.

On April 6, 2018, FAFAA, GDB and certain of GDB's financial creditors entered into a fourth amendment to the RSA. The RSA, as amended, is consistent with the underlying strategy of the New GDB Fiscal Plan, namely providing for a transaction resulting in an orderly wind-down of GDB's operations. The RSA also sets forth the parameters for a proposed GDB Title VI Plan under which distributable cash flows would be allocated among GDB's various financial creditors and provides greater clarity as to how GDB's operations would be wound down (the "GDB Title VI Plan").

The proposed GDB Title VI Plan contemplated by the RSA provides for certain GDB creditors - consisting primarily of holders of GDB public bonds and deposit claims held by certain municipalities of the Commonwealth and certain municipal and nonpublic entities - to exchange their claims against GDB at a discount for new bonds (the "New Bonds"). If the GDB Title VI Plan is approved, such GDB creditors will receive New Bonds, and their claims, valued at full face value but without accrued interest, will be exchanged for New Bonds at an "Upfront Exchange Ratio" of 55. The New Bonds will be issued by a newly formed special purpose instrumentality created pursuant to statute (the "Issuer").

Pursuant to Act No. 109 of 2017 (Act No. 109 of 2017), effective as of the closing date of the Qualifying Modification, the balance of liabilities owed between any government entity and GDB may be automatically determined by applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB in a manner consistent with the Qualifying Modification. Furthermore, Act No. 109 of 2017 provides that all transactions effected pursuant thereto are valid and binding with respect to all government entities and that, other than as expressly provided therein or in the transaction documents, no government entity has any further rights or claims against GDB, the new issuer or the Public Entity Trust (the "PET") based, in whole or in part, on facts existing or occurring on or prior to the closing of the Qualifying Modification.

Upon the closing of the Qualifying Modification, government entities are deemed to forever waive, release and discharge GDB, the new issuer and the PET from any and all such claims. The assets of the PET consist of claims against the Commonwealth for loans with an outstanding principal balance of approximately $905 million to be asserted by the PET in the Commonwealth's Title III cases. The PET will be structured to provide priority treatment for claims arising from deposits of certain federal funds with GDB. As with the assets securing the New Bonds, certain assets to be placed in the PET are expressly subject to further diligence and recategorization.

The RSA also requires the Commonwealth's Governmental and Business-Type entities to net their debts with GDB against their deposits and investments also held by GDB. GDB ceased its operations on March 23, 2018 and is currently winding down in an orderly fashion under Title VI of PROMESA. On April 25, 2018, FAFAA and GDB resubmitted the RSA, as amended by the four amendments thereto, to the Oversight Board for recertification. On May 8, 2018, the Oversight Board recertified the RSA as compliant with the GDB fiscal plan dated April 20, 2018 and certified the RSA as a Qualifying Modification under section 601 of PROMESA. The RSA was finally executed on November 29, 2018.

EDB continues with its financial crisis and even thought it took several measures to control its business decline, it has not been enough. On October 23, 2018, the financial Oversight and Management Board approved the Commonwealth Fiscal Plan which included the closure of EDB.

Based on the evaluation of the availability and recoverability of funds deposited in GDB, an impairment loss of approximately $36,553,000 was recognized by the Administration during the year ended June 30, 2016.

During the year ended June 30, 2018, the Administration recognized an impairment loss for the short-term deposits held with EDB of approximately of $1,130,000.

5) Notes, Interest and Other Receivables, net:

As of June 30, 2018, notes, interest and other receivables had a balance of $2,099,631, net of allowance of approximately $2,552,000. Balance was composed as following:

Receivables from government entities:

Description		Amount
Puerto Rico Land Authority	$	15,000
Puerto Rico Ports Authority		609,610
Roosevelt Roads Local Redevelopment Authority		537,500
	$	1,162,110

Rent and land leases from governmental entities:

Description		Amount
Municipality of San Juan	$	739,365
Municipality of Ponce		265,806
Puerto Rico Metropolitan Bus Authority		267,949
Other governmental entities		302,128
		1,575,248
Less: Allowance for doubtful accounts		(1,501,260)
	$	73,988

Notes, interest and other receivables are as follows:

Description		Amount
Notes and other receivables from third parties	$	612,112
Interest receivable		10,408
Rent and land leases		1,291,757
		1,914,277
Less: Allowance for doubtful accounts		(1,050,744)
	$	863,533
	$	2,099,631

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, 2018:

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
		$ 2,817,919

Other properties – As of June 30, 2018, other properties consist of the following:

Description	Useful life (In years)	Amount
Land – Frente Portuario	-	$ 11,584,006
Project – Frente Portuario	25	2,114,376
Improvements	25	3,403,920
Plaza Isabela	18	1,596,878
		18,699,180
Less: Accumulated depreciation and amortization		(1,401,381)
		$ 17,297,799

During the year ended June 30, 2018, amortization expense of improvements amounted to approximately $153,000.

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, 2018, the deposits received for optioned land and properties amounted to approximately $32,000,000. As of June 30, 2018, properties held-for-sale amount to approximately $169,206,000.

On September 7 and September 20, 2017, the Hurricanes Irma and Maria made landfall in Puerto Rico, respectively, causing island-wide damage, flooding, and significant destruction of the infrastructure and the power grid. During the year ended June 30, 2018, the Administration recognized losses on properties held-for-sale for approximately $1,858,000 associated with the landfall of the hurricanes.

During year 2019, management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated losses. Accordingly, up to December 2019, the Administration has presented a claim with respect to the hurricane damages to the Federal Emergency Management Administration (FEMA). Refer to Note 20 for additional information of this subsequent event.

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, 2018, properties held-for-future use consist of the following:

Description	Amount
Project - San Juan Water Front	$ 2,880,500
Project - Paramount Teather	10,652,414
	$ 13,532,914

7) Capital Assets, net:

As of June 30, 2018, activity of capital assets is as follows:

Description	Beginning Balance (As restated)	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	1,258,430	28,738	(10,280)	1,276,888
Vehicles	191,179	-	-	191,179
Computer software	101,940	797	-	102,737
	16,479,502	29,535	(10,280)	16,498,757
Less: accumulated depreciation and amortization	(10,598,943)	(768,046)	10,280	(11,356,709)
	5,880,559	(738,511)	-	5,142,048
	$ 5,986,987	$ (738,511)	$ -	$ 5,248,476

8) Deferred Outflows of Resources:

As of June 30, 2018, deferred outflows of resources is composed of pension related items for approximately $7,190,000 and other OPEB related items for approximately $82,000. Refer to additional details on Notes 11 and 12, respectively.

9) Compensated Absences:

The activity for compensated absences, during the year ended June 30, 2018, is as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Accrued vacations	$ 330,971	$ 163,896	$ (261,790)	$ 233,077	$ 233,077

10) Deferred Inflows of Resources:

As of June 30, 2018, deferred inflows of resources consist of the change in proportion and net difference between projected and actual earnings in pension plan investments for approximately $3,947,000. Refer to additional details on Note 11.

11) Retirement System:

The Employees' Retirement System of the Commonwealth of Puerto Rico (the Retirement System or "ERS"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by, and reported as a fiduciary component unit of the Commonwealth. The Retirement System administers different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program, and a defined contribution hybrid program.

- Cost-Sharing, Multiple-Employer, Defined Benefit Program

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

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

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

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary. Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

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

- Defined Contribution Program – System 2000 Program

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999 to establish, among other things, a defined contribution savings plan program (the Program) to be administered by the Employees' Retirement System of the Government of the Commonwealth (the Retirement System). The Retirement System, created pursuant to Act No. 447 of May 15, 1951, as amended, is sponsored by and reported as a component unit of the Commonwealth. All regular employees hired for the first time on or after January 1, 2000 become member of the Program as a condition to their employment.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Active members may contribute 5.775% of gross salaries up to $6,600, plus 8.275% gross salary in excess of $6,600. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Administration is required by Act No. 305 to contribute 11.275% of each participant's gross salary. The Retirement System will use these contributions to increase its assets level and reduce the unfunded status of the defined benefit pension plan. On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 305 to establish a new retirement program.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement date will receive a lump-sum payment.

In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions for the defined contribution plan during the year ended June 30, 2018, amounted to approximately $275,000.

- Defined Contribution Hybrid Program

  On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447 and Act No. 305 to establish, among other things, a defined contribution hybrid program (the Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013 were participants of previous plans will become part of the Defined Contribution Hybrid Program.

  Participants in the defined benefit pension plan, who as of June 3, 2013 were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

  Participants who, as of June 30, 2018 have not reach the age of 58 and completed 10 years of service, or have not reached the age of 55 and completed 25 years of service, can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

  Participants in the defined contribution plan who, as of June 30, 2018 were entitled to retire because they were 60 years of age, may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who, as of June 30, 2018 has not reached the age of 60, can retire depending on the new age limits defined by the Hybrid Program, and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

  Act No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (.25%) is required for the purchase of disability insurance.

  The Administration is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013 and up until June 30, 2018, the employer's contribution rate shall be annually increased by one percent (1%).

  Beginning July 1, 2016 and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1, by one point twenty-five percent (1.25%).

  Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries.

  Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

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

As of June 30, 2018, the Administration reported a liability of $31,493,914 for its proportionate share of the net pension liability.

As of June 30, 2018, net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to the measurement date of June 30, 2017, and assuming no gains or losses. The Administration's proportion of the net pension liability was based on a projection of the Administration's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuariallydetermined. As of June 30, 2018, the Administration's proportionate share was 0.09204%, which resulted in an increase of 0.00047% from its proportionate as of June 30, 2017 (using the measurement date as of June 30, 2017).

- Actuarial Assumptions and Methods

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

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value of assets
Inflation rate:	Not applicable
Salary increases:	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66-2014 and the current general economy.

The mortality tables used for the June 30, 2017, valuation were as follows:

Pre-Retirement Mortality – For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward using MP-2017 on 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 a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rated 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-2017 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 105% of the rates from the UP-1994 MortalityTable 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-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 30, 2017 valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, 2005, and 2007.

- Discount Rate

The Retirement System is in net deficit. Therefore, the tax-free municipal bond index (Bond Buyer Obligation 20 Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 3.58% at June 30, 2017.

- Sensitivity of the Administration's Proportionate Share of Net Pension Liability to Change in the Discount Rate

The following table presents the Administration's proportionate share of the net pension liability calculated using the current discount rate of 3.58% as well what the Administration's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

Description	1% Decrease or 2.58%	Current Discount Rate or 3.58%	1% Increase or 4.58%
Net pension liability	$ (35,712,727)	$ (31,493,914)	$ (28,097,264)

For the year ended June 30, 2018, the Administration recognized pension expense of approximately $2,561,000. 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, 2018, are as follows:

Description	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual investments earnings on pension plan investments	$ -	$ 183,965
Differences between expected and actual experience	21,276	557,371
Changes of assumptions	4,117,104	3,205,327
Changes in proportion	1,059,663	-
Benefits paid and accrued under Pay-Go System	1,992,071	-
	$ 7,190,114	$ 3,946,663

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 net pension liability after June 30, 2018.

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

Years ending June 30,	Amount
2019	$ 305,119
2020	348,936
2021	360,183
2022	(143,336)
2023	(679,182)
	$ 191,720

Pension Plan Fiduciary Net Position

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2018, which is available on the ERSs' website at www.retiro.pr.gov.

Establishment of Pay-Go System

On June 27, 2017, the Treasury Department of Puerto Rico issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go (Pay Go)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2018, employers' contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly Pay Go charge that will be collected from the aforementioned government entities to pay retirees.

The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The Pay-Go charge must be submitted to the Treasury Department of Puerto Rico before the 15 of each month along with the individual contributions withheld from active employees.

As liquid retirement funds become depleted, the Pay-Go charge is expected to increase. In addition to the Pay Go mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which its active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, *Act to Guarantee the Payment to Our Pensioners and Establish a new Plan for Defined Contributions for Public Servants*.

Pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers' contributions and the Additional Uniform Contribution were eliminated. This law also creates a Defined Contribution Plan, similar to a 401 (k) plan, which guarantees the contributions of public servants, for in the future, benefits will not be paid by the retirement systems.

12) Other Postemployment Benefit Plan (OPEB Plan):

The Other Postemployment Benefit Plan of the Administration for retired participants of the Employee's Retirement System (the Plan) is an unfunded, multiemployer defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is 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 No. 75.

The 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, 2018, the Administration reported a liability of $1,052,621 for its proportionate share of the OPEB liability. The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The total OPEB liability as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

  As of June 30, 2018, the Administration's proportionate share was 0.11435%, which resulted in an increase of 0.00310% from its proportionate as of June 30, 2017 (using the measurement date as of June 30, 2016). The Administration recognized a recovery on OPEB expense for approximately $260,000, during the year ended June 30, 2018.

  The deferred outflows of resources related to OPEB Plan resulting from the Administration's contributions subsequent to measurement date amounting to approximately $82,000 at June 30, 2018 will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2018. 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, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Medical Trend Rate	Not Applicable

The mortality tables used for June 30, 2017, 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-2017 from the 2006 base year and projected forward using MP-2017 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-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

Post-*retirement Disable Mortality* – Rates 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-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Discount rate

The discount rate for June 30, 2017 and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AAA/a or higher.

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

The following table presents the Administration's proportionate share of the total OPEB liability of the Plan at June 30, 2017 calculated using the current discount rate of 3.58% as well what the Administration's proportionate share of the Plan's total OPEB liability if it were calculated using a discount rate of one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

Description	1% Decrease or 2.58%	Current Discount Rate of 3.58%	1% Increase or 4.58%
OPEB liability	$ (1,159,146)	$ (1,052,621)	$ (962,678)

13) Termination Benefits:

Voluntary termination benefits

On July 2, 2010, 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, 2018, unpaid benefits on this program were discounted for employees under the Article 4b at 2.45%.

As of June 30, 2018, the present value of future incentive payments reported as a liability amounted to approximately $1,312,435. A recovery for $767,000 was recorded for the year ended June 30, 2018, and presented as early termination recovery in the statement of revenues, expenses and changes in fund net position. As explained above, this credit resulted principally from the elimination of the employer and employee contribution being made by the Administration, and previously considered in the present value of future incentive payments computation.

From the total aggregate liability of the program as of June 30, 2018, the amount of approximately $174,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1,138,000. 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 Preretirement Program. This Act, establishes that employees who have been working for the Commonwealth of Puerto Rico 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 early termination program. Those who participate in the program would receive a compensation equal to sixty percent (60%) of the employees' average compensation as of December 31, 2015; the payment of unused vacation and sick leaves; 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 Administration is in the process of implanting this program.

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. As of June 30, 2018, unpaid benefits on this program were discounted for employees at 2.40%. The Act No. 2011-2015 stipulate that the review and approval of Puerto Rico Office Management and Budget (PROMB) is required before implementation. On August 1, 2017, PROMB approved the program for the Administration.

During the year ended June 30, 2018, the Administration recognized expenses for approximately $1,368,000 related to this program. As of June 30, 2018, the present value of future incentive payments reported as a liability amounted to approximately $1,043,000. From the total aggregate liability of the program as of June 30, 2018, the amount of approximately $323,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $721,000. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

The activity for termination benefits included in the accompanying statement of net position, during the year ended June 30, 2018, is as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Termination benefits	$ 2,417,018	$ 1,134,988	$ (1,196,438)	$ 2,355,568	$ 496,858

14) Interagency Agreement:

On April 2, 2014, the Administration entered into an agreement with the Department of Economic Development of Puerto Rico (the Department). The entity responsible to implement and execute public policy for the economic development of Puerto Rico is the Department. Based on that fact, an annual Reorganization Plan has been established. Under the agreement, the Department assists in interagency coordination, project management, strategic planning, incentive administration, legal and legislative advisors, as well as advertising, communication, promotion, travel, contracting and designations. For the year ended June 30, 2018, total fees related to this agreement amount to $152,000.

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, 2018, amount to $609,610.

15) 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 "thru put" 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.

During the year ended June 30, 2008, the Administration entered in a lease contract for a ten (10) years term. As part of the agreement, the lessees paid the minimum annual lease payments in advance. This agreement ended on March 2018.

The rental agreements have a quarterly rental payment that ranges from approximately $106,000 to $681,000, with an aggregate average monthly payment of approximately $461,000 as of June 30, 2018. During the year ended June 30, 2018, net rental income under these lease agreements, is as follows:

Description	Amount
Gross rental income	$ 7,108,446
Plus: Property taxes	451,118
	$ 7,559,564

Minimum annual rentals under these contracts for the years subsequent to June 30, 2018, are as follows:

Year ending June 30,	Amount
2019	$ 7,891,195
2020	7,928,888
2021	8,023,060
2022	8,080,373
2023	7,510,359
Thereafter	27,935,382
	$ 67,369,257

The rental agreements related to Other Properties have a monthly or semi-annual rental payment that ranges from $1 to $150,000, with an aggregate average monthly payment of approximately $50,000, as of June 30, 2018. For the year ended June 30, 2018, rent revenues on such rental agreements amounted to approximately $3,655,000, which are reported as part of rental income.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2018, are as follows:

Year ending June 30,	Amount
2019	$ 3,901,799
2020	2,167,757
2021	1,645,125
2022	1,587,334
2023	1,558,206
Thereafter	46,336,278
	$ 57,196,499

16) 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 ofthe 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, 2018, the balance due from the Authority amounted to $537,500, which was recorded as other receivables in the accompanying statement of net position.

17) Contingencies:

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.

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 $756,000 has been reflected as part of accounts payable and accrued liabilities in the accompanying statement of net position.

18) 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 $949,000 is included in the accompanying financial statements to cover any tax assessment on properties owned by the Administration.

19) Supplemental Disclosure to the Statement of Cash Flows:

Non-cash investing and noncapital financing activities – During the fiscal year ended June 30, 2018, non-cash investing activities and non-cash noncapital financing were the following:

Description	Amount
Disposal of fully depreciated furniture and equipment	$ 10,280
Benefits accrued after measurement date that are due by the Administration to the Commonwealth of Puerto Rico	$ 1,800,413

A) Subsequent Events:

GDB Restructuring Process

On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB's Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"), and became to be effective as of November 29, 2018. On November 29, 2018, GDB completed a restructuring of its financial liabilities, including its deposits, pursuant to Qualifying Modification and Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"). The GDB Restructuring Act created two special purpose entities, the GDB Debt Recovery Authority and the PET, into which the GDB would divide and irrevocably transfer its assets. Under the Qualifying Modification, holders of certain bond (at an upfront exchange ratio of 55%) and deposit claims against GDB exchanged their claims for bonds issued by the GDB Debt Recovery Authority and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets, and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interests of the PET. The assets of the PET (the "PET Assets") consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Administration has a claim of approximately $36,553,000 against the PET in respect of its deposits with GDB. Such claim is payable from the revenues, if any, generated bythe PET Assets. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Administration will be able to collect on its claim against the PET.

Claim to Federal Management Administration (FEMA) for Hurricane Maria

During the year 2019, the Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimates losses. Accordingly, up to December 2019, the Administration has presented a claim in respect to hurricane damage to the Federal Emergency Management Administration (FEMA). The claim is pending to be evaluated by FEMA.

Former Governor Rosselló's Resignation and Government Transition under Governor Wanda Vázquez Garced

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor.

On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was unlawfully sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez Garced was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020. As of the date of these financial statements, Governor Wanda Vázquez Garced currently serves as the Governor of the Commonwealth.

Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes.

On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Guánica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020 earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages ascending to $836 million.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020 report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

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 operates the casino. During the year 2020, the Administration started a 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.

COVID-19 Pandemic

Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result ofthe health threat and to contain the virus spread across the island, Governor Váquez-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. The executive order authorizes the Secretary of the DOT and the Executive Director of the 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.

On March 15, 2020, the Governor issued executive order EO 2020-023 ordering a curfew for all citizens requiring them to stay at home from 9 p.m. to 5 a.m., allowing them to use the public roads, within this time frame, under specific circumstances such as: (1) purchasing food, pharmaceutical and basic necessity products; (2) keeping medical appointments or visiting a hospital, laboratory, or healthcare facility; (3) commuting, for public and private employees who provide essential services; (4) returning to place of residence from an allowed activity; (5) providing assistance, care, transportation of senior citizens, children, dependents, people with disabilities or requiring medical or professional attention; and (6) visiting financial institutions, provided that all necessary precautions are taken to prevent the risk of spreading the disease.

Also, the executive order mandated that any person with reasonable suspicion of being exposed to the COVID-19 remain quarantined for fourteen (14) days, as of the issuance of the order, to prevent them from posing a risk to public health and transmission to non-infected persons. In addition, it ordered the closure of all governmental operations, except for those related to essential services, and the closure of all businesses in Puerto Rico from March 15, 2020, at 6 p.m., until March 30, 2020, unless otherwise provided. Furthermore, the order established criminal penalties and fines for any person who failed to comply with the evacuation orders issued by the Commonwealth's Public Safety Department or its Bureaus.

On March 23, 2020, the Governor issued executive order EO 2020-026 to create and establish the Executive Committee of Medical Advice, also known as the COVID-19 Medical Task Force, which will perform functions jointly with the PRDOH and will be in charge of studies, research and development of strategic plans to manage the Coronavirus pandemic emergency and provide a coordinated response to the citizens of Puerto Rico.

On March 27, 2020, the Governor issued executive order EO 2020-028 to activate the National Guard Medical Unit to provide support to the DOH and any other agency providing services during the pandemic emergency.

On March 30, 2020, the Governor issued executive orders EO 2020-029 and EO 2020-030 ordering a lockdown in Puerto Rico. The citizens of Puerto Rico are instructed to stay at their residences the 24 hours of a day for the 7 days of the week from March 31, 2020 to April 12, 2020 and only be allowed to use the public roads, during the hours between 5 a.m. and 7 p.m., under the circumstances previously allowed by EO 2020-023. In addition, the executive order establishes a transit order, based on the last number of the vehicle license plates, for their citizens to use their cars to buy food, pharmaceutical and basic necessity products, visit financial institutions and receiving any of the allowed services. Moreover, the order provides a description of the services and businesses that are allowed to operate during the emergency; informs its citizens that the collection of tolls fees will be reinstated after March 31, 2020; provides a limited window for payroll related employees to visit their employer's offices to process the payroll payments for the month of March; orders the DNER to shut down all docks to discourage the maritime traffic of recreational boats and authorizes the agency to establish a surveillance plan of the island's coasts, in coordination with the state and municipal police, to enforce compliance with the instructions provided by the executive order; establishes a mandatory 14-day quarantine for all passengers arriving to the Luis Muñoz Marin international airport as of the issue date of the executive order.

On April 12, 2020, the Governor issued executive order EO 2020-033 extending the curfew imposed on the citizens of Puerto Rico and the control measures implemented to contain the spread of the COVID-19 through the island until May 3, 2020. On May 1, 2020, the Governor issued executive order EO 2020-038, which extended the curfew and other COVID-19 control measures through May 25, 2020 but also lifted certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules. This initial reopening is limited to primary and specialist doctors and dentists, animal shelters, vehicle repair and parts services, laundromats, elevator inspections, services to ports and airports, air conditioner repair and maintenance services, notary services, and critical infrastructure services, among others. As the Government observes and assesses the results of this limited reopening, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare and safety of the people of Puerto Rico.

On May 26, 2020 the Governor issued executive order EO 2020-033 which further extended the mandatory curfew until June 15, 2020 but expanded commercial activities. Thereafter, following the recommendation of the Governments medical and economic task forces and federal guidelines continued to issue other Executive Orders which eased certain restrictions imposed or imposed more severe restrictions in order to control the spread of the COVID 19 virus thru the Island.

Economic Stabilization Measures

On March 23, 2020, the Oversight Board agreed with the Commonwealth to provide support to the Puerto Rican people, frontline workers, educators and students, and small businesses. The $787 million Emergency Measure Support Package consists of $500 million that had to be authorized as an incremental appropriation to the fiscal year 2020 General Fund budget in compliance with the budgetary process under PROMESA, $157 million of reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and $131 million of Federal funds. This Emergency Measures Support Package is in addition to the availability of $160 million from Puerto Rico's Emergency Reserve Fund the Oversight Board had already authorized.

On March 27, 2020, President Trump signed into law the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act), commonly known as "Phase Three" of coronavirus economic relief. The CARES Act provides a stimulus to individuals, businesses, and hospitals in response to the economic distress caused by the COVID-19 pandemic; creates a $349 billion loan program for small businesses, including 501(c)(3) non-profits and physician practices; allocates $500 billion for assistance to businesses, states, and municipalities; expands telehealth services in Medicare, including services unrelated to COVID-19 treatments; expands eligibility for unemployment insurance and provides people with an additional $600 per week on top of the unemployment amount determined by each state; expands the Defense Production Act, allowing for a period of two years when the government may correct any shortfall in resources without regard to the current expenditure limit of $50 million; provides the U.S. Secretary of the Treasury with the authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosens a variety of regulations prior legislation imposed through the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Economic Stabilization Act of 2008, and others; and authorizes supplemental appropriations to help the government respond to COVID-19 pandemic emergency.

The Administration has evaluated subsequent events from the statement of net position date through February 26, 2021, the date at which the financial statements were available to be issued, and determined that there are no additional subsequent events to be disclosed.

RSM

Schedule of Statutorily Required Contributions (Unaudited)
June 30, 2018

Year Ended June 30,	(a) Statutory Required Contribution	(b) Contributions in Relation to the Statutorily Required Contributions	(a – b) Contribution Deficiency (Excess)	(c) Authority's Covered Payroll	(b/c) Contributions as a Percent of Covered Payroll
2018	$ 2,035,687	$ 2,035,687	$ -	$ 2,767,959	73.54%
2017	$ 1,312,832	$ 1,312,832	$ -	$ 3,200,301	41%

Fiscal year 2017 was the first year that the new requirements of GASB 68 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.

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)
June 30, 2018

Year Ended June 30,	(a) Administration Proportion of the Net Pension Liability	(b) Administration Proportionate Share of the Net Pension Liability	(c) Administration Covered Payroll	(b-c) Proportionate Share of the Net Pension Liability as a Percentage of its Coverage Payroll	Plan Fiduciary Net Position (Deficit) As a Percentage of Total Pension Liability
2018	0.09204%	$ 31,493,914	$ 2,767,959	1137.80%	(6.57%)
2017	0.09218%	$ 34,518,909	$ 3,200,301	1078.61%	(3.47%)

Fiscal year 2017 was the first year that the new requirements of GASB 68 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.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

RSM

Schedule of Changes in the Total Postemployment Benefits Other Than Pensions (OPEB) Liability and Related Ratios (Unaudited)
June 30, 2018

Description		Administration's Proportional share
Total OPEB Liability:		
Service Cost	$	-
Interest on total OPEB liability		37,375
Effect of plan changes		-
Effect of economic/demographic gains or (losses)		(13,946)
Effect of assumption changes or inputs		(201,096)
Benefit payments		(88,199)
Net change in total OPEB liability		(265,866)
Total OPEB liability, beginning		1,318,487
Total OPEB liability, ending	$	1,052,621
Covered payroll		N/A
Total OPEB liability as a % of covered payroll		N/A