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**GOBIERNO DE PUERTO RICO**  
ADMINISTRACIÓN DE TERRENOS

PRESIDENCIA DEL SENADO

15 de septiembre de 2023

A LA MANO

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

28346  
SENADO DE PUERTO RICO  
OFICINA DEL SECRETARIO  
20 SEP 2023 PM 3:20

Estimado señor Presidente:

Le incluimos el Estado Financiero Auditado de la Administración de Terrenos de Puerto Rico correspondiente al año fiscal que terminó el 30 de junio de 2022.

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

Cordialmente,

Dalcia Lebrón Nieves  
Directora Ejecutiva

HSV/ild

anejo

✓

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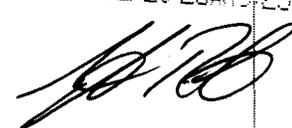
www.terrenos.pr.gov



<b>A:</b>	Hon. José L. Dalmau Santiago Presidente del Senado
<b>Dirección:</b>	El Capitolio Viejo San Juan
<b>Elaborado por:</b>	Héctor Serrano Valle Director <i>por. G. Quiroz</i>
<b>Asunto:</b>	Presupuesto y Finanzas
<b>Fecha:</b>	18 de septiembre de 2023
<b>Hora:</b>	

**Asunto:**

Entrega de Estado Financiero auditado correspondiente al año fiscal que terminó el 30 de junio de 2022.

RECIBIDO SEP20'23 AM 9:20  
  
 PRESIDENCIA DEL SENADO

<b>Recibido por:</b>	Sigfredo Rosado	<b>Hora:</b>	
<b>Fecha:</b>			
<b>Entregado a:</b>			
<b>Mensajero:</b>			

RECIBIDO SEP 20/23-0122



PRESIDENCIA DEL SENADO

**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, 2022**

**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, 2022

**Table of Contents**

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	<u>Pages</u>
<b>Independent Auditors' Report</b>	1-2
<b>Required Supplementary Information (Unaudited):</b>	
Management's Discussion and Analysis	3-7
<b>Basic Financial Statements:</b>	
Statement of Net Position	8-9
Statement of Revenues, Expenses, and Changes in Fund Net Position	10
Statement of Cash Flows	11
Notes to Basic Financial Statements	12-39
<b>Required Supplementary Information (Unaudited):</b>	
Schedule of Proportionate Share of the Collective Total Pension Liability and Related Ratios	40
Schedule of Proportionate Share of the Collective Total Postemployment Benefit Liability and Related Ratios	41
Notes to Required Supplementary Information	42



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## INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of  
Puerto Rico Land Administration

### Opinion

We have audited the financial statements of the Puerto Rico Land Administration, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Land Administration as of June 30, 2022, and the respective 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Puerto Rico Land Administration, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Land Administration's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Puerto Rico Land Administration's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Land Administration's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Proportionate Share of the Collective Total Pension Liability and Related Ratios, the Schedule of Proportionate Share of the Collective Total Postemployment Benefit Liability and Related Ratios and the Notes to the Required Supplementary Information, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, are 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  
August 30, 2023.

Stamp No. E543141 was affixed to  
the original of this report.





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**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2022  
(UNAUDITED)**

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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, 2022. The information presented herewith should be read in conjunction with the Administration's basic financial statements and accompanying notes.

**1. FINANCIAL HIGHLIGHTS**

- The Administration implemented the Governmental Accounting Standards Boards (GASB) Statement No. 87, *Leases*, whereby it established a single model for lease accounting based on the 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 inflows of resources. The Administration did not have leasing activities as lessee. This pronouncement impacted significantly the Administration, since one of the major activities is the lease of certain tracts of land through lease contracts for public and private use. As of June 30, 2022, the Administration has a lease receivable of approximately \$87 million, a deferred inflow of resources of approximately \$86.2 million and recognized rental and interest income of approximately \$10.7 million and \$1.7 million, respectively.
- The Administration's total assets increased by approximately \$90.2 million (or 38.36%)
- Deferred outflows of resources decreased by approximately \$1.4 million (or 15.95%)
- Cash increased by approximately \$3.8 million (or 15.80%)
- Capital assets decreased by approximately \$664 thousand (or 21.60%)
- The Administration's total liabilities decreased by approximately \$4 million (or 4.69%)
- Total pension liability increased by approximately \$683 thousand (or 1.63%)
- Operating expenses decreased by approximately \$1.7 million (or 19.24%)
- Deferred inflows of resources increased by approximately \$85.9 million for 2,862.03%.

**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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2022  
(UNAUDITED)**

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	2022	2021	Increase (Decrease)	Percentage
<b>ASSETS:</b>				
Cash	\$ 27,987	\$ 24,169	\$ 3,818	15.80%
Notes, interest, and other receivables, net	793	1,066	(273)	(25.61%)
Accrued interest lease receivable	484	-	484	100.00%
Prepaid insurance	192	175	17	9.71%
Land and properties leased under long-term contracts	19,184	19,417	(233)	(1.20%)
Land and properties held-for- sale and held-for-future use	187,333	187,333	-	0.00%
Capital assets	2,410	3,074	(664)	(21.60%)
Lease receivable	87,076	-	87,076	100.00%
	<u>325,459</u>	<u>235,234</u>	<u>90,225</u>	<u>38.36%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	<u>7,488</u>	<u>8,909</u>	<u>(1,421)</u>	<u>(15.95%)</u>
<b>LIABILITIES</b>				
	<u>81,942</u>	<u>85,975</u>	<u>(4,033)</u>	<u>(4.69%)</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	<u>88,920</u>	<u>3,002</u>	<u>85,918</u>	<u>2862.03%</u>
<b>NET POSITION:</b>				
Net investment in capital assets	2,410	3,074	(664)	(21.60%)
Unrestricted	159,675	152,092	7,583	4.99%
	<u>\$ 162,085</u>	<u>\$ 155,166</u>	<u>\$ 6,919</u>	<u>4.46%</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2022  
(UNAUDITED)**

The Administration's net position increased by approximately \$6.9 million, mainly due to the result of operations during fiscal year ended June 30, 2022; which includes the adjustment for pension expense for approximately \$227 thousand less more than prior year and a recovery on allowance for approximately \$576 thousand less than prior year.

Total assets and deferred outflows of resources increased by approximately \$88.8 million, which is net of lease receivable of approximately \$87 million related to the implementation of GASB No. 87, an increase of approximately \$3.8 million in cash, and a decrease of approximately \$233 thousand in land and properties leased under long-term contracts mainly related to the depreciation expense of the year. In addition, there was a decrease in capital assets of approximately \$664 thousand, net from the depreciation expense of the year for approximately \$695 thousand and acquisition of equipment for approximately \$31 thousand. Also, there was a decrease in deferred outflows of resources for approximately \$1.4 million related to pension and other postemployment benefits.

The increase in cash is related to net cash provided by operating activities for approximately \$3.8 million.

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

Description	2022	2021	Increase (Decrease)	Percentage
<b>OPERATING REVENUES:</b>				
Rental income	\$ 12,470	\$ 12,567	\$ (97)	(0.77%)
	12,470	12,567	(97)	(0.77%)
<b>OPERATING EXPENSES</b>	<b>7,238</b>	<b>8,962</b>	<b>(1,724)</b>	<b>(19.24%)</b>
<b>NON-OPERATING REVENUES</b>	<b>1,687</b>	<b>7</b>	<b>1,680</b>	<b>24000.00%</b>
<b>INCREASE IN NET POSITION</b>	<b>\$ 6,919</b>	<b>\$ 3,612</b>	<b>\$ 3,307</b>	<b>91.56%</b>

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

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

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

The Administration's strategy is focused on long-term ownership of the current resources and leased them. During the year ended June 30, 2022, the Administration remain constant in terms of operations related to the lease of land and properties.

**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2022  
(UNAUDITED)**

Operating expenses decreased by approximately \$1.7 million (or 19.24%), mostly caused by the following:

- Decrease in personnel services for approximately \$109 thousand (or 13.20%), which is mainly related to decrease in the adjustment for termination benefits recognized during the year related to Act No. 211 and to Act No. 70 for approximately \$30 thousand less than prior year and a recovery in OPEB expense by approximately \$98 thousand.
- Pension costs of current year amounted to approximately \$227 thousand less than prior year.
- There was a decrease in repair and maintenance expense for approximately \$246 thousand, mainly related to repairs performed during the year on property and equipment.
- During the year ended June 30, 2022, a net recovery on allowance for bad debts was recorded for approximately \$576 thousand.
- There was a decrease of approximately \$232 thousand of professional services mainly on legal services.

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.

The following table summarizes the capital assets of the Administration as of June 30, 2022 and 2021, (all amounts in thousands):

Description	2022	2021	Increase (Decrease)	Percentage
<b>CAPITAL ASSETS:</b>				
Land	\$ 106	\$ 106	\$ -	0.00%
Building and improvements	14,928	14,928	-	0.00%
Furniture and equipment	1,336	1,305	31	2.38%
Vehicles	191	191	-	0.00%
Computer software	103	103	-	0.00%
Less: Accumulated depreciation and amortization	(14,254)	(13,559)	(695)	5.13%
	<u>\$ 2,410</u>	<u>\$ 3,074</u>	<u>\$ (664)</u>	<u>(21.60%)</u>

Change in accumulated depreciation is due to of depreciation expense of buildings and improvements for approximately \$645 thousand, and furniture and equipment for approximately \$16 thousand, for the year ended June 30, 2022. For a detailed activity of capital assets, please refer to Note 7 of the basic financial statements.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2022  
(UNAUDITED)**

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**4. Commitments**

Guarantees

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

Claim to Federal Management Administration (FEMA)

During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, on December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million. During the year ended June 30, 2022, the Administration did not have expenditures related to federal funds. Refer to Note 17 of the accompanying basic financial statements.

Claim for Earthquakes

During the fiscal year 2020, the Puerto Rico's governor declared a state of emergency and requested direct federal assistance and emergency protective measures related to events of earthquakes that occurred during January of the same year. The Administration identified one property with structural damages; this property is actually under a long-term contract with the municipality of Ponce to operate the casino. As of June 30, 2022, the Administration is in the process to sign a Memorandum of Understanding (MOU), in order to FEMA considers the municipality as a subrecipient and obtain federal funds to repair damages of the property, refer to the Note 17 for details.

**5. REQUEST FOR INFORMATION**

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

# PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

## STATEMENT OF NET POSITION

June 30, 2022

### ASSETS

#### CURRENT ASSETS:

Cash	\$	27,986,548
Notes, interest and other receivables, net		792,820
Lease receivable		8,693,458
Accrued interest lease receivable		483,998
Prepaid insurance		192,388
		<u>38,149,212</u>

#### NON-CURRENT ASSETS:

Lease receivable		<u>78,383,128</u>
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#### Land and properties:

##### Leased under long-term contracts-

Cataño Fuel Storage and Pier Facilities, net		2,817,919
Other properties, net		<u>16,365,716</u>

19,183,635

##### Held-for-sale

169,000,220

##### Held-for-future use

18,332,914

206,516,769

#### Capital assets, net

2,409,834

208,926,603

325,458,943

#### DEFERRED OUTFLOWS OF RESOURCES:

Pension related		7,413,548
Other postemployment benefits related		<u>74,600</u>

7,488,148

\$ 332,947,091

Continues...

# PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

## STATEMENT OF NET POSITION

June 30, 2022

Continued...

### LIABILITIES

#### CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 1,851,052
Due to governmental entities	1,656,765
Compensated absences	128,427
Termination benefits	209,141
Total pension liability	2,094,203
Other postemployment benefits liability	74,600
Unearned rent	298,967
	<hr/>
	6,313,155

#### NON-CURRENT LIABILITIES:

Guaranty rent deposits	1,032,939
Compensated absences	320,179
Termination benefits	831,696
Total pension liability	40,612,679
Other postemployment benefits liability	863,374
Deposits on sales of land and properties held-for-sale	31,967,777
	<hr/>
	75,628,644
	<hr/>
	81,941,799

#### DEFERRED INFLOWS OF RESOURCES:

Pension related	2,719,865
Leases	86,200,598
	<hr/>
	88,920,463

#### NET POSITION:

Investment in capital assets	2,409,834
Unrestricted	159,674,995
	<hr/>
	\$ 162,084,829

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

# PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION For the fiscal year ended June 30, 2022

### OPERATING REVENUES:

Rental income	\$	12,469,587
Interest income on leases		1,678,206
Release of rent receivable reserve		576,334
		<u>14,724,127</u>

### OPERATING EXPENSES:

Salaries and fringe benefits		3,284,034
Pension expense		2,048,455
Professional services		619,073
Utilities		248,758
Property taxes		109,277
Insurance		357,715
Repairs and maintenance		130,556
Depreciation and amortization		927,903
Other		88,276
		<u>7,814,047</u>

### OPERATING INCOME

6,910,080

### NON-OPERATING REVENUE

Interest income		<u>8,845</u>
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### INCREASE IN NET POSITION

6,918,925

### NET POSITION, beginning of year

155,165,904

### NET POSITION, end of year

\$ 162,084,829

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

# PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

## STATEMENT OF CASH FLOWS

For the fiscal year ended June 30, 2022

### CASH FLOWS FROM OPERATING ACTIVITIES:

Rental income	\$ 13,322,653
Payment to employees and related payroll costs	(8,190,185)
Payments for goods, services and taxes, substantially real property tax	(1,292,917)
Net cash provided by operating activities	<u>3,839,551</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital expenditures	<u>(30,909)</u>
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### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest collected on cash deposit accounts	<u>8,845</u>
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### NET INCREASE IN CASH

3,817,487

CASH, beginning of year

24,169,061

CASH, end of year

\$ 27,986,548

### RECONCILIATION OF OPERATING INCOME TO NET CASH

#### PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 6,910,080
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation and amortization of capital assets	694,882
Depreciation and amortization of properties under long-term contracts	233,021
Release of rent receivable reserve	(615,331)
Interest income on leases	(1,678,206)
Increase (decrease) in assets -	
Notes, interest, and other receivables	888,700
Lease receivables	(2,129)
Prepaid insurance	(16,896)
(Increase) decrease in deferred outflows of resources -	
Pension related	1,418,095
Other postemployment benefits related	2,700
Increase (decrease) in liabilities -	
Accounts payable and accrued liabilities	(74,905)
Due to governmental entities	(1,857,016)
Termination benefits	(295,291)
Total pension liability	(1,274,114)
Other postemployment benefits liability	(101,145)
Unearned rent	(692,384)
Deposits on sales of land and properties held-for-sale	261,477
Increase in deferred inflows of resources -	
Pension related	(282,336)
Leases	<u>320,349</u>
Net cash provided by operating activities	<u>\$ 3,839,551</u>

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
Fiscal year ended June 30, 2022

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

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

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

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

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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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 pension expense, depreciation and amortization, property taxes, insurance, repair and maintenance and other. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 cash came 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 US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for uncollectible receivables, useful life of capital assets, impairment on properties held-for-sale and held-for-future-use, total pension liability, and other postemployment benefits liability.

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

Leases - During the year ended June 30, 2022, the Administration adopted 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 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 Administration only has leasing activities as lessor. Lease collections are allocated between principal and interest. The interest is charged to statement of activities over the lease period. All other short-term 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.

Lease receivable - The Administration's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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 2022, 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, 2022, no impairment was recognized by management.

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

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

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

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

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

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, 2022.

Compensated absences - Based on Act No. 26 of 2017, employees are granted for the accumulation of 1.25 days per month (15 days annually) of vacation time. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and an accumulated maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed (60 days).

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
Fiscal year ended June 30, 2022

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

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

Risk management - The Administration is responsible for assuring that the Administration's property is properly insured. Annually, the Administration evaluates the information regarding all property owned and the respective replacement values, and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2022 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Non-exchange transactions - The Administration accounts for its non-exchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, which establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

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

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

Of the other postemployment benefits related items only other postemployment benefits payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment benefits (OPEB) liability after the next measurement date.

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

Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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In addition, the Administration has one item which is related to its activities as lessor. The deferred inflows of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources is amortized on a straight-line basis over the term of the lease.

Accounting for pension costs - The Administration accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Under the guidance of GASB No. 73, the Commonwealth and its component units (including the Administration) are considered to be one employer and are classified for financial reporting purpose as a single-employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions made subsequent to the measurement date.

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

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

- GASB Statement No. 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. 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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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- GASB Statement 98, *The Annual Comprehensive Financial Report*. This Statement amends National Council on Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, Summary Statement of Principles No. 12, paragraphs 4, 12, 128, 135, 138, 139, 143, 155, 157, 173, and 175, and footnote 22; Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, paragraph 13; Statement No. 14, *The Financial Reporting Entity*, paragraph 50; Statement No. 30, *Risk Financing Omnibus*, paragraph 7; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, footnote 7; NCGA Interpretation 10, State and Local Government Budgetary Reporting, paragraph 14; Implementation Guide No. 2015-1, Questions 2.4.1, 3.35.2, 4.28.11, 4.43.2, 7.5.1, 7.5.2, 7.48.2, 7.69.1, 7.91.3, 9.2.1, 9.2.2, 9.14.2, and 9.33.3; and Implementation Guide No. 2016-1, Implementation Guidance Update—2016, Question 5.10. Establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.
- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
  - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
  - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
  - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
  - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
  - Disclosures related to nonmonetary transactions.
  - Pledges of future revenues when resources are not received by the pledging government.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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- Clarification of provisions in Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

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

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- **GASB Statement No. 100, Accounting Changes and Error Corrections.** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 101, Compensated Absences.** This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The Statement does not apply to benefits that are within the scope of Statement No. 47, *Accounting for Termination Benefits*, as amended.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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This statement supersedes Statement No. 16, Accounting for Compensated Absences; Implementation Guide No. 2015-1, Questions 5.255.1, Z.16.1, and Z.16.2; Implementation Guide No. 2016-1, Implementation Guidance Update— 2016, Question 5.37; Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Questions 4.20 and 4.21; and Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting), Questions 4.18, 4.19, and 4.496. This Statement amends NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, paragraphs 42, 43, and 158; Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, paragraph 119; Statement No. 68, Accounting and Financial Reporting for Pensions, paragraphs 123, 126-128, 132, and 133; Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, paragraphs 102, 105-107, 111, and 112; Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, paragraphs 10 and 63 and footnote 6; Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, paragraphs 8, 230, 233-235, 239, 240, and 246 and footnote 5; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, paragraph 14; Implementation Guide 2015-1, Question 7.22.4; Implementation Guide 2017-2, Question 4.22; and Implementation Guide 2017-3, Question 4.20. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

**3) Deposits Placed with Bank:**

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

Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Administration may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2022, cash in commercial banks have a carrying amount of approximately \$27,987,000 and a depository bank balance of approximately \$28,300,000.

**4) Claim receivable from Public Entity Trust:**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

Pursuant to Act 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Administration, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (*i.e.*, November 29, 2018) (the Closing Date), the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the Administration (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included the Administration, received their pro rata share of interests on the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. As a result of the execution of the Qualifying Modification the Administration received beneficial units of the PET amounting to \$36,553,000 in exchange for the deposits held at GDB. The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim).

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

The Administration's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case. As a result, as of June 30, 2022, units received from the PET were fully reserved.

**5) Notes, Interest and Other Receivables, net:**

As of June 30, 2022, notes, interest and other receivables had a balance of \$792,820, net of allowance for doubtful accounts of \$2,670,386. Balance is composed of the following:

*Receivables from government entities:*

Description	Amount
Puerto Rico Land Authority	\$ 15,000
Ponce Ports Authority (formerly America's Port Authority)	609,610
Roosevelt Roads Local Redevelopment Authority	515,500
	1,140,110
Less: Allowance for doubtful accounts	(615,610)
	\$ 524,500

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

Refer to Note 15 for further description of the interagency agreement maintained with the Ponce Ports Authority.

*Rent and land leases from governmental entities:*

<u>Description</u>	<u>Amount</u>
Municipality of San Juan	\$ 700,155
Municipality of Ponce	137,554
Municipality of Arecibo	156,429
Other governmental entities	<u>40,014</u>
	1,034,152
Less: Allowance for doubtful accounts	<u>(1,010,483)</u>
	<u>\$ 23,669</u>

*Notes, interest and other receivables:*

<u>Description</u>	<u>Amount</u>
Notes and other receivables from third parties	\$ 129,645
Interest receivable	10,408
Rent and land leases	<u>1,148,891</u>
	1,288,944
Less: Allowance for doubtful accounts	<u>(1,044,293)</u>
	<u>\$ 244,651</u>
Total notes, interest and other receivables, net	<u>\$ 792,820</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

**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, 2022:

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

*Other properties* - As of June 30, 2022, 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 - Finca Multeada	25	3,403,920
Plaza Isabela	18	1,596,878
		18,699,180
Less: Accumulated depreciation and amortization		(2,333,464)
		<u>\$ 16,365,716</u>

During the year ended June 30, 2022, depreciation and amortization expense of improvements amounted to approximately \$233,000.

*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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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, 2022, properties held-for-sale and deposits received for optioned land and properties amounted to approximately \$169,000,000 and \$32,000,000, respectively.

*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, 2022, properties held-for-future use consist of the following:

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

**7) Capital Assets, net:**

During the year ended June 30, 2022, activity of capital assets is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated, land	\$ 106,428	\$ -	\$ -	\$ 106,428
Capital assets being depreciated:				
Buildings and improvements	14,927,953	-	-	14,927,953
Furniture and equipment	1,305,267	30,909	-	1,336,176
Vehicles	191,179	-	-	191,179
Computer software	102,737	-	-	102,737
	<u>16,527,136</u>	<u>30,909</u>	<u>-</u>	<u>16,558,045</u>
Less: Accumulated depreciation and amortization -				
Buildings and improvements	(12,028,217)	(674,494)	-	(12,702,711)
Furniture and equipment	(1,268,432)	(20,388)	-	(1,288,820)
Vehicles	(172,124)	-	-	(172,124)
Computer software	(90,984)	-	-	(90,984)
	<u>(13,559,757)</u>	<u>(694,882)</u>	<u>-</u>	<u>(14,254,639)</u>
	<u>\$ 3,073,807</u>	<u>\$ (663,973)</u>	<u>\$ -</u>	<u>\$ 2,409,834</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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**8) Deferred Outflows of Resources:**

As of June 30, 2022, deferred outflows of resources is composed of pension related items for approximately \$7,414,000 and other OPEB related items for approximately \$75,000. Refer to additional details on Notes 11 and 12.

**9) Due to Governmental Entities:**

Amounts due to governmental entities as of June 30, 2022, consisted of the following:

Description	Amount
Commonwealth of Puerto Rico	\$ 195,553
Department of Natural Resources	1,054,398
“Centro de Recaudación de Ingresos Municipales” (CRIM)	364,131
Other entities	42,683
	\$ 1,656,765

**10) Deferred Inflows of Resources:**

As of June 30, 2022, deferred inflows of resources consist of the changes in proportion and assumptions and net difference between projected and actual earnings in pension plan investments for approximately \$2,720,000 (refer to additional details on Note 11). In addition, it includes the deferred portion related to the implementation of GASB No. 87 *Leases* (refer to Note 16 for details).

**11) Pension and Plan Description:**

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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

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

*Defined Benefit Program*

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

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

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

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

*Service Retirement Eligibility Requirements*

- *Eligibility for Act No. 447 - Members* - Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, and (3) any age with 30 years of credited service. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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

<u>Date of Birth</u>	<u>Attained Age as of June 20, 2013</u>	<u>Retirement Eligibility Age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

- *Eligibility for Act No. 1 Members* - Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, or (2) attainment of age 65 with 10 years of credited service.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service.

- *Eligibility for System 2000 Members* - System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below otherwise.

<u>Date of Birth</u>	<u>Attained Age as of June 20, 2013</u>	<u>Retirement Eligibility Age</u>
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

***Service Retirement Annuity Benefits***

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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

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

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

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

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

*Special Benefits*

*(1) Minimum Benefits*

- Past Ad Hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124, approved on June 8, 1973, and Act No. 23, approved on September 23, 1983.

- Minimum Benefits for Members who retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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The minimum monthly lifetime income for members who retired or become disabled before July 1, July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).

- Coordination Plan Minimum Benefit

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

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

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since in 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member who was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month, received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007). Effective March 15, 2022, cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated.

**(3) Special "Bonus" Benefits**

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December, provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July, provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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

As of June 30, 2022, the Administration reported a liability of approximately \$43 million for its proportionate share of the total pension liability. The total pension liability was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date). The Administration's proportion of the total pension liability was based on the ratio of the Administration's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2022, the Administration's proportion was 0.15710%, which resulted in a decrease of 0.15668% from its proportion as of June 30, 2021 (measurement date).

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
Fiscal year ended June 30, 2022

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*Actuarial Methods and Assumptions*

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

*Discount Rate*

The discount rate for June 30, 2021 (measurement date) was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

*Mortality*

The mortality tables used in the June 30, 2021 actuarial valuation were as follows:

- *Pre-retirement Mortality*

For general employees not covered under Act No. 128-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

- *Post-retirement Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

- *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scales MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Beneficiary Mortality*

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

*Other assumptions as of June 30, 2021*

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

Actuarial cost method:	Entry age normal
Inflation rate:	Not applicable
Salary increases:	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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

The following table presents the Administration's proportionate share of the total pension liability calculated using the current discount rate of 2.16%, as well as what the Administration's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.16%) or one percentage point higher (3.16%) than the current rate:

Description	1% Decrease or 1.16%	Current Discount Rate or 2.16%	1% Increase or 3.16%
Total pension liability	\$ 48,793,970	\$ 42,706,882	\$ 37,773,742

For the year ended June 30, 2022, the Administration recognized pension expense of approximately \$2.04. 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, 2022, are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 68,219	\$ 1,272,329
Changes of assumptions	4,371,811	504,648
Changes in proportion	879,315	942,888
Benefits paid and accrued subsequent to measurement date	2,094,203	-
	\$ 7,413,548	\$ 2,719,865

The benefits paid and accrued subsequent to the measurement date and reported as deferred outflows of resources, are related to the Pay-Go System and are due to the Commonwealth of Puerto Rico. These benefits will be recognized as a reduction of the total pension liability after June 30, 2022.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

Amounts reported as deferred outflows and deferred inflows of resources related to pensions as of June 30, 2022, will be recognized in pension expense in future years, as follows:

Years ending June 30, (measurement date)	Amount
2022	\$ 910,947
2023	910,947
2024	777,585
	<u>\$ 2,599,479</u>

The previous amounts do not include the Administration's specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by the Administration over the average of the expected remaining service lives of all plan members, which is 3 years for 2022.

**12) Other Postemployment Benefit Plan (OPEB Plan):**

In addition to the pension benefits described in Note 11, the Administration participates in the OPEB Plan of the Commonwealth for Retired Participants of the Employee's Retirement System. The OPEB is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be the one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

The OPEB plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. 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, 2022, the Administration reported a liability of \$937,974 for its proportionate share of the OPEB liability. The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date).

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

As of June 30, 2022, the Administration's proportion was 0.11752%, which resulted in a decrease of 0.11881% from its proportion as of June 30, 2021 (measurement date). The Administration recognized an OPEB expense for approximately \$98,000, during the fiscal year ended June 30, 2022.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
Fiscal year ended June 30, 2022

---

The deferred outflows of resources related to the OPEB plan results from the benefits paid subsequent to measurement date amounting to approximately \$75,000 as of June 30, 2022, and will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2022. 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, 2020
Measurement date:	June 30, 2021
Actuarial cost method:	Entry age normal
Medical trend rate:	Not applicable

*Discount rate* - The discount rate was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

*Mortality* - The mortality tables used for valuation were as follows:

- *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- *Post-retirement Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As generational tables, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to member's death.

- *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scales MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

- *Post-retirement Beneficiary Mortality*

Prior to retiree’s death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree’s death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The following presents the total OPEB liability of the Administration as of June 30, 2022 calculated using the discount rate of 2.16%, as well as the Administration’s total OPEB liability if it were calculated using the discount rate of 1 - percentage point lower (1.16%) or 1 - percentage point higher (3.16%) than the current rate:

Description	1% Decrease or 1.16%	Current Discount Rate of 2.16%	1% Increase or 3.16%
Total OPEB liability	\$ 1,029,562	\$ 937,974	\$ 859,935

**13) Termination Benefits:**

Voluntary termination benefits

On July 2, 2010, the Legislature of the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 40% 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, 2022, unpaid benefits on this program were discounted for employees under the Article 4b at 2.75%. As of June 30, 2022, the present value of future incentive payments reported as a liability amounted to approximately \$781,000. During the fiscal year ended June 30, 2022, the Administration recorded a recovery on expense for approximately \$23,000, which is included in the statement of revenues, expenses and changes in net position and previously considered in the present value of future incentive payments computation.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

From the total aggregate liability of the program as of June 30, 2022, the amount of approximately \$125,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$656,000. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

Voluntary pre-retirement program

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

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

As of June 30, 2022, unpaid benefits on this program were discounted for employees at 2.75%. During the fiscal year ended June 30, 2022, the Administration recognized a recovery in expenses for approximately \$6,900, related to this program. As of June 30, 2022, the present value of future incentive payments reported as a liability amounted to approximately \$259,000. From the total aggregate liability of the program as of June 30, 2022, the amount of approximately \$84,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$175,000.

**14) Non-current Liabilities:**

The summarized activity on non-current liabilities for the fiscal year ended June 30, 2022, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Accrued vacations	\$ 448,606	\$ -	\$ -	\$ 448,606	\$ 128,427
Unearned rent	991,351	128,031	(820,415)	298,967	298,967
Guaranty rent deposits	771,462	90,617	(29,140)	832,939	-
Termination benefits	1,336,128	-	(295,291)	1,040,837	209,141
Total pension liability	43,980,996	2,113,210	(3,387,324)	42,706,882	2,094,203
Other post-employment benefits liability	1,039,119	-	(101,145)	937,974	74,600
Deposits on sales of land and properties held-for-sale	31,967,777	-	-	31,967,777	-
	<u>\$ 80,535,439</u>	<u>\$ 2,331,858</u>	<u>\$ (4,633,315)</u>	<u>\$ 78,233,982</u>	<u>\$ 2,805,338</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

**15) Interagency Agreement:**

On July 16, 2015, the Administration entered into a three (3) years agreement with the Ponce Ports Authority (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, 2022, amounted to \$609,610, which is fully reserved as an uncollectible account.

**16) Leases:**

*Cataño Fuel Storage and Pier facilities*

The Administration has entered into various long-term rental agreements of certain land and properties available. The Cataño Fuel Storage and Pier facilities are leased to several companies engaged in the fuel distribution industry. Lease agreements establish a minimum annual lease payment or a "thruput" fee based on a U.S. gallon of bulk petroleum products at 60° F, passing through the facilities, whichever is greater. The leases' expiration dates fluctuate from March 20, 2023 through December 25, 2035. The leases contain renewal options that covers from one additional ten-year period to extensions of 15 years. The rental agreements have a quarterly rental payment that ranges from approximately \$105,000 to \$699,000, with an aggregate monthly payment of approximately \$670,000 as of June 30, 2022. As of June 30, 2022, Lease receivable and deferred inflows of resources on these lease agreements are as follows:

Description	Lease receivable	Deferred inflows of resources
Lease agreement BP - Commenced on July 1, 2021 and calls for quarterly installments of \$699,851 up to March 20, 2028 at 1.70% of interest rate.	\$ 14,828,483	\$ 14,659,201
Lease agreement TP - Commenced on July 1, 2021 and calls for quarterly installments of \$596,167 up to December 25, 2035 at 1.95% of interest rate.	29,741,618	29,299,452
Lease agreement PC - Commenced on July 1, 2021 and calls for quarterly installments of \$608,186 up to March 20, 2023 at 1.15% of interest rate.	1,211,146	1,201,563
Lease agreement TPR - Commenced on July 1, 2021 and calls for quarterly installments of \$105,952 up to December 9, 2024 at 1.20% of interest rate.	1,630,384	1,612,939
	47,411,631	\$ 46,773,155
Less: Current portion	(6,074,723)	
Long-term portion	<u>\$ 41,336,908</u>	

During the fiscal year ended June 30, 2022, net rental income under these lease agreements amounts to approximately \$7.8 million. Interest income on the above lease agreements amounts to approximately \$945 thousand.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

Minimum annual rentals under these lease contracts for the years subsequent to June 30, 2022, are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 6,074,723	\$ 824,511	\$ 6,899,234
2024	4,975,286	734,058	5,709,344
2025	5,089,886	646,830	5,736,716
2026	4,822,498	558,654	5,381,152
2027	4,809,627	472,822	5,282,449
2028-2032	12,618,085	1,486,457	14,104,542
2033-2037	9,021,526	313,360	9,334,886
	<u>\$ 47,411,631</u>	<u>\$ 5,036,692</u>	<u>\$ 52,448,323</u>

*Rental of land and properties*

The Administration has entered into various other long-term rental agreements of certain land and properties available. The leases' expiration dates fluctuate from January 1, 2021 through July 19, 2062. As of June 30, 2022, lease receivable and deferred inflows of resources are follows:

Description	Lease receivable	Deferred inflows of resources
Annual rental payments - The leases' expiration dates fluctuate from August 7, 2039 through July 14, 2062 and have annual rental payments that ranges from approximately \$1,600 to \$326,000 at an average interest rate of 1.72%.	\$ 23,084,797	\$ 23,174,674
Quarterly rental payments - The leases' expiration dates fluctuate from September 29, 2026 through July 1, 2043 and have annual rental payments that ranges from approximately \$1,000 to \$72,000 at an average interest rate of 1.15%.	3,500,870	3,383,655
Monthly rental payments - The leases' expiration dates fluctuate from September 1, 2022 through September 1, 2049 and have annual rental payments that ranges from approximately \$1to \$12,700 at an average interest rate of 1.38%.	13,079,288	12,869,114
	39,664,955	<u>\$ 39,427,443</u>
Less: Current portion	<u>(2,618,735)</u>	
Long-term portion	<u>\$ 37,046,220</u>	

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

Minimum annual rentals under these contracts for the years subsequent to June 30, 2022, are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 2,618,735	\$ 724,565	\$ 3,343,300
2024	2,414,258	686,541	3,100,799
2025	1,960,109	652,143	2,612,252
2026	1,885,764	620,772	2,506,536
2027	1,354,273	592,058	1,946,331
2028-2032	6,403,489	2,600,258	9,003,747
2033-2037	6,487,400	1,975,005	8,462,405
2038-2042	5,610,930	1,348,285	6,959,215
2043-2047	4,044,727	892,344	4,937,071
2048-2052	2,264,411	561,083	2,825,494
2053-2057	2,120,025	369,691	2,489,716
2058-2062	2,500,834	145,717	2,646,551
	<u>\$ 39,664,955</u>	<u>\$ 11,168,462</u>	<u>\$ 50,833,417</u>

For the fiscal year ended June 30, 2022, rent revenues on such rental agreements amounted to approximately \$2.9 million, which are reported as part of rental income.

The Administration has entered into various short-term rental agreements of certain land and properties available. Those agreements call for rental payments that ranges from monthly payments of approximately \$1 to annual rental payments of approximately \$326,000. For the fiscal year ended June 30, 2022, rent revenues on such rental agreements amounted to approximately \$1.6 million, which are reported as part of rental income.

**17) Other Commitments:**

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

The purchase option agreement expired on June 30, 2016 and the Authority will have to reimburse the deposit amount to the Administration. The Authority presented a payment plan for the reimbursement of the deposit amount due to their current economic conditions and cash flows difficulties, which were approved on May 4, 2017 by both parties. As of June 30, 2022, the balance due from the Authority amounted to approximately \$515,000, which was recorded as part of the notes, interest and other receivables balance in the accompanying statement of net position.

- B. **Claim to Federal Emergency Management Administration (FEMA)** - During fiscal year 2019, Management re-evaluated the extent of the hurricane-related damages to the Administration's properties held-for-sale and estimated its losses. Accordingly, on December 2019, the Administration presented a claim in respect to hurricane damages to the Federal Emergency Management Administration (FEMA). On January 11, 2021, the Administration received notification of approval of funds for the total amount of approximately \$10.2 million. During the year ended June 30, 2022, the Administration did not have expenditures related to federal funds.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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- C. Claim for Earthquakes - On January 7, 2020, Puerto Rico experienced a 6.4 magnitude earthquake that shook its southern coast, which was one of the most damaging quakes that the island has seen. Puerto Rico's governor declared a state of emergency and requested direct federal assistance and emergency protective measures. The Administration identified one property with structural damages related to the events of earthquakes, this property is referred as "Antiguo Casino de Ponce", which is located in the municipality of Ponce, and it is actually under a long-term contract with the same municipality to operate the casino. As of June 30, 2022, the Administration is in the process to sign a Memorandum of Understanding (MOU), in order to FEMA considers the municipality as a subrecipient and obtain federal funds to repair damages of the property.

**18) Contingencies:**

Legal Claims

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

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

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

According to the case file, the governmental PRPs must enter into an interagency agreement to allocate to each governmental PRP responsibility and duties, which currently include monthly maintenance activities. It was preliminarily agreed that the governmental PRPs would pay \$2,000 monthly for one year to the Municipality of Juncos for the acquisition of equipment to be used in maintenance activities.

The Administration argues that its share of responsibility is 10% of said amount. It should be noted, however, that the maintenance activities would, in effect, for at least 25 years. The governmental PRPs have been negotiating each one's share of liability in order to contribute accordingly. As of the date of these financial statements, the governmental PRPs have not reached an agreement.

In addition to the foregoing, the EPA was claiming \$645,758 from the governmental PRPs as alleged costs incurred in the relocation of nearby residents of the condemned site. The governmental PRPs and the EPA reached an agreement on June 22, 2010 to settle the EPA's claim for \$367,753. While the governmental PRPs reached jointly that agreement with the EPA, they were supposed to reach an internal agreement to allocate each other's liability in order to pay its share of the agreed amount to the EPA. The governmental PRPs were not able to reach an internal agreement on to allocate each one's liability.

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**Fiscal year ended June 30, 2022**

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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 \$1,012,000 has been reflected as part of the accounts payable and accrued liabilities balance in the accompanying statement of net position.

**19) Subsequent Events:**

The Administration has evaluated subsequent events from the statement of net position date through August 30, 2023, the date at which the financial statements were available to be issued and determined that there are no additional subsequent events to be disclosed.

**PUERTO RICO LAND ADMINISTRATION**

*(A Component Unit of the Commonwealth of Puerto Rico)*

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

Fiscal years ended June 30, 2022, 2021, 2020, 2019 and 2018

Description	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.15710%	0.15668%	0.16284%	0.15882%	0.15477%
Proportionate Share of Total Pension Liability	\$ 42,706,882	\$ 43,980,996	\$ 40,466,505	\$ 38,894,797	\$ 43,652,509
Covered - Employee Payroll	-	-	-	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

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

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

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

See accompanying independent auditors' report.

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

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

**Fiscal years ended June 30, 2022, 2021, 2020, 2019 and 2018**

Description	2022*	2021*	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.11752%	0.11881%	0.12210%	0.11723%	0.11435%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 937,974	\$ 1,039,119	\$ 1,016,149	\$ 987,251	\$ 1,052,621
Covered - Employee Payroll	-	-	-	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

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

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

Fiscal year 2018 was the first year that the new requirements of GASB No. 75 were implemented at the Administration. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**Fiscal years ended June 30, 2022, 2021, 2020, 2019 and 2018**

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**1) Criteria in paragraph 4:**

Act No. 106-2017 provided that the Plan would be funded on a PayGo basis, and no assets would be accumulated in a pension trust the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 2.21% as of June 30, 2020 (measurement date).

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

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

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

Actuarial assumptions - In accordance with GASB No. 73 and GASB No. 75, the discount rate is based on a bond market index. The Plan has selected the Bond Buyer General Obligation 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate decreased from 2.21% as of June 30, 2020 and 2.16% as of June 30, 2021 (measurement date).

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