

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

BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2021

(WITH INDEPENDENT AUDITORS' REPORTS THEREON)



TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

PUERTO RICO LAND AUTHORITY
(A Component Unit of The Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Puerto Rico Land Authority (a component unit of the Commonwealth of Puerto Rico and from now on the Authority), which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion - Capital Assets Impaired

The Authority suffered damages to offices, warehouses, other structures and equipment, related to hurricanes Irma and Maria events, estimated at approximately \$28.8 million. The Authority, as of basic financial statements date, is in the process of tracing the individual property and equipment items to a physical inspection damages detail, prepared by the Federal Emergency Management Agency (FEMA), to their capital assets details in order to dispose-off or adjust cost and accumulated depreciation related balances.

Given the effects of this natural disaster in the Authority, the Governmental Accounting Standards Board (GASB) Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries", requires the recognition of capital asset impairments as soon as they occur. Losses from permanent impairments should be recognized in the Statement of Revenues, Expenses and Changes in Net Position in accordance with paragraphs 41-46, 55, 56, 101 and 102 of GASB No. 34. The restoration or replacement of the impaired capital asset should be reported as a separate transaction from the impairment loss and insurance recovery. Therefore, capital assets are overstated and the amount of loss from impairment and restoration or replacement of the impaired capital assets amounts is not available as of basic financial statements date.

Qualified Opinion

In our opinion, except for the effects of the matter described above in the "Basis for Qualified Opinion - Capital Assets Impaired" paragraph, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis - of - Matter

Restatement of Prior Year Basic Financial Statements

As discussed in Note 19, the 2020 basic financial statements has been restated to correct net position from prior year accrued and payable balances without supporting evidence, and to adjust balances recorded as part of the deferred outflow of resources. Our opinion is not modified with respect to these matters.

Newly Adopted Standards

As discussed in Note 1(W) to the basic financial statements, the Authority adopted new guidance of GASB Statement No. 84 "Fiduciary Activities" and GASB Statement No. 90 "Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61". Our opinion is not modified with respect to these matters.

2010 Agriculture Department Reorganization Plan Number 4

As more explained on Note 18 (E) to the basic financial statements, Article 36 of the "Reorganization Plan number 4", discussed on Note 1 to the financial statements, amended Laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as "Technological Innovation and Agricultural Promotion" ("Fondo de Innovacion"), to be transferred to the "Administration for the Development of Agricultural Enterprises" ("Administración para el Desarrollo de Empresas Agropecuarias" or ADEA). According to the Reorganization Plan,

Emphasis - of - Matter (Continued)

2010 Agriculture Department Reorganization Plan Number 4 (Continued)

this fund can be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico. However, the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines through the GDB, and management of incentives already given to farmers. The Comptrollers Office of Puerto Rico (COPR) made recommendations to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations. The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements.

Infrastructure and Permanent Improvements Programs

As more explained on Note 18 (A) to the basic financial statements, ADEA transferred its "Rural Infrastructure and Permanent Improvements Program" to the Authority, according to the provisions of Law Number 40-2019, of June 2, 2019. Also, Law Number 173-2020, of December 30, 2020, Article 13, Section 4050.09, named "Creation of the Municipal Improvements Fund", creates a "Municipal Improvements Fund", under the custody of one or more private financial institutions designated by the Municipal Financing Corporation. Monies under this fund will be proportionately distributed by senatorial and representative districts, to be assigned to public permanent improvement projects in the municipalities of Puerto Rico. This program was added to the Rural Infrastructure and Permanent Improvements Program, explained above. Management of the funds by the Authority is under investigation by the Comptroller of Puerto Rico and the Integrity Public Affairs and Comptrollership Affairs Division of the Justice Department. As of financial statements date, the effects of these investigations on the Authority's financial operations and Net Position is not presently determinable.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis, on pages 5 through 11, the schedule of proportionate share of the total pension liability and the schedule of proportionate share of the total other postemployment benefits liability, on pages 65 and 66 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Authority, in accordance with auditing

Other Matters (Continued)**Required Supplementary Information (Continued)**

standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

December 12, 2022

Stamp #E501798 of the
College of CPA's of
Puerto Rico is affixed
to the original.

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

Management's Discussion and Analysis

June 30, 2021

This section of the Puerto Rico Land Authority ("the Authority") annual financial report, management discussion and analysis, presents our discussion of the Authority's financial performance and overview of financial activities during the fiscal year ended June 30, 2021. Please read it in conjunction with the Authority's basic financial statements, accompanying notes and required supplementary information.

FINANCIAL HIGHLIGHTS

- The Authority's total assets increased by \$32.1 million, from \$166.4 million in 2020 to \$198.5 million in 2021, or 19%. Total Assets and Deferred Outflows of Resources increased by \$39 million, from \$171.8 million in 2020 to \$210.8 million in 2021, or 23%,
- Total noncurrent assets increased by \$18.7 million, from \$135 million in 2020 to \$153.7 million in 2021, or 12%. Increase is due to the increase of \$17.6 million in restricted cash funds related to the infrastructure and permanent improvements program through Laws No. 40 - 2019 of June 2, 2019 and Law No. 173 - 2020 of December 30, 2020.
- Total liabilities increased by \$34.8 million, from \$152.5 million in 2020 to \$187.3 million in 2021, or 23%. Total Liabilities and Deferred Inflows of Resources increased by \$33.8 million, from \$156.8 million in 2020 to \$190.6 million in 2021, or 22%,
- Investment in capital assets and net capital assets amounted to \$94.8 million in 2020 and \$94 million in 2021, for an decrease of \$737,877. The decrease is mostly related to additions of \$134,096 less current depreciation expense of \$643,739 and retirement of assets with a cost of \$228,233,
- Total operating revenues decreased by \$458,768, from \$9.6 million in 2020 to \$9.1 million in 2021, or 5%. Total operating expenses increased by \$9.3 million, from \$9.7 million in 2020 to \$19 million in 2021, or 97%.
- Total net nonoperating revenues and expenses increased by \$15.6 million, from net operating expenses of \$445,263 in 2020 to net operating revenues of \$15.1 million in 2021, or 3,505%. During 2021, the Authority recorded revenues from sugar tax collections of approximately \$15.3 million. During year 2020, no such taxes were collected.
- Change in Net position amounted to \$(542,211) in 2020 and \$5.2 million in 2021, for an increase of \$5.7 million or 1,066%. This was mainly due to the sugar tax revenues explained above, and
- The Authority's Net Position increased by \$5.2 million, from \$15 million in 2020 to \$20.2 million in 2021, or 35%.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

New Significant Accounting Standards Implemented

During fiscal year 2020-2021, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Authority, when applicable:

1-In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

2-In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61". This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

These are further explained on Note 1(W) to the basic financial statements.

Basic Financial Statements

This annual financial report consists of: the management's discussion and analysis (or MDA representing this section, which is required supplementary information) and:

- **Basic Financial Statements:** The Authority is a self-supporting entity and follows the enterprise fund reporting, accordingly, the basic financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and the operations of the Authority. These statements are presented in a manner similar to a private business.
- **Notes to the Basic Financial Statements:** which provides more detailed information that is essential to a user's full understanding of the data provided in the statements.
- **Required Supplementary Information - Employee's Retirement System:** the annual financial report includes the required Schedule of Proportionate Share of total Pension Liability, as the result of the implementation of GASB 73, after the notes to the basic financial statements.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

- **Required Supplementary Information - Postemployment Benefits Other Than Pensions (OPEB):** the annual financial report includes the required Schedule of Proportionate Share of the Other Postemployment Benefits Liability, as the result of the implementation of GASB 75, after the notes to the basic financial statements.

Statement of Net Position

The change in net position serves, over time, as an useful indicator of the Authority's financial position. As of June 30, 2021, the Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$20,248,624.

The largest portion of the Authority's net position represented its net investment in capital assets, of \$94,032,682 and \$94,770,559 for the years ended June 30, 2021 and 2020, respectively.

Statement of Cash Flows

The statement of cash flows presents the sources and uses of cash flows divided in four categories: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and noncash activities within the statement of revenues, expenses and changes in net position.

The Authority's reporting structure includes the financial information of the Authority and a blended component unit - "Fondo Innovacion para el Desarrollo de la Agricultura" ("FIDA").

FINANCIAL ANALYSIS OF THE AUTHORITY

The following summarizes changes in the net position, restated, as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
<u>Assets</u>				
Current assets	\$ 44,793,520	\$ 31,404,996	\$ 13,388,524	0.43 %
Noncurrent Assets	<u>153,706,703</u>	<u>135,054,580</u>	<u>18,652,123</u>	<u>0.14 %</u>
Total Assets	198,500,223	166,459,576	32,040,647	0.19
Deferred Outflow of Resources	<u>12,398,741</u>	<u>5,416,354</u>	<u>6,982,387</u>	<u>1.29 %</u>
Total Assets and Deferred Outflow of Resources	<u>\$210,898,964</u>	<u>\$171,875,930</u>	<u>\$ 39,023,034</u>	<u>0.23 %</u>

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
<u>Liabilities</u>				
Current Liabilities	\$ 43,687,464	\$ 37,628,115	\$ 6,059,349	0.16 %
Total Pension Liability	64,447,849	56,402,145	8,045,704	0.14 %
Termination Benefits	1,841,520	2,316,238	(474,718)	(0.20)%
Other Noncurrent Liabilities	<u>77,414,780</u>	<u>56,196,147</u>	<u>21,218,633</u>	<u>0.38 %</u>
Total Liabilities	<u>187,391,613</u>	<u>152,542,645</u>	<u>34,848,968</u>	<u>0.23 %</u>
Deferred Inflows of Resources	\$ <u>3,258,727</u>	\$ <u>4,321,957</u>	\$ <u>(1,063,230)</u>	<u>(0.25)%</u>
<u>Net Position</u>				
Net Investment in Capital Assets Unrestricted (Deficit)	\$ 94,032,682 <u>(73,784,058)</u>	\$ 94,770,559 <u>(79,759,231)</u>	\$ (737,877) <u>5,975,173</u>	(0.008)% <u>(0.075)%</u>
Total Net Position	<u>20,248,624</u>	<u>15,011,328</u>	<u>5,237,296</u>	<u>0.35 %</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$210,898,964</u>	<u>\$171,875,930</u>	<u>\$ 39,023,034</u>	<u>0.23 %</u>

Current Assets

Major components of current assets are as follows:

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
Cash and Equivalents	\$ 30,070,356	\$ 16,895,114	\$ 13,175,242	0.78 %
Rent and Other Receivables	14,681,421	14,460,068	221,353	0.02 %
Others	<u>41,743</u>	<u>49,814</u>	<u>(8,071)</u>	<u>(0.16)%</u>
Totals	<u>\$ 44,793,520</u>	<u>\$ 31,404,996</u>	<u>\$ 13,388,524</u>	<u>0.43 %</u>

Increase in cash and equivalents comes from an increase in cash balances from FIDA, of \$10.5 million, from sugar tax revenues collected during the year 2021. Total cash collected from sugar taxes amounted to \$13.3 millions in year 2021. A receivable was also recorded for \$2 million, for taxes pertaining to year 2021 collected on July 1, 2021. Other components remained basically constant.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Capital Assets

Capital assets consists principally of land held for sale or for rent. During the year ended June 30, 2021, the Authority sold and exchange various land lots, generating sales of \$100,700. During 2020, sales were \$76,185.

Noncurrent Assets

For 2021, major portion consist of restricted cash funds related to the infrastructure and permanent improvements program through Laws No. 40 - 2019 of June 2, 2019 and Law No. 173 - 2020 of December 30, 2020. This are more detailed in Note 18(A) to the basic financial statements. Restricted cash balances increased from \$14.6 million in 2020 to \$32.2 million in 2021, for an increase of \$17.6 million, or 120%.

Also included is the long - term portion of notes receivables and investments in private agricultural businesses. FIDA is authorized by law to provide credit lines to private and governmental entities, and to invest in private entities which are dedicated to agricultural activities in Puerto Rico. At fiscal year end, management evaluates the investments and valuation allowances.

Current Liabilities

Major components of current liabilities are as follows:

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
Accounts Payable, Accruals and Other Liabilities	\$ 42,077,975	\$ 35,559,287	\$ 6,518,688	0.18 %
Termination Benefits	723,145	765,223	(42,078)	(0.05)%
Advances for Farming Development	<u>886,344</u>	<u>1,303,605</u>	<u>(417,261)</u>	<u>(0.32)%</u>
Totals	<u>\$ 43,687,464</u>	<u>\$ 37,628,115</u>	<u>\$ 6,059,349</u>	<u>0.16 %</u>

Noncurrent Liabilities

Noncurrent Liabilities as June 30, 2021 consisted of long - tem financing related to the real estate program, through the Puerto Rico Public Financing Corporation (PFC), a component unit of the Commonwealth. In years prior to June 30, 2021, The financing was repaid through appropriations made by the Commonwealth. In addition, FIDA had a nonrevolving credit line with the Government Development Bank of Puerto Rico (GDB) with an outstanding balance for principal and accrued interests of \$5.2 millions. On November 29, 2018, through a Qualifying Modification under Title VI of PROMESA, an offset of this credit facility for \$22,971,172 was made.

Also included is the total pension liability related to the employee's retirement system, which as of June 30, 2021 amounted to \$64,447,849. Balance as of June 30, 2020 amounted to \$56,402,145, for an increase of \$8 million, or 14%.

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Noncurrent Liabilities (Continued)

The Authority has also recorded a liability of \$32,260,165 related to cash balances available for the infrastructure and permanent improvements program through Laws No. 40 - 2019 of June 2, 2019 and Law No. 173 - 2020 of December 30, 2020, which began on July, 2019.

Total liabilities increased by \$34.8 million, from \$152.5 million in 2020 to \$187.4 million in 2021, or 23%, due, as explained above, to the increase in accrual of balances for the Rural Infrastructure and Permanent Improvements Program balance of \$17.7 million, or 55%, and the increase in total pension liability of \$8 million.

Operating Activities: The Authority entered into lease agreements on the land and properties it owns, with government and private entities. The agreements vary in prices offered and terms, depending on the intended public use and benefits to the Commonwealth of Puerto Rico's residents. The Authority 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 interests. Operating expenses consists principally of payroll and related expenses, pension and preretirement expenses, program for the production of farming products and infrastructure and contracted services.

The following table summarizes the results of operations between fiscal years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
Operating Revenues	\$ 9,134,794	\$ 9,593,562	\$ (458,768)	(0.05)%
Operating Expenses	<u>19,059,361</u>	<u>9,690,510</u>	<u>9,368,851</u>	<u>0.97 %</u>
Operating Loss	<u>(9,924,567)</u>	<u>(96,948)</u>	<u>(9,827,619)</u>	<u>10137.00 %</u>
Nonoperating Revenues (Expenses)				
Sales of Land	100,700	76,185	24,515	0.32 %
Sugar Taxes	15,371,400	-	15,371,400	100.00 %
Loss on Investments - Privately - Held Entities	(565,000)	(724,541)	(159,541)	(0.22)%
Federal Awards	405,507	351,252	54,255	0.15 %
Interest Expense	<u>(150,744)</u>	<u>(148,159)</u>	<u>(2,585)</u>	<u>0.02 %</u>
Nonoperating (Expenses)/ Revenues, Net	<u>15,161,863</u>	<u>(445,263)</u>	<u>15,607,126</u>	<u>3505.00 %</u>
Change in Net Position	5,237,296	(542,211)	5,779,507	(1066.00)%
Net Position at Beginning of Year, as Restated	<u>15,011,328</u>	<u>15,553,539</u>	<u>(542,211)</u>	<u>(0.03)%</u>
Net Position at End of Year	<u>\$ 20,248,624</u>	<u>\$ 15,011,328</u>	<u>\$ 5,237,296</u>	<u>0.35 %</u>

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2021, operating revenues remained basically constant. Operating expenses increased by \$9,368,851, or 97%, due to increases in bad debt expenses of \$793,391 on FIDA receivable balances, an increase in FIDA's infrastructure program expense of \$1,182,050, pay go expense of \$3,316,090, legal cases provision expense of \$3,741,994, and because for year 2020 there was a pension related credit of \$1,289,277, and for year 2021, an expense of \$95,097 was recorded. For the year 2020, no bad debt expenses were recorded on FIDA's receivable balances.

CAPITAL ASSETS

The Authority acquires and or develops land and structures with agricultural potential for future development by farmers. Also, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals. The following table summarizes the capital assets of the Authority as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>\$ Changes</u>	<u>% Changes</u>
Capital Assets Not Being Depreciated:				
Land	\$ 87,499,616	\$ 87,505,836	\$ (6,220)	(0.0001)%
Construction in Progress	<u>628,466</u>	<u>628,466</u>	<u>-</u>	<u>-</u> %
Total Capital Assets Not Being Depreciated	<u>88,128,082</u>	<u>88,134,302</u>	<u>(6,220)</u>	<u>(0.0001)%</u>
Capital Assets Being Depreciated	30,281,811	30,369,728	(87,917)	(0.0029)%
Less: Accumulated Depreciation	<u>(24,377,210)</u>	<u>(23,733,471)</u>	<u>(643,739)</u>	<u>0.03</u> %
Total Capital Assets, Net	<u>\$ 94,032,683</u>	<u>\$ 94,770,559</u>	<u>\$ (737,876)</u>	<u>(0.008)%</u>

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report has the purpose of informing the Commonwealth of Puerto Rico residents and taxpayers, and our clients with a general financial overview of the Authority's finances and to comply with the Authority's accountability of the assets, funds and appropriations it holds and receives. Any questions about this report or need additional information, contact, Finance Director, at Puerto Rico Land Authority, 1311 Fernandez Juncos Avenue, 19 1/2, San Juan, Puerto Rico.

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

Statement of Net Position

June 30, 2021

	<u>Puerto Rico Land Authority</u>	<u>FIDA</u>	<u>Eliminations</u>	<u>Totals</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ 9,494,413	\$ 20,575,943	\$ -	\$ 30,070,356
Accounts Receivable:				
Rent Receivable and Others, Net	4,620,163	-	-	4,620,163
Sugar Tax Revenues from the Commonwealth of Puerto Rico	-	2,018,710	-	2,018,710
Land Sales Receivable	3,200,000	-	-	3,200,000
Internal Balance Due From - Puerto Rico Land Authority	-	1,982,571	(1,982,571)	-
Due From Sugar Corporation of Puerto Rico	<u>4,842,548</u>	<u>-</u>	<u>-</u>	<u>4,842,548</u>
Total Accounts Receivable	<u>22,157,124</u>	<u>24,577,224</u>	<u>(1,982,571)</u>	<u>44,751,777</u>
Other Assets	<u>28,347</u>	<u>13,396</u>	<u>-</u>	<u>41,743</u>
Total Current Assets	<u>22,185,471</u>	<u>24,590,620</u>	<u>-</u>	<u>44,793,520</u>
Noncurrent Assets:				
Restricted Cash	33,159,404	-	-	33,159,404
Notes Receivable, Net	466,973	23,632,961	-	24,099,934
Investment in Privately - Held Entities, Net	-	2,414,683	-	2,414,683
Capital Assets, Net	<u>92,902,755</u>	<u>1,129,927</u>	<u>-</u>	<u>94,032,682</u>
Total Noncurrent Assets	<u>126,529,132</u>	<u>27,177,571</u>	<u>-</u>	<u>153,706,703</u>
Deferred Outflows of Resources:				
Pension Related	12,267,755	-	-	12,267,755
Other Postemployment Benefits Related	<u>130,986</u>	<u>-</u>	<u>-</u>	<u>130,986</u>
Total Deferred Outflows of Resources	<u>12,398,741</u>	<u>-</u>	<u>-</u>	<u>12,398,741</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 161,113,344</u>	<u>\$ 51,768,191</u>	<u>\$ (1,982,571)</u>	<u>\$ 210,898,964</u>

See accompanying notes which are an integral part of the Basic Financial Statements.

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

Statement of Net Position - (Continued)

June 30, 2021

<u>Liabilities</u>	<u>Puerto Rico Land Authority</u>	<u>FIDA</u>	<u>Eliminations</u>	<u>Totals</u>
Current liabilities:				
Accounts Payable and Accrued Liabilities	\$ 2,976,030	\$ 4,317,157	\$ -	\$ 7,293,187
Due to Governmental Entities	30,600,784	277,044	-	30,877,828
Accrued Compensated Absences	104,090	22,527	-	126,617
Interests Payable	-	451,361	-	451,361
Total Pension Liability	3,200,682	-	-	3,200,682
Other Post Employment Benefit Liability	128,300	-	-	128,300
Termination Benefits Payable	638,671	84,474	-	723,145
Advances for Farming Development	886,344	-	-	886,344
Internal Balance Due To - FIDA	<u>1,982,571</u>	<u>-</u>	<u>(1,982,571)</u>	<u>-</u>
Total Current Liabilities	<u>40,517,472</u>	<u>5,152,563</u>	<u>(1,982,571)</u>	<u>43,687,464</u>
Noncurrent liabilities:				
Notes Payable	17,786,797	-	-	17,786,797
Credit Line	-	4,702,861	-	4,702,861
Accrued Compensated Absences	1,630,746	352,926	-	1,983,672
Total Pension Liability	64,447,849	-	-	64,447,849
Other Post Employment Benefit Liability	1,557,383	-	-	1,557,383
Termination Benefits Payable	1,691,757	149,763	-	1,841,520
Deposits on Rent	2,504,245	-	-	2,504,245
Accrued Legal Claims	7,386,118	-	-	7,386,118
Deposits on Sales of Land	8,005,392	-	-	8,005,392
Advances for Rural Infrastructure and Permanent Improvements Program - Under Act 40-2019	32,260,165	-	-	32,260,165
Unearned Revenue	<u>-</u>	<u>1,228,147</u>	<u>-</u>	<u>1,228,147</u>
Total Noncurrent Liabilities	<u>137,270,452</u>	<u>6,433,697</u>	<u>-</u>	<u>143,704,149</u>
Total Liabilities	<u>177,787,924</u>	<u>11,586,260</u>	<u>(1,982,571)</u>	<u>187,391,613</u>
Deferred Inflows of Resources:				
Pension Related	<u>3,258,727</u>	<u>-</u>	<u>-</u>	<u>3,258,727</u>
Total Deferred Inflow of Resources	<u>3,258,727</u>	<u>-</u>	<u>-</u>	<u>3,258,727</u>
<u>Net Position:</u>				
Investment in Capital Assets Unrestricted	92,902,755 <u>(112,836,062)</u>	1,129,927 <u>39,052,004</u>	- <u>-</u>	94,032,682 <u>(73,784,058)</u>
Total Net Position	<u>(19,933,307)</u>	<u>40,181,931</u>	<u>-</u>	<u>20,248,624</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 161,113,344</u>	<u>\$ 51,768,191</u>	<u>\$ (1,982,571)</u>	<u>\$ 210,898,964</u>

See accompanying notes which are an integral part of the Basic Financial Statements.

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

Statement of Revenues, Expenses and Changes
in Net Position

For the Fiscal Year Ended June 30, 2021

	<u>Puerto Rico Land</u> <u>Authority</u>	<u>FIDA</u>	<u>Totals</u>
<u>Operating Revenues:</u>			
Rental Income	\$ 7,104,439	\$ -	\$ 7,104,439
Administrative Service	403,137	-	403,137
Services to Farmers	176,904	-	176,904
Royalty Income	355,278	-	355,278
Interest Income	113,878	595,638	709,516
Other	<u>378,887</u>	<u>6,633</u>	<u>385,520</u>
Total Operating Revenues	<u>8,532,523</u>	<u>602,271</u>	<u>9,134,794</u>
<u>Operating Expenses:</u>			
Program for the Production of of Farming Products	-	340,579	340,579
Specialty Crops	-	405,507	405,507
Infrastructure Program	-	1,281,628	1,281,628
Payroll and Personnel Costs	4,841,157	946,188	5,787,345
Pension Expense	95,097	-	95,097
Pay Go Expense	3,316,090	-	3,316,090
Other Postemployment Benefit Expense	78,191	-	78,191
Repairs and Maintenance	106,492	4,934	111,426
Utilities	206,809	-	206,809
Supplies and Materials	13,073	-	13,073
Contracted Services	505,729	600,959	1,106,688
Insurance	47,412	36,984	84,396
Travel, Representation and Meals	79,721	-	79,721
Fuel	38,863	-	38,863
Legal Cases	3,741,994	-	3,741,994
Depreciation	547,016	96,723	643,739
Bad Debt Expense	575,702	793,391	1,369,093
Other - General and Administrative	<u>169,781</u>	<u>189,341</u>	<u>359,122</u>
Total Operating Expenses	<u>14,363,127</u>	<u>4,696,234</u>	<u>19,059,361</u>
Operating (Loss) Before Non - Operating Revenues (Expenses)	<u>\$ (5,830,604)</u>	<u>\$ (4,093,963)</u>	<u>\$ (9,924,567)</u>

See accompanying notes which are an integral part of the Basic Financial Statements.

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

Statement of Revenues, Expenses and Changes
in Net Position - (Continued)

For the Fiscal Year Ended June 30, 2021

	<u>Puerto Rico Land</u> <u>Authority</u>	<u>FIDA</u>	<u>Totals</u>
<u>Nonoperating Revenues</u>			
<u>(Expenses):</u>			
Sales of Land	\$ 100,700	\$ -	\$ 100,700
Sugar Taxes	-	15,371,400	15,371,400
Loss on Investments - Privately - Held Entities	-	(565,000)	(565,000)
Federal Awards	-	405,507	405,507
Interest Expense	<u>(150,744)</u>	<u>-</u>	<u>(150,744)</u>
 Total Nonoperating Revenues / (Expenses), Net	 <u>(50,044)</u>	 <u>15,211,907</u>	 <u>15,161,863</u>
Change in Net Position	(5,880,648)	11,117,944	5,237,296
Beginning Net Position (Deficit), as Previously Reported	(9,866,882)	29,063,987	19,197,105
Prior Period Adjustments	<u>(4,185,777)</u>	<u>-</u>	<u>(4,185,777)</u>
Net Position (Deficit), Beginning of Year, as Restated	<u>(14,052,659)</u>	<u>29,063,987</u>	<u>15,011,328</u>
Net Position (Deficit) at End of Year	<u>\$ (19,933,307)</u>	<u>\$ 40,181,931</u>	<u>\$ 20,248,624</u>

See accompanying notes which are an integral part of the Basic Financial Statements.

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

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2021

	<u>Puerto Rico Land</u>	<u>FIDA</u>	<u>Totals</u>
	<u>Authority</u>		
Cash Flows From Operating Activities:			
Collection of Rent	\$ 8,326,094	\$ -	\$ 8,326,094
Collection of Services to Farmers	176,904	-	176,904
Collection of Administrative Services	403,137	-	403,137
Collection of Royalties	355,278	-	355,278
Collection of Interests	113,876	595,638	709,514
Miscellaneous Collections	378,887	6,633	385,520
Payments to Employees, Related Payroll Costs and Others	(4,797,905)	(1,852,972)	(6,650,877)
Payment for Goods and Services on Operating Activities	<u>(1,442,725)</u>	<u>(931,448)</u>	<u>(2,374,173)</u>
Net Cash Provided (Used) in Operating Activities	<u>3,513,546</u>	<u>(2,182,149)</u>	<u>1,331,397</u>
Cash Flows for Capital and Related Financing Activities:			
Capital Expenditures Acquisition	(134,096)	-	(134,096)
Proceeds From Sales of Land	<u>100,700</u>	<u>-</u>	<u>100,700</u>
Net Cash Used by Capital and Related Financing Activities	<u>(33,396)</u>	<u>-</u>	<u>(33,396)</u>
Cash Flows for Noncapital Financing Activities:			
Collections from Coffee and Sugar Taxes	-	13,352,690	13,352,690
Payment for Deposits on Rent of Land	(144,420)	-	(144,420)
Payments to Farming Development	(417,261)	(1,888,427)	(2,305,688)
Funds Received from the Infrastructure and Permanent Projects Program Under Act 40-2019	17,729,159	-	17,729,159
Federal Awards Contributions	-	405,507	405,507
Interest Paid	(150,744)	-	(150,744)
Internal Balance - Advances/(Repayments)	<u>(829,896)</u>	<u>829,896</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>16,186,838</u>	<u>12,699,666</u>	<u>28,886,504</u>
Cash Flows From Investing Activities:			
Collection of Principal on Notes Receivables	<u>558,245</u>	<u>-</u>	<u>558,245</u>
Net Cash Provided by Investing Activities	<u>558,245</u>	<u>-</u>	<u>558,245</u>
Net Change in Cash and Cash and Equivalents	20,225,233	10,517,517	30,742,750
Cash and Cash and Equivalents Beginning of Year	<u>22,428,584</u>	<u>10,058,426</u>	<u>32,487,010</u>
Cash and Cash and Equivalents at End of Year	<u>\$ 42,653,817</u>	<u>\$ 20,575,943</u>	<u>\$ 63,229,760</u>
Reconciliation of Cash and Cash Equivalents with the Statement of Net Position:			
Unrestricted Cash and Deposit Certificates	\$ 9,494,413	\$ 20,575,943	\$ 30,070,356
Restricted Cash	<u>33,159,404</u>	<u>-</u>	<u>33,159,404</u>
Total Cash and Cash Equivalents	<u>\$ 42,653,817</u>	<u>\$ 20,575,943</u>	<u>\$ 63,229,760</u>

See accompanying notes which are an integral part of the Basic Financial Statements

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

Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2021

	<u>Puerto Rico Land Authority</u>	<u>FIDA</u>	<u>Totals</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:			
Operating (Loss)	\$ (5,830,604)	\$ (4,093,963)	\$ (9,924,567)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	547,016	96,723	643,739
Bad Debts	575,702	793,391	1,369,093
Changes in Assets and Liabilities:			
Increase in Rent Receivable	1,221,655	-	1,221,655
Increase in Accounts Payable and Accrued Liabilities	619,080	864,078	1,483,158
Increase in Other Assets	-	8,071	8,071
Increase in Due to Governmental Entities	2,908,045	-	2,908,045
Increase in Total Pension Liability	8,143,812	-	8,143,812
(Decrease) increase in Deferred Inflows of Resources	(1,063,230)	134,811	(928,419)
Increase in Deferred Outflows of Resources	(6,982,387)	-	(6,982,387)
Increase in Accrued Compensated Absences	391,575	14,740	406,315
Increase in Accrued Legal Claims	<u>2,982,882</u>	<u>-</u>	<u>2,982,882</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,513,546</u>	<u>\$ (2,182,149)</u>	<u>\$ 1,331,397</u>

See accompanying notes which are an integral part of the Basic Financial Statements.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) ORGANIZATION AND ACTIVITIES

The Puerto Rico Land Authority (from now on the Authority), is a public corporation and a component unit of the Commonwealth of Puerto Rico. The Authority was created by Law No. 26 approved on April 12, 1941, as amended, to carry out the provisions of the Land Law of Puerto Rico. By provision of Reorganization Plan No. 1 of May 4, 1994, the Land Authority became a programmatic and operational component of the Department of Agriculture (from now on DA).

On July 26, 2010, the Governor of Puerto Rico approved the “Reorganization Plan Number 4”, also known as “Plan for the 2010 DA Reorganization”. This Law provided for the reorganization of such Department and its programmatic and operational components, and was presented as part of Law No. 182 of December 17, 2009, known as “Reorganization and Modernization Law of the Executive Branch of Puerto Rico”. The purpose of this law was to provide DA and its components more administrative and legal flexibility in order to implement and carry out its responsibilities and obligations.

Through this plan, the Corporation for Rural Development and the Administration for Services and Agricultural Development (also known as ASDA) were eliminated. The tasks of this two entities were transferred to a new entity, the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). Also, the program for family farms was transferred to the Authority and the ownership of the land lots from the Corporation for Rural Development.

From the Reorganization Plan, DA is now composed of the following entities:

- The DA,
- The Authority and its affiliates,
- The Corporation for Agricultural Insurance (“Corporación de Seguros Agrícolas”), and
- ADEA.

The basic financial statements of the Authority are included as a component unit of the Commonwealth of Puerto Rico and substantially conform to the standards and practices established by the Governmental Accounting Standards Board (from now on GASB).

The Authority was created for the following purposes:

- Acquiring land with agricultural potential through purchase, transfer, exchange, bequest and donation or by the exercise of power of forceful expropriation,
- Selling land that has no agricultural use,
- Maintaining land with agricultural potential under lease,
- Leasing heavy agricultural machinery and equipment,
- Conducting all types of transactions related to land purchase, sale and leasing applications,
- Making appraisals of land to be sold,
- Preparing plans and control of land for sale and rent, and
- Negotiate the collection of rent from farmers through Legal and Finance Offices.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) ORGANIZATION AND ACTIVITIES (CONTINUED)

The Authority operates one program, the Real Estate Program, which leases land owned by the Authority and held for agricultural purposes, principally to farmers, including farming services when requested by farmers. Moreover, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals.

Also, the Authority manages infrastructure projects on behalf of the DA. Legislative funds were appropriated to create and improve drainage systems, water and sewer systems, bridges, roads, lakes, lighting systems and others.

Law No. 40-2019, enacted on June 2, 2019, transferred the "Rural Infrastructure and Permanent Improvements Program" from ADEA to the Authority. The program purpose is to offer permanent improvement services, such as: home repair, construction of retaining walls in residences in danger of collapsing and construction of roads for a public purpose, recreational areas, fields, among others, and other permanent public works and improvement projects pursuant to Section 4050.09 of Law No. 1-2011, as amended, known as the "Code Internal Revenue for a new Puerto Rico. See also Note 18 (A).

On December 30, 2020, Law No. 173-2020 changed certain sections of the amended Puerto Rico Internal Revenue Code of 2011, to incorporate technical changes and to clarify its scope, contents, certain definitions and legislative intentions, among other things. Article 13 was amended to include Section 4050.09, named "Creation of the Municipal Improvements Fund", under the custody of one or more private financial institutions, designated by the Municipal Financing Corporation. This will be funded through a special fund to be created by the Commonwealth of Puerto Rico. The monies of this fund were to be distributed proportionately by senatorial and representative districts, to be assigned to public permanent improvements projects in municipalities. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), no later than the fifth day of the closing month, is required to prepare a certification of the Municipal Improvements Fund accumulated balance. After this, the Puerto Rico Treasury Department (PRTD), no later than the tenth day of the closing month, is required to remit to the Authority's Rural Infrastructure Program, the accumulated amount. 50 percent of this amount is to be distributed proportionately among the 8 senatorial districts, and the remaining 50 percent is to be distributed proportionately among the 40 representative districts. The public permanent improvements projects to be made, as permitted under this section of the code, are to be administratively determined among Senators and Representatives of the corresponding districts, in coordination with the Authority. See also Note 18 (A).

(B) FINANCIAL REPORTING ENTITY

The financial reporting entity included in this report consists of the basic financial statements of the Authority (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) FINANCIAL REPORTING ENTITY (CONTINUED)

GASB Accounting Standards Codification Section 2100, "Defining the Financial Reporting Entity", describes the criteria for determining which organizations, functions, and activities should be considered part of the Authority for financial reporting purposes. Following GASB Sections 2100 and 2600 "Reporting Entity and Component Unit Presentation and Disclosure", there are two methods of presentation of the component unit in the basic financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Authority's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Authority's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- Financial dependency of the potential component unit on the primary government, or
- The primary government appoint a voting majority of the potential component unit's governing body and,
 1. The primary government can impose its will on the potential component unit and/or,
 2. A financial benefit/burden exists between the primary government and the potential component unit.

In addition, a legally separate, tax exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents,
- The primary government, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separates organization, and
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

GASB Statement 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

Based on the above criteria, the basic financial statements of the Authority include the balances of one of its component units, the "Fondo de Innovacion para el Desarrollo Agrícola de Puerto Rico" (from now on "FIDA"). The primary purpose is to promote private investment in the general farming industry, by approving loans, warranties, direct and indirect investments, and other credit financing facilities, with favorable repayment conditions and interests rates to the agricultural industries. The Authority created FIDA during fiscal year 2001-2002 under the name "Integral Fund for the Agriculture Development of Puerto Rico". On December 16, 2010, the Authority's Board of Directors approved to change the name.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) FINANCIAL REPORTING ENTITY (CONTINUED)

Based also on the above criteria, the Sugar Corporation of Puerto Rico is not a component unit of the Authority and in accordance with Law No. 189 named "Law of the Transfer of Assets and Liabilities for Negotiations of the Sugar Corporation and the Puerto Rico Land Authority", of September 5, 1996, is in the process of liquidation. Separate financial statements, on a liquidation basis, are prepared for the Sugar Corporation of Puerto Rico.

(C) METHOD OF ACCOUNTING FOR PROPRIETARY FUNDS AND BASIC FINANCIAL STATEMENTS PRESENTATION

The Authority reports its financial position and results of operations as an enterprise fund. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business - type activities, which are financed mainly by fees and charges to users of the services provided by the funds operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

REQUIRED SUPPLEMENTARY INFORMATION - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Authority's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide information that is essential to a user's full understanding of the data provided in the basic financial statements

(D) USE OF ESTIMATES

The preparation of 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 disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include certain useful lives of property and equipment, pension and OPEB liabilities, and deferred outflows and inflows of resources. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Therefore, Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

(E) CASH AND CASH EQUIVALENTS

Cash includes demand deposits in commercial banks, cash equivalents in commercial banks, on hand and short - term investments with maturities of three months or less.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding that the basic financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to US GAAP.

(F) INVESTMENTS IN AGRICULTURAL BUSINESSES - FIDA

Investments in private entities are reported at cost, since these are not intended to obtain profit, but rather to promote agricultural and related businesses. During the year ended June 30, 2021, the Authority evaluated its investments in agricultural businesses for recoverability and determined that an adjustment was necessary for investments in entities which were dissolve or no longer in operations, and therefore, considered doubtful of realization. See also Note 4.

(G) INTERFUND BALANCES

Interfund receivables and payables balances, between the Authority and its component unit FIDA have been eliminated from the statement of net position.

(H) RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for uncollectible notes and other receivables is an amount that the Authority believes will be adequate to absorb possible losses on existing receivables that are identified as to be remote collectibles and others that may become collectible based on collection analysis and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

(I) CAPITAL ASSETS AND DEPRECIATION POLICY

The Authority defines capital assets as assets with an individual cost of more than \$100 and a useful life of three (3) years or more. Assets to be depreciated were assigned a residual value of 10% of original cost. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

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

<u>Description</u>	<u>Estimated Useful Lives</u>
Building and Improvements	20 - 40
Infrastructure	10 - 20
Industrial Equipment, Machinery and Equipment and Others	5 - 20
Furniture and Fixtures, Vehicles	3 - 7

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG - LIVED ASSETS

The Authority follows GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly, due to the occurrence of a prominent event or change in circumstances affecting the assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2021, the Authority has not performed an evaluation of capital assets for determination of possible impairment. See also Note 7 under capital assets impairment.

(K) LAND AND PROPERTIES COST

When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date in which land was acquired, which is then applied to the total area sold. Sales of air and surface rights, if any, to land is recognized as sale of land.

(L) ACCOUNTING FOR PENSION COSTS

The Authority follows 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".

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68 for pension plans and pensions that are within their respective scopes. The Statement requires supplementary information that include the Schedule of Proportionate Share of the Total Pension Liability.

Law No. 3 enacted on April 4, 2013, amended Law No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based on the fiscal crisis of the Commonwealth, was enacted Law No. 106 of 2017 to establish a New Define Contribution Plan and create the pay-as-you-go (PayGo) scheme for payment of pensioners of the ERS and the other two retirement systems. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73. See also Note 14.

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Other postemployment benefits ("OPEB") expense is recognized and disclosed using the accrual basis of accounting. The Authority recognizes the total OPEB liability since the Authority's OPEB program is funded on a pay-as-you-go basis, and not by an OPEB trust. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. The Authority accounted for postemployment benefits other than pensions (OPEB) under the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".

This Statement replaces GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", changes similar to those implemented on GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68, "Accounting and Financial Reporting for Pensions" should be made. The Statement requires supplementary information that include the Schedule of Proportionate Share of the Total OPEB Liability. See also Note 15.

(N) TERMINATION BENEFITS

The Authority accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, "Accounting for Termination Benefits". This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Authority should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. See also Note 16.

(O) COMPENSATED ABSENCES

Law No. 8 of February 4, 2017 for the "Authority and Transformation of Human Resources in the Government of Puerto Rico" (Law No. 8-2017) and Law No. 26 of April 29, 2017 issued for compliance with Law No. 26-2017, named "Law for Compliance with Fiscal Plan" establishes new parameters for the accrual of vacations and sick leave. Every government employee shall be entitled to accrue one and one-fourth ($1\frac{1}{4}$) day of vacation leave for every month of service, for a total of 15 days per year. The employees shall begin to accrue the vacation leave upon completion of a three - month period and said leave shall be retroactive to the employment commencement date. Furloughed or part - time employees shall accrue vacation leave proportionately to the number of hours regularly worked. The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year. Vacation leave is granted to employees in order to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which it was accrued. Every agency or public instrumentality is required to devise a vacation plan for every calendar year, in collaboration with supervisors and employees, establishing the period during which employees shall enjoy their vacation time in the manner that is more compatible with the needs for service. Said plan shall be completed no later than on December 31st of every year, so that it takes effect on January 1st of the following year.

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) COMPENSATED ABSENCES (CONTINUED)

The Authority accrued a liability for compensated absences, which meet the following criteria: (1) the Authority's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, "Compensated Absences", the Authority has accrued a liability for compensated absences, which has been earned but not taken by the Authority's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective as of June 30, 2021. All vacation pay is accrued when incurred. The current portion is the amount estimated to be used in the following year.

In addition, employees accumulate sick leave at a rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year.

As of June 30, 2021, the Authority accrual for compensated absences amounts to \$2,110,289 which represents the Authority's commitment to fund such compensated absences for future operations. Of this amount, the Authority estimates that approximately \$126,617 are due during the next fiscal year.

(P) ACCRUAL FOR LEGAL CLAIMS

The estimated amount of the liability for legal claim is recorded, on the accompanying statement of net position, based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consulted with legal counsel to determine whether unfavorable outcomes are probable. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

(Q) NET POSITION CLASSIFICATION

Net position represent the difference between assets and liabilities and are presented in three components as follows:

- **Investment in Capital Assets** - consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position invested in capital assets, net of related debt, is composed of the following:

Capital Assets, Net of Accumulated Depreciation	\$ 94,032,682
Outstanding Balance on Related Debt	<u>-</u>
Total Invested in Capital Assets	<u>\$ 94,032,682</u>

- **Restricted Net Position** - consist of net position with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government;

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) NET POSITION CLASSIFICATION (CONTINUED)

(2) law through constitutional provisions or enabling legislation. As of June 30, 2021, there is no restrictions imposed, and therefore, no restricted net position has been presented, and

- **Unrestricted Net Position** - consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

(R) OPERATING REVENUES AND EXPENSES

The Authority distinguishes between operating and nonoperating revenues and expenses in its statement of revenues, expenses and changes in net position. The principal revenues of the Authority are charges for land rental and services to farmers. The Authority also recognizes as operating revenues interest income generated on loans granted by FIDA. Operating expenses for the Authority include the costs of developing farming products, payroll and fringe benefits, and other administrative expenses such as utilities, repairs, contracted services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority receives contributions from the Commonwealth. These contributions, which are subject to annual appropriations, are used to partially finance the operations of the Real Estate Program. Amounts received are recorded as a nonoperating revenue in the period stated in the grant. During the year ended June 30, 2021, no contributions were received by the Authority from the Commonwealth.

(S) REVENUE RECOGNITION

The following represents the Authority's policy for revenue recognition:

- All leases are deemed operating leases, therefore rental income is recognized as operating revenue over the term of the lease. Advance lease payments are recorded as deferred revenue and recognized as rental revenue when earned over the lease period.
- Rental income is composed of the lease canon and estimated property tax, using The Municipal Revenues Collection Center (from now on CRIM) tax rate, and multiplied by the number of lots leased.
- For services provided to farmers, revenue is recognized at the time the service was rendered.
- For land and property sales, revenues are recognized when title is conveyed to buyers. Funds received from infrastructure program and federal assistance are recognized when disbursement of the funds are made.
- Income from coffee and sugar taxes is recognized when the Commonwealth of Puerto Rico notifies FIDA. Coffee taxes imposed and collected by Federal U.S. Agencies are deposited at the Commonwealth, commingled with sugar taxes collections. Pending bills and undeclared taxes are not recorded in FIDA books. Monies were received until fiscal year ended June 30, 2017. From fiscal years 2018 to June 30, 2020, such income ceased and was not received, following the requirements of Article 36 of the Reorganization Plan Number 4 (See Note 18(E)). Nevertheless, for the fiscal

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) REVENUE RECOGNITION (CONTINUED)

year ended June 30, 2021, FIDA recorded \$15.3 million in sugar taxes, of which \$13.3 million were collected as of June 30, 2021, and an additional \$2.0 million were recorded as a receivable, and collected on July 1, 2021.

(T) PROPERTY TAXES

On September 9, 2010, the Superior Court (from now on the Court) in San Juan, Court of First Instance, decided that the Authority must pay the Municipal Revenues Collection Center (CRIM) \$12,117,630 for property taxes accrued as of June 30, 2010. During the proceedings, the Authority requested the Court to declare the Authority exempt of territorial property taxes, based on the Law that creates it. The Authority also plead the Court that, under Law No. 225 of December 1, 1995, named "Agricultural Incentives Law of Puerto Rico" (which was in force at the time), the Authority is considered a "Bona Fide Farmer", and therefore, is exempt from property taxes. Law No. 225 was repealed and Law No. 60 of July 1, 2019, named "Puerto Rico Incentives Code" was issued instead. The Supreme Court did not perform a review of the Court of First Instance decision.

The amount includes property taxes of \$5,430,470, plus interests and late charges of \$6,687,160. The Authority also made a request to take advantage of an amnesty, established by Law No. 145 of December 9, 2013, so the Authority could pay the principal amount of \$5.4 million and receive a waiver for payment of the \$6.7 million in interests and late charges. The request was not approved.

Total outstanding debt as of June 30, 2021 is \$11,704,721, net of credits, and is applied to "bona fide farmers", against their accounts receivable. This amount is reported as part of due to governmental entities as of June 30, 2021 (See also Note 12).

(U) RISK MANAGEMENT

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, automobile, crime, inland marine, commercial property and garage, as well as medical and workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(V) NON - EXCHANGE TRANSACTIONS

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS

A. New Accounting Standards Adopted

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective for financial statements for periods beginning after June 15, 2019 (FY 2019 - 2020) and have been implemented when applicable during the year ended June 30, 2021:

- In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. This statement does not have any impact on the Administration's basic financial statements.
- In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests". This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement does not have any impact on the Administration's basic financial statements.

b. Future Adoption

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2021. The Administration is currently evaluating its accounting practices to determine the potential impact on the basic financial statements for the GASB Statements:

- In June 2017, the GASB issued Statement No. 87, "Leases". 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. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2021.
- In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period". This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.
- In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". This statements is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

b. Future Adoption (Continued)

- In January 2020, the GASB issued Statement No. 92, "Omnibus 2020". This statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.
- In March 2020, the GASB issued Statement No. 93, "Replacement of Interbank Offered Rates". This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after June 15, 2021.
- In March 2020, the GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.
- In May 2020, the GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements". This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.
- In June 2020, the GASB issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". This Statement is intended to (i) increase the comparability of the reporting of fiduciary component units in circumstances where a potential component unit doesn't have a governing board; (ii) mitigate financial reporting costs associated with certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, by clarifying the financial burden criteria in Statement.
- In October 2021, the GASB issued Statement No. 98, "The Annual Comprehensive Financial Report". This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.
- In October 2021, the GASB issued 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 requirements of this Statement are effective for fiscal years ending after December 15, 2021.

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) NEW ACCOUNTING STANDARDS (CONTINUED)

b. Future Adoption (Continued)

- In June 2022, the GASB issued Statement No. 100, "Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62". This Statement enhances 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. The requirements of this Statement are effective for fiscal years ending after June 15, 2023.
- In June 2022, the GASB issued Statement No. 101, "Compensated Absences". This Statement updates the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for fiscal years ending after December 15, 2023.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Authority is restricted, by law, to deposit funds only in institutions approved by the Puerto Rico Treasury Department (from now on PRTD), and such deposits are required to be maintained in separate accounts in the Authority's name.

Under the laws and regulations of the Government, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (from now on FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the PRTD, but not in the Authority's name.

Credit Risk

This is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. As of June 30, 2021, the Authority has invested only in cash in commercial banks approximately \$61 millions which are insured by the FDIC, generally up to a maximum of \$250,000. As mentioned before, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. Also, all securities pledged as collateral are held by the Secretary of the PRTD of the Commonwealth. Funds deposited with the Economic Development Bank for Puerto Rico (from now on "EDB"), a component unit of the Commonwealth, are not covered by this Commonwealth requirement. Therefore, the Authority's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Authority's deposits is considered low as of June 30, 2021.

Deposits placed with government banks include a certificate of deposit, issued by EDB, amounting to approximately \$2.1 million. These deposits are unsecured and uncollateralized. However, no losses related to defaults by EDB on deposit transactions have been incurred by the Authority through June 30, 2021. It is renewable and the maturity date is July 6, 2021. The certificate of deposit earns interests at .1998%.

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NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio as of June 30, 2021, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interests at prevailing market rates. Therefore, as of June 30, 2021, the interest risk associated with the Authority's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Authority, the Authority is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Authority's deposits is considered low as of June 30, 2021.

NOTE 3 - RESTRICTED CASH - PUERTO RICO LAND AUTHORITY

The Authority has restricted escrow accounts related to deposits of land sales and cash balance on bank accounts related to "Rural Infrastructure and Permanent Improvements Program" (See Notes 1(A) and 18(A)). As of June 30, 2021, the Authority's restricted cash were as follows:

Bank Accounts - Escrow	\$ 900,123
Bank Accounts - Infrastructure Permanent Improvements Programs	<u>32,259,281</u>
Balance, June 30, 2021	<u>\$ 33,159,404</u>

NOTE 4 - INVESTMENTS IN PRIVATELY - HELD ENTITIES

FIDA

FIDA is authorized by law to invest in private entities which are dedicated to agricultural activities in Puerto Rico. The activity of such investments during the year ended June 30, 2021, is summarized below:

Balance, July 1, 2020	\$ 8,488,954
Less: Valuation Allowance	<u>(6,074,271)</u>
Adjusted Balance, June 30, 2021	<u>\$ 2,414,683</u>

The investments are in convertible preferred stock. Under the terms of the investment contracts, FIDA will receive the investment par value plus any accrued and unpaid dividends plus a premium depending on the year the stocks are redeemed as defined in investment contracts. Generally, the redemption

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NOTE 4 - INVESTMENTS IN PRIVATELY - HELD ENTITIES (CONTINUED)

premiums range from 2.5% to 30%. No accrued or unpaid dividends were received during the year ended June 30, 2021.

During each year, the Authority's management evaluates the recoverability of the investments and records a valuation allowance for investments which are deemed as doubtful of realization. As of June 30, 2021, an adjustment of \$565,000 was made to the allowance for unrecoverable investments considered doubtful of realization.

NOTE 5 - RENT RECEIVABLE

Puerto Rico Land Authority

As of June 30, 2021, the Authority's rent receivable was as follows:

Rent and Other Receivables From Commonwealth Agencies and Municipalities	\$ 3,345,445
Rent and Land Leases From Third Parties	<u>18,770,175</u>
	22,115,620
Less Allowance for Doubtful Accounts	<u>(17,495,457)</u>
Net Rent Receivable	<u>\$ 4,620,163</u>

The Authority has a policy of including in the allowance for doubtful accounts all balances over one year old, except for certain balances, principally with governmental entities, that the Authority's management believes will be collectible.

NOTE 6 - NOTES AND INTERESTS RECEIVABLE

As of June 30, 2021, the Authority's notes and interests receivable were as follows:

Puerto Rico Land Authority:	
Family Farms Program	\$ <u>466,973</u>
FIDA:	
Private Entities (Net of Allowance)	<u>22,248,759</u>
Governmental Entities:	
Administration for the Development of Agricultural Companies	1,374,202
Puerto Rico Tourism Company	<u>10,000</u>
Total Governmental Entities	<u>1,384,202</u>
Total FIDA, Net	<u>23,632,961</u>
Total	<u>\$ 24,099,934</u>

PUERTO RICO LAND AUTHORITY
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NOTE 6 - NOTES AND INTERESTS RECEIVABLE (CONTINUED)

Family Farms Program

The Family Farms Program (from now on "the Program") was the main program of the Corporation for Rural Development (from now on "CDR"), a component unit of the DA of the Commonwealth. The Program was created for the purpose of stimulating the use of agricultural land by individuals who meet certain requirements. The land, transferred to qualified individuals under the program, is granted in usufruct. The usufructuary is under obligation to use the land for agricultural purposes only.

The value of the usufruct is the market value of the land and will be paid by the usufructuary over a period of 40 years, plus annual interest of 3% on the unpaid balance. In case the usufructuary does not comply with the payment requirements or with other conditions specified in the program, the usufruct is considered terminated.

During 2010, the Legislature of the Commonwealth approved Reorganization Plan No. 4 of the DA ("the Reorganization Plan"). Under the Reorganization Plan, the program was transferred from CDR to the Authority, which assumed all responsibilities and obligations under the program. The Reorganization Plan required CDR to transfer to the Authority all notes receivable and titles of all agricultural land under the Program.

As the result, during the year ended June 30, 2011, the Authority recorded notes receivables in the amount of \$3,722,000 under the program, which consisted of total notes receivable received from CDR of \$11,333,000, net of an allowance of, for notes receivable considered doubtful of collection, in the amount of \$7,611,000.

As of June 30, 2021, notes receivable outstanding balance of \$7,205,282 is presented net of an allowance for doubtful notes of \$6,738,309. In addition, the Authority has not recorded the cost of any land available under the program or the land that should be recorded for terminated usufruct, as explained above.

FIDA

FIDA, as permitted by law, provides line of credit agreements with certain governmental entities and private businesses, for agricultural purposes. During the year ended June 30, 2021, the interest rate on new financing provided was basically at 3% annually. Interest is collected each month and is computed based on the outstanding balance of the amount financed, using a 360 day year as a base.

Notes receivable outstanding balance of \$29,282,508\$ as of June 30, 2021, is presented net of an allowance for doubtful balances of \$5,649,547, for \$23,632,961.

During the year ended June 30, 2021, interest income recognized on notes receivable from governmental entities amounted to approximately \$32,746, included as part of interest income in operating revenues in the accompanying statement of revenues, expenses and changes in net position. Also, as of June 30, 2021, FIDA has a note receivable from a governmental entity with an outstanding balance of approximately \$465,121, for which no interest charged has been approved by FIDA's Board of Directors.

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NOTE 7 - CAPITAL ASSETS

Puerto Rico Land Authority

As of June 30, 2021, capital assets consisted of the following:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 87,505,836	\$ -	\$ (6,220)	\$ 87,499,616
Construction in Progress	<u>628,466</u>	<u>-</u>	<u>-</u>	<u>628,466</u>
	<u>88,134,302</u>	<u>-</u>	<u>(6,220)</u>	<u>88,128,082</u>
Capital Assets Being Depreciated:				
Building and Improvements	3,718,990	-	-	3,718,990
Infrastructure	14,894,844	-	-	14,894,844
Industrial Equipment	1,520,289	-	-	1,520,289
Machinery and Equipment	7,368,881	-	(212,897)	7,155,984
Vehicles	778,422	-	-	778,422
Furniture and Fixtures	<u>2,088,302</u>	<u>134,096</u>	<u>(9,116)</u>	<u>2,213,282</u>
	30,369,728	134,096	(222,013)	30,281,811
Less: Accumulated Depreciation	<u>(23,733,471)</u>	<u>(643,739)</u>	<u>-</u>	<u>(24,377,210)</u>
	<u>6,636,257</u>	<u>(509,643)</u>	<u>(222,013)</u>	<u>5,904,601</u>
Total Capital Assets, Net	<u>\$ 94,770,559</u>	<u>\$ (509,643)</u>	<u>\$ (228,233)</u>	<u>\$ 94,032,683</u>

Capital Assets Impairment

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands and several municipalities located in the metro, north, east and south areas of the Island. It was declared a major disaster area by the President of the United States on September 10, 2017.

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses. Several months after the incident, there were still many areas without energy and water service.

Damages to offices, warehouses, other structures and equipment of the Authority, related to hurricane events, were estimated at approximately \$28.8 millions, as specified in a physical inspection detail prepared by FEMA. The report specifies the name of the facility or description of equipment, address or location, city located, a description of the damage, and amount of estimated damages. Although the

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NOTE 7 - CAPITAL ASSETS (CONTINUED)

Authority made arrangements to procure an insurance broker, the invoice for the insurance coverage was not paid previously to the hurricane events on September 2017, and therefore, no insurance coverage is available. Nevertheless, on January 2019, FEMA has provided assistance to the Authority in the amount of \$351,282, and agreed to provide additional further assistance for approximately \$266,065.

The Authority, as of basic financial statements report date, is in the process of tracing the individual property and equipment items in the physical inspection detail to their capital assets details, in order to dispose - off or adjust cost and accumulated depreciation related balances. Therefore, no adjustments to capital assets has been made in the accompanying basic financial statements for the year ended June 30, 2021.

Infrastructure Program

The infrastructure program is designed to improve water resource usage and fertilization of land dedicated to the production of fruits and vegetables, through the maintenance of risk pumps and other utilities. Currently, the majority of improvements made through the infrastructure funds are provided by the DA. (See also Notes 1(A) and 18(A)).

NOTE 8 - REAL ESTATE AND EQUIPMENT FOR FUTURE USE

By virtue of Law No. 189, described in Note 1(E), the Sugar Corporation of Puerto Rico and the Land Authority were authorized to transfer certain assets used in the production, marketing and selling of sugar to the sugarcane farmers (known as "colonos"). The Act imposed several restrictions upon the assets transferred to the sugarcane owners, in order to maintain the benefits of the Act. Because of the restrictions imposed by the Law and because of the infringement by the sugarcane growers of said restrictions, the assets were returned to the Corporation and the Land Authority. On September 2, 2004, the "Agroindustria Azucarera del Oeste, Inc." (known as "AGRASO") and Land Authority/Sugar Corporation agreed to return all assets, by virtue of Law No. 189, in exchange of payments of certain obligations and release of debt owned to the Sugar Corporation.

The assets received have an estimated book value of \$4,090,000, detailed as follows:

Land	\$ 1,535,000
Buildings	873,000
Machinery and Equipment	<u>1,682,000</u>
Total	\$ <u>4,090,000</u>

The Law established that in case of infringement, all assets transferred would be returned at cost or fair market value, whichever is lower. Due to significant adverse environmental damages, equipment becomes obsolete and unfit for industrial purposes, and a projection of future costs associated to clean up premises and legal actions involved, the Corporation considers this property as fully impaired, therefore, no value had been assigned in the accompanying financial statements. The Authority is trying to consolidate all impaired equipment and obsolete structures in sugar mills to convert into disposal material to be sold. As of financial statements date, the Authority cannot determine future losses or gains related to these impaired assets.

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NOTE 9 - DEPOSITS ON SALE OF LAND

The Authority is authorized by the Land Law of Puerto Rico to sell surplus land and properties that have no agricultural use to other governmental entities and individuals. The liability for deposits reflected in the accompanying statement of net position represents amounts received in connection with land transactions in process. It also includes legal foreclosures and expropriations cases not finally executed by court.

NOTE 10 - NOTES PAYABLE

Notes payable as of June 30, 2021 consisted of the following:

Participation in Bonds Payable Issued by Puerto Rico Finance Corporation:	\$ 17,051,349
Notes Payable to Puerto Rico Industrial Development Company (PRIDCO)	<u>735,448</u>
Total	<u>\$ 17,786,797</u>

Puerto Rico Land Authority:

On December 27, 2001, the Authority entered into a loan agreement ("the Note") with the GDB to refinance certain debts, as authorized by Law No. 164 of December 17, 2001, named "Law for the Refinancing of Debts from Governmental Entities and Prohibition of Loans from the Government Development Bank Without Repayment Source". The Puerto Rico Public Finance Corporation (from now on "PFC") acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds ("PFC Bonds"). The PFC Bonds were issued under a trust indenture, whereby the PFC pledged and sold the Note, along with other notes, under Law No. 164, to certain trustees and created a first lien on the revenues of the notes sold.

During June 2004, the PFC issued PFC 2004 series A and B bonds, and advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Law No. 164. The Authority recognized a mirror effect of this advance refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding. The aggregate debt service requirements of the notes will be funded with annual appropriations from the Commonwealth.

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2004 and before, under Law No.164, including \$15,099,000 of the Authority corresponding portion of the debt. The Authority recognized a mirror effect of these current refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding.

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NOTE 10 - NOTES PAYABLE (CONTINUED)

The Authority recorded a due from Commonwealth amounting to \$338,849 as of June 30, 2014, for an advance made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advance already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (from now on "COFINA"), issued bonds, and a portion of the proceeds from such bond issuance was used to cancel certain appropriation bonds of the Commonwealth and its agencies, departments and certain component units, including \$8,355,950 of the Authority's notes payable to PFC. As a result of this bond defeasance, the Authority recognized a contribution from COFINA of \$8,555,495 and recognized a loss on extinguishments of debt of \$54,886 during the year ended June 30, 2012.

The notes outstanding balance as of June 30, 2021, was \$17,051,349 and matures throughout July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Law No. 164.

The activity of the notes payable, during the year ended June 30, 2021, was as follows:

	<u>Balance</u> <u>6/30/2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/2021</u>
Notes Payable	\$ <u>17,051,349</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>17,051,349</u>

The estimated repayment schedule of the note payable during the next years follows:

Fiscal Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interests</u>	<u>Totals</u>
2022	\$ 2,695,278	\$ 5,396,781	\$ 8,092,059
2023	493,943	831,812	1,325,755
2024	516,423	807,624	1,324,047
2025	153,640	797,006	950,646
2026 - 2031	<u>13,192,065</u>	<u>(12,122,414)</u>	<u>1,069,651</u>
Total	\$ <u>17,051,349</u>	\$ <u>11,082,209</u>	\$ <u>28,133,558</u>

Puerto Rico Industrial Development Company (PRIDCO):

On July 18, 2018, the Authority entered into a loan agreement ("the Note") with the PRIDCO for the purchase of an used equipment for \$150,000. On September 20, 2018, the Authority entered into another loan agreement with PRIDCO for the purchase of nineteen (19) used machinery and equipment items for a total value of \$585,448. The machinery and equipment total value of \$735,448 will be used as down payment in a land sales transaction between the Authority and PRIDCO. As of June 30, 2021, the land sale transaction with PRIDCO has not been concluded.

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NOTE 10 - NOTES PAYABLE (CONTINUED)

FIDA - Credit Line

FIDA had a non - revolving credit line with GDB. When issued, FIDA had a ceiling on the line of \$94 million. Proceeds from this credit line were used by FIDA to fund investments in agricultural businesses, loans to farmers and contributions, as were permitted by laws and regulations. Repayments of principal and interests were made from the collection of coffee and sugar taxes allocated by the Commonwealth.

Nevertheless, the Authority has made no additional payments, of neither principal or interests, on the credit line since July 1, 2016. The credit line does not have a formal repayment schedule. Base rate on the credit line is the London Interbank Offered Rate or LIBOR, with a spread of 1.25%. The credit line matures on March 1, 2027.

GDB faced significant risks and uncertainties and it currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full. Pursuant to enacted legislation and executive orders by two separate government administrations, GDB was ordered to suspend loan disbursements, to impose restrictions on the withdrawal and transfer of deposits from GDB and it is currently winding down in an orderly fashion under Title VI of PROMESA.

On May 15, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and GDB entered into a Restructuring Support Agreement (the RSA) with a significant portion of the GDB's creditors. The parties to the RSA agreed to undertake a financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). On August 9, 2018, the GDB commenced the solicitation of votes on the Qualifying Modification and on August 10, 2018 commenced an action to obtain court approval of the Qualifying Modification. Following the conclusion of voting on September 12, 2018, the GDB announced that it received the necessary votes from holders of claims subject to the Qualifying Modification (the "Participating Bond Claims") to approve the Qualifying Modification, as required under PROMESA. On November 6, 2018, the Qualifying Modification was approved by the Federal Court. On November 29, 2018, the FAFAA and the GDB announced the consummation of the Qualifying Modification. Under the Qualifying Modification, holders of Participating Bond Claims exchanged their Participating Bonds claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and the GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash.

Pursuant to Law No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"), claims on account of deposits held by the Commonwealth and other public entities, including the Authority, will be exchanged for interest in the Public Entity Deed of Trust created pursuant to the GDB Restructuring Act. Specifically, pursuant to the GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a "Non-Municipal Government Entity") and the GDB will be 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 the GDB or of any bond or note of such Non-Municipal Government Entity held by the GDB as of such date. Those Non-Municipal Government Entities having net claims against

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NOTE 10 - NOTES PAYABLE (CONTINUED)

FIDA - Credit Line (Continued)

the GDB, after giving effect to the foregoing adjustment will receive their pro rata share of interests in the Public Entity Trust (PET), which will be deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. The assets of the PET (the "PET Assets") will consist of, among other items, a \$890 million claim against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth Title III case under PROMESA. A portion of the PET Assets will be transferred to the PET on the Closing Date and the remainder of the PET Assets, or any portion thereof, will be transferred to the PET in one or more transactions, as set forth in the Public Entity Deed of Trust (as defined in the GDB Restructuring Act). Under the GDB Restructuring Act, the transfer of the PET Assets by the GDB to the PET will be an irrevocable, non - voidable, and absolute transfer of all the GDB's legal and equitable right, title, and interest in the PET Assets.

As a result of the qualifying Modification, on November 29, 2018, the credit facility of FIDA owed to the GDB of \$28,125,394 (\$27,674,033 plus accrued interests of \$451,361) was partially offset for \$22,971,172, leaving a balance outstanding of \$5,154,222 (\$4,702,861 plus accrued interests of \$451,361). As of financial statements date, an agreement has not been reached to cancel the remaining of the balance, or to determine how the remainder of the credit facility will be managed.

NOTE 11 - RELATED PARTY TRANSACTIONS

Intercompany transactions occurred during the fiscal year ended June 30, 2021, between Puerto Rico Land Authority and FIDA, because by request of FIDA, the Authority makes payments on behalf of FIDA and records the corresponding receivable or payable transaction, as applicable.

NOTE 12 - DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2021, due to other governmental entities consisted of the following:

Municipal Revenues Collection Center (CRIM)	\$ 11,704,721
Puerto Rico Electric Power Authority	3,281,254
Retirement System Administration	15,868,447
Puerto Rico Treasury Department	18,703
Puerto Rico Aqueduct and Sewer Authority	<u>4,703</u>
Total Due to Other Governmental Entities	<u>\$ 30,877,828</u>

NOTE 13 - DEFERRED OUTFLOWS AND INFLOW OF RESOURCES

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, "Elements of Financial Statements", as the acquisitions and consumption's of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Authority recognizes deferred outflows and inflows of resources.

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NOTE 13 - DEFERRED OUTFLOWS AND INFLOW OF RESOURCES (CONTINUED)

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Based on this concept, the Authority reports the following as deferred outflows of resources and deferred inflows of resources:

- The deferred outflows of resources and deferred inflows of resources resulting from the implementation of GASB Statements No. 73 and 75. Notes 14 and 15 presents additional information about the composition of these items, respectively.

NOTE 14 - PENSION PLAN

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) is a multi-employer defined benefit plan administered by the Retirement System Board.

The Corporation accounts for pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2020). The Corporation retirement plan were administered as trusts following the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. Defined benefit pension plan assets also are legally protected from creditors of the plan members.

On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan for the Commonwealth, ERS, and PBA. The Eighth Amended Plan preserves all accrued pension benefits for current retirees and employees at ERS. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

(a) ERS

Plan Description – Prior to Law No. 106-2017, ERS administered different benefit structures pursuant to Law No. 447-1951, as amended, including a cost-sharing, multiemployer, defined benefit program, a defined contribution program (System 2000 program) and a contributory

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NOTE 14 - PENSION PLAN (CONTINUED)

hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all fulltime employees of the Commonwealth and its instrumentalities (the Commonwealth, 78 municipalities, and 55 public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Law No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

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

- Members of Law No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Law No. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Law No. 447 participants, the Defined Benefit Program).
- Members of Law No. 305-1999 (Act No. 305-1999 or System 2000) were generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 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, became members of the Contributory Hybrid Program as a condition to their employment. In addition, participant employees of previous programs as of June 30, 2013, became part of the Contributory Hybrid Program on July 1, 2013. Pursuant to a settlement incorporated into the Eighth Amended Plan, on the effective date of the Eighth Amended Plan, all participants in the System 2000 Program will receive a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Law No. 106-2017 (discussed below). Upon the payment of these refunds, all claims related to the System 2000 Program will be discharged.

The Commonwealth, through Law No. 106-2017, created a "New Defined Contribution Plan" that consisted of a trust fund, not subject to the provisions of Law No. 219-2012, known as "The Trusts Act", that will maintain an individual account for each participant of the Retirement Systems that becomes a participant of the plan.

The following employees will participate in the New Defined Contribution Plan:

- All active participants of the ERS as of July 1, 2017
- New hires entering the public service workforce after July,1 2017
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan.

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NOTE 14 - PENSION PLAN (CONTINUED)

Enrollment in the New Defined Contribution Plan is optional for the chiefs of public corporations and for employees of public corporations of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

i. Service Retirements

- (a) Eligibility for Law No. 447-1951 Members: Law No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Law No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; and (3) any age with 30 years of credited service. In addition, Law No. 447-1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

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

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

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

- (b) Eligibility for Law No. 1-1990 Members: Law No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Law No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service and (2) attainment of age 65 with 10 years of credited service. Law No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service.
- (c) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

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.

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NOTE 14 - PENSION PLAN (CONTINUED)

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

(d) Eligibility for Members Hired after June 30, 2013: Attainment of age 67.

ii. Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Law No. 447-1951 and Law No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity.

(a) Accrued Benefit as of June 30, 2013 for Law No. 447-1951 Members: The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Law No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

If the Law No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Law No. 447-1951 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 equaled 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 was recalculated 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 Law No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Law No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation

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NOTE 14 - PENSION PLAN (CONTINUED)

multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. For participants selecting the Coordination Plan, the basic benefit is recalculated 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. The benefit was actuarially reduced for each year payment commences prior to age 58.

- (b) Accrued Benefit as of June 30, 2013 for Law No. 1-1990 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Law No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For Law No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

iii. Compulsory Retirement

All Law No. 447-1951 were required to retire upon attainment of age 58 and 30 years of credited service.

iv. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is \$10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

b. Deferred Retirement

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Law No. 447-1951 and Law No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Law No. 447-1951 and Law No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

v. Death Benefits

a. Pre-retirement Death Benefit

Eligibility: Any current nonretired member was eligible.

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NOTE 14 - PENSION PLAN (CONTINUED)

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Law No. 447-1951 and Law No. 1-1990 members.

b. High Risk Death Benefit under Law No. 127-1958

Eligibility: Employees in specified high risk positions who die in the line of work due to reasons specified in Law No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post death Increases: Effective July 1, 1996, and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

c. Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105, as amended by Law No. 4):

- i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan - 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Law No. 105 of 1969, as amended by Law No. 158 of 2003.
- ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000. Either the Commonwealth

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NOTE 14 - PENSION PLAN (CONTINUED)

III. for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. ERS pays for the rest. See Article 2-113 of Law No. 447-1951, as amended by Law No. 524-2004.

(d) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Law No. 447-1951 and Law No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013, continue to be eligible to receive such benefits.

vi. Disability Benefits

a. Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Law No. 447-1951 and Law No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

b. High Risk Disability under Law No. 127-1958

Eligibility: Employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Law No. 127-1958 (as amended).

Benefit: 80% (100% for Law No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three - years (Law No. 127-1958, as amended).

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NOTE 14 - PENSION PLAN (CONTINUED)

The cost of these benefits was paid by the Commonwealth.

- c. Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013, continue to be eligible to receive such benefits.

vii. Special Benefits

a. Minimum Benefits

- i. Past Ad hoc Increases: The Legislature, from time to time, increased pensions for certain retirees as described in Law No. 124-1973 and Law No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by ERS.
 - ii. Minimum Benefit for Members Who Retired before July 1, 2013 (Law No. 156-2003, Law No. 35-2007, and Law No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007). The increase in the minimum monthly benefit from \$200 per month to \$300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.
 - iii. Coordination Plan Minimum Benefit: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.
- b. Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Law No. 10-1992. Subsequent 3% increases have been granted every third year since 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 (Law No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that 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 (Law No. 35-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

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NOTE 14 - PENSION PLAN (CONTINUED)

Under the Eighth Amended Plan, these COLAs will be eliminated from and after the Effective Date. As of the date hereof, the Effective Date has not yet occurred. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

c. Special "Bonus" Benefits

- (i) Christmas Bonus (Law No. 144-2005, as Amended by Law No. 3-2013): An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.
- (ii) Medication Bonus (Law No. 155-2003, as Amended by Law No. 3-2013): 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. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Law 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

viii. Contributions

Contributions by members consists, as a minimum, of an 8.5% of their compensation directly deposited by the Puerto Rico Department of Treasury in the individual member accounts under the New Defined Contribution Plan created pursuant to Law No. 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS.

Participating employers are responsible for the payment of the PayGo fee to the accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

ix. Early Retirement Programs

On July 2, 2010, the Commonwealth enacted Law No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment

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NOTE 14 - PENSION PLAN (CONTINUED)

termination to eligible employees, as defined. Law No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law No. 447-1951 or age 65 for members under Law No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund of the Commonwealth will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Law No. 211 of 2015 (Law No. 211-2015), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Law 106-2017 repealed Law No. 211-2015, while creating an incentives, opportunities, and retraining program for public workers.

Total Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

1) Total Pension Liability and Actuarial Information

The Authority's total Pension Liability for each plan program is measured as the proportionate share of the total Pension Liability. The Total Pension Liability of each of the plan program was measured as of July 1, 2019, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation as of July 1, 2019, rolled forward to July 1, 2020 using standard update procedures. The Authority's proportion of the total Pension Liability was based on a projection of the long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2021, the Authority's used the proportion of .24100%, which was the June 30, 2020 base, as required by GASB No. 73:

Proportion - June 30, 2020	0.24100 %
Proportion - June 30, 2019	<u>0.23945 %</u>
Change - Increase	<u>0.00155 %</u>

As of June 30, 2021, the Authority reported \$67,648,531 as Total Pension Liability for its proportionate share of the Total Pension Liability of ERS, as follows:

<u>Total Pension Liability</u>	<u>Total</u>	<u>Proportion</u> <u>(.24100%)</u>
Total Pension Liability	\$ <u>28,069,797,731</u>	\$ <u>67,648,531</u>

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NOTE 14 - PENSION PLAN (CONTINUED)

1) Pension Expense

For the fiscal year ended June 30, 2021, the Authority recognized pension expense of \$95,097. Pension expense represents the change in the method of benefits payment from “pay-as-you-go” system.

2) Deferred Outflows/Inflow of Resources

As of June 30, 2021, the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Pension Benefits Paid Subsequent to Measurement Date	\$ 3,200,682	\$ -
Differences Between Actual and Expected Experience	139,535	1,522,830
Changes in Assumptions	8,492,607	1,161,235
Change in Employer's Proportion and Differences Between The Employer's Contributions and the Employer's Proportionate Share of Contributions	434,931	574,662
Net Differences Between Projected and Actual Earnings on Plan Investments	<u>-</u>	<u>-</u>
	<u>\$12,267,755</u>	<u>\$ 3,258,727</u>

Pension benefits paid subsequent to measurement date of \$3,200,682 are presented as current portion of Total Pension Liability in the Statement of Net Position. It will be recognized as a reduction of Total Pension Liability in the year ending June 30, 2022.

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

<u>Years Ending June 30</u>	<u>Amounts</u>
2022	\$ 1,161,669
2023	1,161,669
2024	1,161,669
2025	1,161,669
2026	<u>1,161,669</u>
Total	<u>\$ 5,808,345</u>

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NOTE 14 - PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2021 is provided below. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

The actuarial valuation used the following actuarial assumptions:

Inflation Rate	Not Applicable
Actuarial Cost Method	Entry Age Normal
Municipal Bond Index	2.21%, based on Bond Buyer General Obligation 20 - Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Discount Rate	2.21%
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.
Mortality	<p><u>Pre-Retirement Mortality:</u> For general employees not covered under Law No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Law 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths in active service are assumed to be occupational for members covered under Law No. 127.</p> <p><u>Post-Retirement Healthy Mortality:</u> Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of 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-2020 on a generational basis. Prior to retiree's death beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

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NOTE 14 - PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of 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 Scale mp-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

This valuation also reflects a salary freeze until July 1, 2017 due to Law No. 66 of 2014. While the Law No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Law No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Law No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015. After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that result in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the ERS's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the ERS's fiduciary net position is not projected to be sufficient.

The discount rate on June 30, 2020, was as follows:

	June 30, 2020
Discount Rate	2.21%
Long-term expected rate of return net of investment expense	N/A
Municipal bond rate *	2.21%

* Bond Buyer General Obligation 20-Bond Municipal Bond Index.

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2016, as the tax-free municipal bond index applies in all years, and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability.

According to Paragraph 30 of Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

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NOTE 14 - PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the Total Pension Liability, calculated using the discount rate of 3.50%, as well as what the Authority's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the current rate:

	1% Decrease 1.21%	Current Discount Rate 2.21%	1% Increase 3.21%
Total Pension Liability as of June 30, 2020	\$77,598,428	\$67,648,531	\$59,624,844

Pay-As-You-Go Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Law No. 106), which reformed the Commonwealth Retirement Systems. Law No. 106 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Law No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately \$2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Law No. 106 modified the ERS's governance. Under Law No. 106, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Law No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Law No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Law No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The "pay-go" funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

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NOTE 14 - PENSION PLAN (CONTINUED)

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for “pay-go” funding will be. While the ERS can set an expected “pay-go” amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a “pay-go” amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.
- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. “Pay-go” operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly.

NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Program Description and Membership

The Authority provides postemployment benefits other than the pension benefits described in Note 14, for its retired employees (the “OPEB Program”). The plan is an unfunded, single-employer defined benefit other postemployment healthcare and insurance coverage benefit plan. The plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75 "Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions".

Program Description and Membership

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member (\$1,200 annually) provided that the member retired prior to July 1, 2013 (Law No. 43, as amended by Law No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. In addition, a bonus of \$100 is given to retirees annually (on July), for the purpose of acquiring medicines. These benefits are not provided to the retirees' spouse or any relatives.

Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Law No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")(CONTINUED)

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Relationship Between Valuation Date, Measurement Date and Reporting Date

The valuation date is July 1, 2019. This is the date as of which the actuarial valuation is performed. The measurement date is June 30, 2020. This is the date as of which total OPEB liability is determined. The reporting date is the Administration's fiscal year ending date. This report is for measurement year July 1, 2019 to June 30, 2020 for reporting periods ending June 30, 2020 through June 30, 2021.

Significant Changes

There have been no significant changes between the valuation date and measurement year end.

Total OPEB Liability, Expense and Deferred Outflows/Inflows of Resources

As permitted by GASB, the Authority's proportionate share of the total OPEB liability as of June 30, 2021 of approximately \$1,685,683 was measured at June 30, 2020 by an actuarial valuation as of that date. An expected total OPEB liability was determined as of June 30, 2019, the valuation date, using standard roll back techniques. The roll back calculation begins with the total OPEB liability, as of the measurement date, June 30, 2020, adds the expected benefit payments for the year, deducts interest at the measurement date, June 30, 2020, adds the expected benefit payments for the year, deducts interest at the discount rate for the year, and then subtracts the annual normal cost (also called the service cost).

For the year ended June 30, 2021, the Authority recognized an OPEB expense of \$78,191, included as part of other postemployment benefits expense in the accompanying Statement of Revenues, Expenses and Change in Net Position.

As of June 30, 2021, the Authority reported deferred outflows of resources from OPEB activities as follows:

<u>Source</u>	
Other Postemployment Benefits Paid Subsequent to the Measurement Date	\$ <u>128,300</u>
Total Deferred Outflows	\$ <u>128,300</u>

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Deferred outflows of resources related to OPEB resulting from the Authority's benefits paid subsequent to the measurement date which amounted to \$128,300 as of June 30, 2021 is recognized as a reduction of the total OPEB liability in the year ending June 30, 2022. Therefore, it is presented as current portion of the Total OPEB Liability in the Statement of Net Position.

The Authority's proportion of the OPEB liability used was as follows:

Proportion - June 30, 2020	0.19273 %
Proportion - June 30, 2019	<u>0.19353 %</u>
Change - Decrease	<u>(0.00080)%</u>

Discount Rate

The discount rate as of June 30, 2020 was as follows:

	June 30, 2020
Discount Rate	2.21%
20 Year Tax-Exempt Municipal Bond Yield	2.21%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability at June 30, 2020 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

Measurement Date	June 30, 2020
Valuation Date	July 1, 2019
Actuarial Cost Method	Entry Normal Age
Medical Trend Rate	Not Applicable
Salary Increases	Current General Economy
Mortality	<u>Pre-Retirement Mortality</u> : for general employees not covered under Law No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Law 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths in active service are assumed to be occupational for members covered under Law 127.

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Post-Retirement Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 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-2020 on a generational basis. Prior to retiree's death beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disable Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of 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 Scale mp-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a longterm perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and actuarial value of assets.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability calculated using the discount rate of 2.21%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower (1.21%) or 1 percent-point higher (3.21%) than the current rate:

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NOTE 15 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

	1% Decrease 1.21%	Current Discount Rate 2.21%	1% Increase 3.21%
Total OPEB Liability as of June 30, 2020	\$1,858,466	\$1,685,683	\$1,539,703

NOTE 16 - VOLUNTARY TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Law No. 70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows: Article 4(a) provides economic incentive based on the following parameters:

<u>Years of Services in Public Sector</u>	<u>Incentive Gross Amount</u>
Up to 1 Year	1 Month of Salary
From 1 Year and One Day Up to 3 Years	3 Months of Salary
from 3 Years and One Day and Up	6 Months of Salary

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

<u>Credited Years of Service</u>	<u>Pension Payment (As a % of salary)</u>
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

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

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

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NOTE 16 - VOLUNTARY TERMINATION BENEFITS (CONTINUED)

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

The Authority has 15 participants in the plan, and termination benefits are measured at the discount present value of expected future benefit payments. Benefits are based on 60% of average pay (meaning the highest annual average salary of the participant during any of three years of credited services), in addition to social security computed at 7.65%, retirement benefits based on a percentage ranging from 25.5250% to 30.5250% from 2016 to 2025, and \$320 of medical plan up to fiscal year 2019 - 2020. Termination benefits will be completed during fiscal year 2024-2025.

As of June 30, 2021, the present value of future incentive payments reported as a liability amounted to approximately \$2,564,665. Of this amount, \$723,145 should be funded during the next fiscal year. The long - term portion of the early termination obligation amounted to \$1,841,520. Such amounts are disclosed respectively, as short - term and long - term liabilities in the accompanying statement of net position. The liability under this program was discounted at a range from 1% to 2.58%.

NOTE 17 - OPERATING LEASES

The Authority's land operating lease terms vary generally from one to five years. Minimum future rental revenues on non-cancelable operating lease with terms of one year or longer are as follows:

<u>Years</u>	<u>Amount</u>
2022	\$ 6,884,564
2023	5,851,558
2024	5,628,674
2025	4,974,011
2026	4,201,098
2027 - 2031	13,335,564
2032 - 2036	5,839,423
2037 - 2041	3,532,542
2042 - 2046	969,567
2047 - 2051	369,597
2052 - 2054	<u>15,000</u>
	<u>\$ 51,601,598</u>

Real estates 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. Usually, rent is collected six (6) months in advance, and is billed taking into consideration the rent of the parcel and property taxes estimated using the CRIM invoices sent to the Authority related

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

NOTE 17 - OPERATING LEASES (CONTINUED)

the specific parcel of land. The lessee is responsible to provide a certificate of “bonafide farmer”, in order to be released of such payment. In most cases, farmers need to pay in advance the total amount of the rent, and when condition is satisfied, an adjustment of such amount is credited to their account balance.

NOTE 18 - CONTINGENCIES

Puerto Rico Land Authority

(A) INFRASTRUCTURE AND PERMANENT IMPROVEMENTS PROGRAMS

Law No. 40 - 2019, of June 2, 2019 - Rural Infrastructure and Permanent Improvements Program

ADEA transferred its "Rural Infrastructure and Permanent Improvements Program" to the Authority, according to the provisions of Law Number 40 - 2019, of June 2, 2019.

Law No. 40 - 2019 amended Law No. 26 of April 12, 1941, named "Land Law of Puerto Rico", to add Title VII, under which the Authority received the “Puerto Rico Rural Aqueduct Program”. The Authority will provide technical assistance in the process of organization, design, construction, establishment, operation and improvement of rural aqueducts, that do not belong to the Puerto Rico Aqueduct and Sewer Authority. This program is a complement to the work of permanent improvements, which is carried out within the "Rural Infrastructure and Permanent Improvements Program".

The Authority recognizes an income for the administration of the funds, equivalent to 5% of the total disbursements made in the month related to the rural infrastructure program and permanent improvements. During the year ended June 30, 2021, the Authority recognized an Administrative Service Revenue of \$403,137 related to this program.

Restricted Cash balance available for Rural Infrastructure and Permanent Improvements Program as of June 30, 2021, amounted to \$32,259,294. The Authority disbursed for the Rural Infrastructure and Permanent Improvements Program \$19,765,563 during fiscal year ended June 30, 2021.

Law No. 173 - 2020 and Amendments to Puerto Rico Internal Revenue Code of 2011

Law Number 173 - 2020, of December 30, 2020, Article 13, Section 4050.09, named "Creation of the Municipal Improvements Fund", creates a “Municipal Improvements Fund”, under the custody of one or more private financial institutions designated by the Municipal Financing Corporation. Monies under this fund will be proportionately distributed by senatorial and representative districts, to be assigned to public permanent improvement projects in the municipalities of Puerto Rico.

The Puerto Rico Fiscal Agency and Financial Advisory Authority, no later than the fifth (5th) day following the close of each month, will prepare a certification of the accumulated balance in the Municipal Improvement Fund. After this certification is prepared, the Puerto Rico Department of Treasury, no later than the tenth (10th) day following the close of each month, will remit the accumulated amount to the Land Authority's Rural Infrastructure Program. Fifty (50) percent of this amount will be distributed proportionally among the eight (8) senatorial districts and the remaining fifty (50) percent will be distributed proportionally among the forty (40) representative districts. The permanent public works and improvements to be carried out, as permitted in this section, will be administratively determined by the Senators and Representatives of the corresponding districts, in coordination with the Land Authority.”

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

NOTE 18 - CONTINGENCIES (CONTINUED)

(A) INFRASTRUCTURE AND PERMANENT IMPROVEMENTS PROGRAMS (CONTINUED)

This program was added to the Rural Infrastructure and Permanent Improvements Program, explained above.

As of February 2022, the Comptroller of Puerto Rico, upon request of the Secretary of Agriculture, ordered an audit of the handling and management by the Authority of the funds under this program, that were distributed by the district legislators. In addition, in March 2022, the Puerto Rico Department of Justice requested, to the Integrity Public Affairs and Comptrollership Affairs Division of the Justice Department, to start an investigation regarding possible violations of legal requirements from contracts awarded, by the Authority, to different non-for-profit organizations for the development of public works.

As of financial statements date, the effects of these investigations on the Authority's financial operations and Net Position is not presently determinable.

(B) LITIGATIONS

The Authority is a defendant or a co-defendant in various lawsuits and complaints. The Authority's management, after consultation with legal counsel, has made a provision of \$7,386,118 for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

The Authority is a defendant in various claims from events generally incidental to its operations. Also, it has various environmental claims and penalties imposed by The Environmental Protection Agency (EPA), mainly from the handling of pesticide warehouses. The Authority is in the process of litigating such claims. The accompanying statement of net position include a reserve in relation to this matter, but the ultimate outcome is uncertain at this time and accordingly, the ultimate liability, if any, cannot be presently determined.

(C) FEDERAL AWARDS

During the year ended June 30, 2015 and June 30, 2019, the Authority received grant funds from the Department of Education. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. For the year ended June 30, 2021, and as of the basic financial statements date, no audits have been conducted for this particular grants and grant years. Nevertheless, any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying basic financial statements. The Authority does not have any knowledge of past claims and believes that it is not probable that will have to recognize a related loss contingency in the foreseeable future regarding these matters.

(D) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS

The Authority is subject to audits by the Comptroller's Office of Puerto Rico (COPR), who has issued several reports on audits over operations of the Authority and FIDA. The oversight entities, such as the Puerto Rico Department of Justice, are evaluating actions to be taken against the Authority and its employees. The financial impact if any of the possible actions to be taken by the oversight entities can not be presently determined. The Authority does not have any knowledge of past claims and believes that it is not probable that will have to recognize a related loss contingency in the foreseeable future regarding these matters.

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

NOTE 18 - CONTINGENCIES (CONTINUED)

Innovation Fund for the Agriculture Development of Puerto Rico (FIDA)

(E) 2010 AGRICULTURE DEPARTMENT REORGANIZATION PLAN NUMBER 4

Article 36 of the Reorganization Plan Number 4, discussed on Note 1(A) to the financial statements, amended laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as “Technological Innovation and Agricultural Promotion” (“Fondo de Innovacion”), to be transferred to the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). According to the Reorganization Plan, this fund will be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico.

FIDA had received funds from sugar and coffee taxes, from 2011 (date in which the Reorganization Plan was to be implemented) to June 30, 2017 as follows:

<u>Years</u>	<u>Amount</u>
2011	\$ 14,784,002
2012	13,932,814
2013	15,301,865
2014	12,866,028
2015	12,685,288
2016	13,695,023
2017	<u>12,889,062</u>
Total	<u>\$ 96,154,082</u>

During the years ended from June 30, 2018 through June 30, 2020, no funds were received. Nevertheless, for the year ended June 30, 2021, FIDA recorded \$15.3 million in sugar taxes, of which \$13.3 million were collected as of June 30, 2021, and an additional \$2.0 million were recorded as a receivable, and collected on July 1, 2021.

On November 2015, COPR issued audit report number CP-16-03, covering FIDA operations from July 1, 2009 to December 31, 2013. In such report, COPR includes a special comment that the Reorganization Plan will impact FIDA operations and services that FIDA provides to farmers and agricultural activities, since monies that FIDA receives to fund their operations are to be transferred to the “Technological Innovation and Agricultural Promotion” fund of ADEA. Also, COPR comments that the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines and management of incentives already given to farmers.

In his audit report, COPR makes a recommendation, to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations.

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

NOTE 18 - CONTINGENCIES (CONTINUED)

Innovation Fund for the Agriculture Development of Puerto Rico (FIDA) (Continued)

(E) 2010 AGRICULTURE DEPARTMENT REORGANIZATION PLAN NUMBER 4 (CONTINUED)

FIDA management has also raised these concerns and is in agreement with the COPR recommendations. In addition, on April 19, 2016, Project 2873 (P. de la C. 2873) was presented to the Legislature of Puerto Rico, and referred to the Governmental, Agriculture and Environmental and Natural Resources Commissions. Project 2873 propose to revitalize and restructure DA by including FIDA as a programmatic and operational component of DA, separated from the Authority, for the purpose of promoting agricultural enterprises. According to Project 2873, the requirements of Reorganization Plan number 4 were never placed in operation, and are not in accordance with the present public policy of the Commonwealth of Puerto Rico, and that it is necessary to derogate the requirements of such Reorganization Plan.

The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico, and the outcome of Project 2873, cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements. The Authority believes that it is not probable that will have to recognize a related loss contingency in the foreseeable future regarding these matters.

NOTE 19 - RESTATEMENT OF NET POSITION

Puerto Rico Land Authority

During the year ended June 30, 2021, the Authority adjusted balance of electric power consumption and pension related deferred outflow of resources, and eliminated prior year accrued and accounts payable balances without supporting evidence. The effect of these prior period adjustments on the net position of the Authority as of July 1, 2020, is as follows:

Net Position, Beginning of Year, as Previously Presented	\$ (9,866,882)
Restatement Adjustment:	
Electric Power Consumption	157,573
Balances Recorded as Deferred Outflow	(6,470,774)
Elimination of Prior Year Accrued and Payable Balances Without Supporting Evidence	<u>2,127,424</u>
Total Restatement Adjustment	<u>(4,185,777)</u>
Net Position, Beginning of Year, as Restated	<u>\$ (14,052,659)</u>

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

NOTE 20 - EFFECTS OF THE CORONAVIRUS DISEASE

EFFECTS ON THE FINANCIAL STATEMENTS

During the month of December 2019, a respiratory disease started to spread, caused by a novel virus called “Coronavirus” or COVID-19. The World Health Organization (WHO) declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic.

The Governor of the Commonwealth of Puerto Rico issued a lock-down starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lockdown effective May 24, 2021. On July 5, 2021, all Administrative Orders related to the COVID-19 disease were eliminated. Nevertheless, due to increase in the number of cases of contagion from the disease, new Administrative Orders have been issued, most recently, Administrative Order OE-2021-065 dated August 30, 2021, to implement emergency measures to slow the recent increase in the spread of the disease. The effectiveness of this Administrative Order was extended with Administrative Order OE-2021-070, issued on September 20, 2021, until a new order is issued in accordance with the public health and safety needs. On November 15, 2021, Administrative Order OE-2021-075 was issued to eliminate Administrative Orders O58, O62, O63 and O64 previously issued and to implement new initiatives against COVID-19 disease. Finally, on March 7, 2022, Administrative Order OE-2022-019 was issued to eliminate OE-2021-075 and most of the restrictions imposed before due to the pandemic.

The effects of the disease have been swift. The pandemic has transformed economic outlooks, health, and social norms around the globe. Government and health care providers are working around the clock to slow the spread of the disease. The whole world is affected by the pandemic. Travel restrictions are in place, and global trade, commerce, tourism, investment, and supply chains were in disarray. Measures taken to contain the spread of the virus, including quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses locally and worldwide, resulting in an economic slowdown.

During 2021, the effects of the pandemic over the Authority's result of operations have not been significant, and, based on our experience to date, we expect this to remain. For the remainder of 2021 and thereafter for 2022, Management cannot predict the exact impact on their activities. Depending on the duration of the COVID-19 crisis and continued negative impact on the individuals, local and global economic activity, we might experience some negative results. Although, as of the basic financial statements issuance date, this is not expected.

NOTE 21 - DATE OF MANAGEMENT'S REVIEW

The Authority's management evaluated subsequent events until December 12, 2022, date in which the basic financial statements are available to be issued.

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

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<u>Last 10 Years (1)</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Proportion of Total Pension Liability	<u>0.24100 %</u>	<u>0.23945 %</u>	<u>0.23869 %</u>	<u>0.24277 %</u>
Proportionate Share of Total Pension Liability	<u>\$ 67,648,531</u>	<u>\$ 59,504,719</u>	<u>\$ 58,454,814</u>	<u>\$ 68,471,789</u>

Benefit Changes: Beginning on July 1, 2017, the pension benefits were paid through pay-as-you-go method. Law No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73.

Date References: Employee's Retirement System of the Government of the Commonwealth of Puerto Rico: Actuarial Valuation Report

Notes to the Schedule:

- (1) Fiscal year 2019 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.
- (2) There are no assets accumulated in a trust for payment of defined pension benefits participants, and the plan is not administered through a trust or equivalent arrangement.

See accompanying independent auditors' report.

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

**SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT
BENEFITS (OPEB) LIABILITY**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<u>Last 10 Years (1)</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Proportion of the Total OPEB Liability	<u>0.19273 %</u>	<u>0.19353 %</u>	<u>0.18891 %</u>	<u>0.18011 %</u>	<u>0.18334 %</u>
Proportionate Share of the Total OPEB Liability	<u>\$ 1,685,683</u>	<u>\$ 1,610,592</u>	<u>\$ 1,590,950</u>	<u>\$ 1,657,962</u>	<u>\$ 2,172,834</u>

Notes to the Schedule:

(1) Fiscal year 2018 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.

(2) There are no assets accumulated in a trust for payment of OPEB related benefits, and the plan is not administered through a trust or equivalent arrangement.

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

INDEPENDENT AUDITORS' REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Puerto Rico Land Authority (From now on the Authority), an enterprise fund of the commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2022. Our report was qualified because the Authority was not able to perform the evaluation and recognition of capital asset impairments, and therefore, capital assets are overstated and the amount of loss from impairment and restoration or replacement of the impaired capital assets amounts are not available as of basic financial statements date.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the basic financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which we reported to the Authority's management in a separate letter dated December 12, 2022.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

December 12, 2022

Stamp **##E501799** of the
College of CPA's of
Puerto Rico is affixed
to the original.



TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

To the clients and users of the financial statements
Reported upon by Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

The partners and staff of Torres, Hernández & Punter, CPA, PSC are pleased to announce the successful completion of the 2019 independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPA's in public practice, industry, government and education. Our participation in the Peer Review Program demonstrates our firm's commitment and desire of maintaining and improving the quality of our practice.

After through study of our policies and procedures, the team conducting the review concluded our firm complies with the quality control standards established by the AICPA and the Puerto Rico Society of CPA's (PRSCPA). Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff, deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC

Added Value Services, Provided by Leading Professionals, Obtaining a Reasonable Return on Investment

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To the Stockholders of
Torres, Hernandez, & Punter, CPA, PSC
and the Peer Review Committee of the
Puerto Rico Society of Certified Public Accountants

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

We have reviewed the system of quality control for the accounting and auditing practice of **Torres, Hernandez, & Punter, CPA, PSC** (the firm) in effect for the year ended December 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audit under Single Audit Act, and audits of *Employee Benefit Plans*.

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **Torres, Hernandez, & Punter, CPA, PSC** in effect for the year ended December 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. **Torres, Hernandez, & Punter, CPA, PSC** has received a peer review rating of *pass*.

A handwritten signature in black ink that reads "J. Angel, CPA". The signature is written in a cursive style.

License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
October 1, 2019
2019-10-52

Stamp Number
E-376178
was affixed to
original