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GOBIERNO DE PUERTO RICO
AUTORIDAD DE LOS PUERTOS

SECRETARIA DEL SENADO

25 MAR 2021 PM3:30

15 de marzo de 2021

VÍA MENSAJERO

PRESIDENCIA DEL SENADO

RECIBIDO MAR25'21AM10:50

Honorable José L. Dalmau Santiago
Presidente
Senado de Puerto Rico
Capitolio Núm. 1
Plaza de la Democracia
San Juan, Puerto Rico 00901

Estimado señor Presidente:

ESTADOS FINANCIEROS AUDITADOS AL AÑO FISCAL TERMINADO EL 30 DE JUNIO DE 2018

Anejamos un disco compacto que contiene los Estados Financieros Auditados de la Autoridad de los Puertos, para el año fiscal terminado al 30 de junio de 2018.

Estamos a sus órdenes de necesitar información adicional al respecto.

Cordialmente,

Luis A. De Jesús Clemente
Director Ejecutivo Auxiliar
en Desarrollo Económico y Finanzas

/mvr

Anejo

RSM Puerto Rico

PUERTO RICO PORTS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information
Fiscal Year Ended June 30, 2018
(With Independent Auditors' Report)

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RSM

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

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

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Ports Authority

We have audited the accompanying financial statements of the Puerto Rico Ports Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Puerto Rico Ports Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Ports Authority as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Uncertainty About Ability to Continue as a Going Concern

As discussed in Note 3 to the accompanying basic financial statements, the Commonwealth and several of its component units, including the Authority, face significant risks and uncertainties, including liquidity risk, significant operating losses, working capital deficiencies, negative cash flows, and the uncertainty as to fully satisfy its obligations. These conditions raise substantial doubt about the Puerto Rico Ports Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Effect of Adopting a New Accounting Standard

As discussed in Note 4 to the accompanying basic financial statements, the Puerto Rico Ports Authority adopted the Government Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was effective for fiscal years beginning after June 15, 2017. As discussed in Note 4 to the accompanying basic financial statements, the net position balance as of July 1, 2017 has been restated for the cumulative effect of the adoption of the provisions of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Restatement to Net Position

As discussed in Note 4 to the accompanying basic financial statements, the net position as of July 1, 2017 has been restated to correct an error related to an overstatement of accrued compensated absences. Our opinion is not modified with respect to this matter.

Effect of COVID-19 Pandemic

As discussed in Note 23 to the accompanying basic financial statements, the Puerto Rico Ports Authority may be materially impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12, the Schedule of Pension Contributions, the Schedule of the Authority's Proportionate Share of the Net Pension Liability, the Schedule of the Authority's Proportionate Share of the Other Postemployment Benefits Liability and the Schedule of Other Postemployment Benefits Contributions on pages 70 through 73 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
February 26, 2021.

RSM Puerto Rico

Stamp No. E444585 was affixed to
the original of this report.

Introduction

The following Management's Discussion and Analysis of the financial performance and activity of the Authority is intended to provide an introduction to its financial statements for the fiscal year ended June 30, 2018, with selected comparative information from the fiscal year ended June 30, 2017, as restated. This section has been prepared by the Authority's management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Overview of Financial Results

At June 30, 2018, the Authority has a total net position (deficit) of ($325.6) million, which represents a deficit increase of ($19.6) million, as compared to restated figures for June 30, 2017. This increase in total net position (deficit) is related principally to a reduction in net investment in capital assets of approximately ($63.9) million, offset by an increase in restricted net position of approximately $4.2 million and a reduction in unrestricted net position (deficit) of $40.1 million. The significant decrease of ($63.9) million in net investment in capital assets resulted principally from the current year depreciation, impairment recognized on capital assets and the accrual of interest over capital assets related debts.

The increase in total net position (deficit) of approximately ($19.6) million for 2018 is approximately $17.7 million lower than the increase in net deficit experienced during fiscal year 2017, as restated, of approximately $37.3 million. This change relates principally to a net increase in total revenues of $11.2 million, decrease in total expenses of $2.7 million, and a recovery of $3.8 million in early termination. The increase in the early termination credit resulted from reduction in actuarial liability for Law No. 70 early retired employees, since the employer contribution on salaries paid to these employees is no longer necessary with the implementation of the Pay-Go system. The net operating income before provisions for bad debts and the depreciation and amortization of capital assets amounted to approximately $43.1 million during fiscal year 2018; while for restated fiscal year 2017, it was $16.9 million. The increase of approximately $26.2 million in net operating income, when comparing fiscal years 2018 and restated 2017 figures, was related principally to a combination of increases in maritime and airport operations revenues ($8.7 million and $5.1 million, respectively) and net decreases in salaries and employee benefits and related pension and OPEB expenses, and other operating expenses of $12.4 million in the aggregate.

Net operating revenues totaled $114.1 million in 2018 and $100.3 million in 2017. These figures include $81.1 million of gross maritime revenues and $38.6 million of gross airport revenues, reduced by $5.4 million of provision for bad debts and $254 thousand of discounts and incentives granted in 2018; and $73.8 million of gross maritime revenues and $31.1 million of gross aviation revenues, reduced by $4.4 million of bad debts provision and $210 thousand of discounts and incentives granted in 2017. The tourist ships fee decreased by $2.0 million and it was offset by increase of $4.6 million in wharfage service fees during 2018; principally as consequence of Hurricane María, which made landfall in Puerto Rico on September 20, 2017 and affected Authority's operations. The maritime operating revenue experienced a net increase of $8.7 million, primarily due to increases in wharfage, dockage and harbor dues of $4.6 million and scanning services fee of $6.9 million; offset by reductions in tourist ships and property rental and others, in the aggregate of $4.1 million and a favorable decrease in the provision for bad debts of $1.3 million. The airport operating net revenues increased for $5.1 million during 2018, principally related to additional space rental to other federal entities working with the Hurricane María emergency and the recognition of a portion of the AILMM revenue sharing ($3.0 million) to be collected from Aerostar. This revenue increases were offset by an increase in the provision for bad debts of $2.3 million.

Operating expenses, excluding depreciation, amortization and the provisions for bad debt, totaled $70.9 million in 2018 and $83.3 in 2017 restated amounts. The net decrease in operating expenses is principally attributable to a one-time adjustment of $3.7 million for the elimination of balance related to a pension asset previously recognized in accordance with GASB No. 27 for 2017, increase in pension expense related to GASB No. 68 of $2.5 million, reduction in GASB No. 75 OPEB expense of $11.5 million (after restating 2017 balances) and increase in salaries and employee benefits, net of reductions in general and administrative and other expenses.

Non-operating revenues for 2018, as compared to 2017, had a net decrease for $2.5 million. This decrease resulted principally from a net effect of a reduction of $3.4 million in federal financial program activities by the Authority and the recognition of non-operating revenues of $892 thousands related to the market value of certain common shares received by the Authority as distribution from claims under bankruptcy procedures.

Other Highlights

Related to the Luis Muñoz Marin International Airport ("LMMIA") lease and use agreements ("APP Agreements") entered into with Aerostar in February 2013, the Authority recognized approximately $9.7 million ($5.9 million in 2017) of additions to capital assets as a result of improvements and construction works already completed and placed in operations at the LMMIA by Aerostar. In addition, as related to damages caused by Hurricane María in September 2017 to the improvements at the LMMIA, the Authority recognized an impairment adjustment of $10.4 million for fiscal year 2018. During the 2018 calendar year, the Authority began to accrue its annual rental income to be received from the APP Agreements based on the 5% of the estimated gross airport revenues of the LMMIA operations. The annual rental income was estimated in $6 million, for which $3 million were recognized as accounts receivable as of June 30, 2018.

Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements, including the notes to the financial statements. The basic financial statements comprise the following: Statement of Net Position (Deficit), Statement of Revenues, Expenses and Changes in Net Position (Deficit), Statement of Cash Flows and the Notes to Basic Financial Statements.

Statement of Net Position (Deficit)

The Statement of Net Position (Deficit) presents the financial position of the Authority at the end of the fiscal year and includes all of its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit). Net position (deficit) equals total assets, plus total deferred outflows of resources, less total liabilities, less total deferred inflows of resources.

A summarized comparison of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) follows:

	2018	2017 (as restated)	Change	
	(In Thousands)		In Dollars	Percentage
Assets:				
Current assets	$ 41,902	$ 27,995	$ 13,907	50%
Non-current assets:				
Capital assets, net	1,223,617	1,264,549	(40,932)	-3%
Other non-current assets	49,751	42,711	7,040	16%
Total assets	1,315,270	1,335,255	(19,985)	-1%
Deferred outflows of resources	68,903	60,632	8,271	14%
Total assets and deferred outflows:	$ 1,384,173	$ 1,395,887	$ (11,714)	-1%
Liabilities:				
Current liabilities	$ 534,315	$ 291,730	$ 242,585	83%
Non current liabilities:				
Loans and notes payable	83,949	305,264	(221,315)	-72%
Other non-current liabilities	387,419	382,247	5,172	1%
	1,005,683	979,241	26,442	3%
Deferred inflows of resources	704,046	722,603	(18,557)	-3%
Net position (deficit):				
Net investment in capital assets	520,997	584,911	(63,914)	-11%
Restricted	44,545	40,342	4,203	10%
Unrestricted (deficit)	(891,098)	(931,210)	40,112	-4%
	(325,556)	(305,957)	(19,599)	6%
	$ 1,384,173	$ 1,395,887	$ (11,714)	-1%

Analysis of Net Position (Deficit) at June 30, 2018 and 2017

The Authority's net position (deficit) at June 30, 2018 includes assets of $1.3 billion, deferred outflows of resources of $68.9 million, liabilities of $1.0 billion and deferred inflows of resources of $704 million. Increase in current assets of $13.9 million is principally related to insurance recovery of $5 million deposited and maintained at bank, and increase in balances receivable from various customers for property rentals and other services.

Net capital assets decreased by approximately $40.9 million from 2017, as a result of net additions to construction in progress and to other capital assets of approximately $18.5 million, offset by the depreciation for the year (net of retirements) of approximately $33.2 million and impairment losses of $10.3 million and $15.9 million, caused by Hurricane María to capital improvements at LMMIA and capital assets maintained by the Authority, respectively. Some of the additions came from improvements and works completed and placed in operations by Aerostar in LMMIA for approximately $9.7 million ($5.9 million in 2017).

Increase of approximately $7.0 million in other noncurrent assets is related to increases in: restricted cash of $4.2 million, due from governmental entities of $1.9 million and other assets of $892 thousand. Restricted cash increased for funds received from Aerostar ($2.5 million) as LMMIA annual concession rental payment and funds received from Royal Caribbean and maintained for certain capital improvements projects. Due from governmental entities increased mainly due to balance receivable from Federal Emergency Management Agency ("FEMA") ($2.2 million) related to rental facilities for the response to emergency caused by Hurricane María. The other assets increase is related to the recognition of fair market value of common shares of American Airlines received by the Authority, resulting from its bankruptcy legal procedures. Increase in deferred outflows of resources of approximately $8.3 million resulted from the net effect of the $1.1 million scheduled amortization for the year of the underlying deferred refunding losses on the existing PRIFA Bond Series, and net increase of $9.4 million in pension and other post-employment benefits related deferred outflows.

Increase of $242.6 million in current liabilities is due principally to the reclassification, as current, of approximately $193.0 million of principal outstanding on unpaid loans related to PRIFA Bonds, increase in current amounts on lines of credit with Government Development Bank for Puerto Rico ("GDB") and additional accrual of interest for $27.9 million on such lines of credit**.** Deferred inflows of resources had a net decrease of almost $18.6 million, responding to the approximately $9.7 million addition for Aerostar completing and placing in operation works and improvements under the LMMIA lease and use agreement, and increase in pension related deferred inflows of $1.2 million, offset by the scheduled amortization for the year of $19.1 million, and an impairment of $10.4 caused by Hurricane María for capital improvements at the LMMIA.

Net position (deficit) totaled approximately ($325.6) million at June 30, 2018, an increase in (deficit) of approximately ($19.6) million from restated 2017 figures. Net investment in capital assets totaled $520.9 million at June 30, 2018, comprising the investment in capital assets (e.g., land, buildings piers, improvements, roads and parking areas, among others), less the related outstanding indebtedness incurred to acquire those capital assets (net of the related deferred outflows of resources) and less the related deferred inflow of resources attributed to the work and improvements completed by Aerostar and placed in operations. Net position (deficit) also contains approximately $44.5 million of net resources restricted principally for airport and maritime facilities improvements and the acquisition of assets. The residual net position (deficit) consists of an unrestricted deficit of ($891.1) million.

Statement of Revenues, Expenses and Change in Net Position (Deficit)

The change in net position is an indicator of whether the overall fiscal condition of a government has improved or worsened during the year. Following is a summary of the Statement of Revenues, Expenses and Change in Net Position (Deficit) for the years ended on June 30, 2018 and 2017, as restated.

Statement of Revenues, Expenses and Change in Net Position (Deficit)

	2018	2017 (as restated)[1]	Change	
	(In Thousands)		In Dollars	Percentage
Operating revenues:				
Maritime operations	$ 80,654	$ 71,991	$ 8,663	12%
Airport operations	33,659	28,510	5,149	18%
Less: discount and incentives	(254)	(210)	(44)	21%
Total operating revenues	114,059	100,291	13,768	14%
Non operating revenues:				
Federal finance assistance	4,148	7,521	(3,373)	-45%
Market value adjustment for common shares received	892	-	892	100%
Passenger facility charges	1	2	(1)	-50%
Penalties and other fees	111	127	(16)	-13%
Total non-operating revenues	5,152	7,650	(2,498)	-33%
Total revenues	119,211	107,941	11,270	10%
Operating expenses:				
Salaries and employees benefits	26,638	24,353	2,285	9%
Pension (GASB No. 68)	12,099	10,371	1,728	17%
OPEB (credit) expense (GASB No. 75)	(1,976)	9,486	(11,462)	-121%
Pension asset adjustment (GASB No. 27)	-	3,772	(3,772)	-100%
General and administrative	22,708	23,060	(352)	-2%
Professional services	6,728	6,630	98	1%
Insurance, rent, repairs and maintenance	4,737	5,677	(940)	-17%
Operating expenses before depreciation, amortization and provision for bad debts	70,934	83,349	(12,415)	-15%
Provision for bad debt-governmental entities	681	4,151	(3,470)	-84%
Depreciation and amortization	33,159	26,062	7,097	27%
Total operating expenses	104,774	113,562	(8,788)	-8%
Non-operating expenses:				
Interest expense, net	29,268	30,526	(1,258)	-4%
Impairment loss, net of insurance recovery	10,928	3,897	7,031	180%
Grant subsidies and awards	957	610	347	57%
Total expenses	145,927	148,595	(2,668)	-2%
Increase in net deficit before early termination expense	(26,716)	(40,654)	13,938	-34%
Early termination expense	7,117	3,350	3,767	112%
Increase in net deficit	(19,599)	(37,304)	17,705	-47%
Net position (deficit), at beginning of year, as restated	(305,957)	(268,653)	(37,304)	14%
Net deficit end of year	$ (325,556)	$ (305,957)	$ (19,599)	6%

[1] Certain amounts were reclassified to conform the 2018 presentation.

Analysis of Changes in Net Position (Deficit) during Fiscal Year 2018

Net maritime operating revenues, totaled $80.7 million compared to $72 million in 2017, an increase of $8.7 million which resulted principally from increases in wharfage, dockage and harbor dues of $4.6 million and scanning services fee of $6.9 million; offset by reductions in tourists ships and property rental and others, in the aggregate of $4.1 million and a favorable decrease in the provision for bad debts of $1.3 million. Net airport operating revenues, totaled $33.6 million compared to $28.5 million in 2017, resulting in a net increase of $5.1 million, which is mainly due to additional space rental to other federal entities working with the Hurricane María emergency and the recognition of a portion of the AILMM revenue sharing ($3.0 million) to be collected from Aerostar. This revenue increases were offset by an increase in the provision for bad debts of $2.3 million.

Non-operating revenues consist principally of Federal Aviation Administration (FAA), Federal Transit Administration (FTA) and other governmental agencies approved programs, passenger facility charges ("PFC"), penalties and other fees. Non-operating revenues presented net decrease of approximately $2.5 million during 2018, as compared to 2017. Such decrease is mainly due to a net effect of a reduction of $3.4 million in federal financial program activities by the Authority and the recognition of non-operating revenues for $892 thousands related to the market value of certain common shares received by the Authority as distribution from claims under bankruptcy procedures.

Operating expenses, excluding depreciation, amortization and provisions for bad debts totaled $70.9 million in 2018, which is almost a $12.4 million decrease as compared to 2017 restated amounts. This change resulted principally from the net effect of a one-time adjustment of $3.7 million for the elimination of balance related to a pension asset previously recognized in accordance with GASB No. 27 for 2017, increase of $1.7 million in pension expense related to GASB No. 68, decrease of $11.5 million in OPEB expense related to GASB No. 75 (after restating 2017 figures), and increase in salaries and employee benefits of $2.3 million. The increase in salaries and employee benefits resulted mainly from the restatement of 2017 figures to include a $3.4 million adjustment for the elimination of sick leave accrual.

Net non-operating expenses had a net increase of $6.1 million during 2018, as compared to 2017. The change resulted from principally from: decrease in interest expense of $1.3 million, increase in impairment loss on capital assets of $7.0 million (net of a related insurance claim advance recovery of $5 million), offset by increases of $347 thousand in grant subsidies. These grant subsidies represent pass-through federal funds for the Puerto Rico and Municipality Island Maritime Transportation Authority (MTA).

Capital Activities

The Authority's net disbursements for capital construction projects totaled approximately $8.4 million in 2018. Funding sources were as follows: $2.7 million was funded with federal contributions, and the balance of approximately $5.7 million was funded with the Authority's own monies and financing activities.

Loan and Notes Payable

In December 2011, the Authority entered into a refinancing transaction by the issuance of Puerto Rico Infrastructure Financing Authority (PRIFA) (a component unit of the Commonwealth of Puerto Rico) bonds in a conduit debt transaction. The proceeds were used to pay various outstanding debts.

Loan and Notes Payable (Continued)

In February 2013, the Authority entered into a lease and use agreement with Aerostar for the LMMIA premises, receiving an advance leasehold fee of $615 million. A portion of this fee was used to pay the outstanding principal and interest balance of bonds, and partial payments of principal and interest on loans and notes payable to the GDB and other private entities. Some of the aforementioned bonds were repurchased by GDB upon the Authority's drawing of GDB letters of credit guaranteeing such bonds, as the Authority could not honor such bonds' scheduled debt service as they became due.

The carrying value of such PRIFA bonds was $196.2 million and $196.8 million at June 30, 2018 and 2017, respectively. The outstanding principal balance of the total notes payable, amounted to $296.3 million and $298.0 million at June 30, 2018 and 2017, respectively. The reduction in the PRIFA bonds responds principally to the amortization of its related premium, while repayments of various notes, not related to GDB, amounted to approximately $1.5 million.

The Authority had issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. There is no outstanding balance of these bonds as of June 2018.

Refer to Notes 11, 12, 22 and 23 of the Authority's 2018 basic financial statements for additional information related to loans and notes payable.

Liquidity Risks, Uncertainties and Recent Events

Despite the multiple efforts undertaken by the Authority to improve its operating results, as described herein, it continues to face growing challenges and uncertainties. In relation to the lines of credit owed to GDB (now owed to GDB Debt Recovery Authority) most of them remain unpaid since the closing of the LMMIA lease and use agreements. Some of these lines of credits have payments that were contingent on the availability of funds from the Commonwealth to appropriate in its annual budget process. These appropriations are contingent on the availability of funds from the Commonwealth and their legislative approval. The prospects of securing any Commonwealth appropriation have been significantly diminished by the passage of the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21) and the Executive Order 2016-10. As a result of Act No. 21 and the Executive Order, and the issuance of the Circular Letter 1300-08-17 from the Secretary of the Treasury, the Authority recognized an impairment loss on all its deposits held with GDB, amounting to approximately $21 million. In addition, pursuant the provisions of Act 21, the Authority has ceased to make, effective July 2016, the required monthly deposits to the trustee account needed to cover the debt service due on its PRIFA Bonds on December 15, 2016 and thereafter.

On June 30, 2016, President Barack Obama signed the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") into law (as codified under 48 U.S.C. §§ 2101-2241), which grants the Commonwealth and its components unit access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). The Authority has also been designated as a covered entity under the PROMESA Act.

The Government of Puerto Rico has taken several measures to address the fiscal crisis. On January 2, 2017, vital structural reforms were taken among other cost reduction initiatives including: (1) reduction of ten percent in government spending for the fiscal year 2017; (2) reduction of ten percent (10%) in professional service contracts, and a five percent (5%) decrease in utility spending for all government agencies and public corporations; and (3) a twenty percent (20%) reduction in positions of trust in each agency and/or public corporation. Also, Executive Order No. 2017-005 requires all agencies and public corporations to establish a Zero-Base Budgeting methodology as a way to reduce government spending. Lastly, Executive Order No. 2017-009 imposes a five percent (5%) reduction in purchases of goods in all government agencies. The above measures were submitted by the Government of PR and evaluated by the Fiscal Oversight Board ("Board"), and were certified on March 13, 2017.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act ("Act No. 5"), which repealed certain provision of Act No. 21 and authorized additional emergency measures. Pursuant to Act No. 5, the executive orders issued under Act No. 21 will continue in effect until amended, rescinded or suspended. The emergency period under Act No. 5 expired on December 31, 2018. Some additional powers provided to the Governor through Act No. 5 include the authority to: exercise receivership powers to rectify the financial emergency; exercise general supervisory control over their functions and activities of all government entities within the Executive Branch; and issue executive orders to implement and enforce compliance within Act No. 5.

On August 24, 2017, the Act 109 of 2017 "Government Development Bank for Puerto Rico Debt Restructuring Act" was signed into law with the purpose of establishing a legislative framework for the GDB's restructuring process on which a statutory public trust and a governmental public instrumentality of the Commonwealth was created known as GDB Debt Recovery Authority ("GDBRA"). The GDBRA was created for the purpose of (i) issuing the Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government of Puerto Rico and (ii) owning and managing the Restructuring Property. Finally, during 2018 the new bonds of GDBRA were issued and GDB's assets were transferred to GDBRA.

During April 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) on behalf of the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Authority entered into a Restructuring Support Agreement (RSA) with the Ad Hoc Group of holders of certain Series 2011 bonds issued by PRIFA; with the purpose of restructuring a large part of the Authority debt. The RSA was subject to approval of the Financial Oversight and Management Board for Puerto Rico. On December 27, 2019 a final amended RSA was executed to restructure approximately 93% of these PRIFA Bonds. The RSA represent a significant reduction in debt service requirements that will allow the Authority to focus in its efforts on public-private partnerships and other long-term capital improvement initiatives.

Actually, the Puerto Rico Public-Private Partnerships Authority ("P3A") is evaluating a transaction that contemplates the concession of Piers 1 through 4, Piers 11 through 14 and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority, to a private operator. Piers 11 through 14 are currently closed by the US Coast Guard due to poor structural conditions and the remaining piers could face similar risks. In exchange for the concession, the Authority expects the operator to invest in significant capital improvements that will bring the existing piers to adequate standards to accommodate larger cruise ships and allow for additional growth in cruise ship passenger volumes. Additionally, the Authority is expected to receive an upfront payment from a preferred proponent and participate in a revenue share agreement. Also, the P3A is currently conducting a market study to assess the feasibility of granting the concession of the nine regional airports owned by the Authority under multiple Public-Private Partnerships. Through this initiative, the Authority will cut its aeronautical expenses while securing revenue from those operations.

The Authority is also evaluating the disposition, through sale, of certain non-productive properties, such as land and structures, to obtain funds for its projects and operations.

Management of the Authority has also reacted responsibly with respect to its delinquent obligations by actively pursuing feasible payment plans for balances due to the Commonwealth's Treasury Department and the Puerto Rico Retirement Systems, as well as with the government utilities and most suppliers. These special payment arrangements have maintained an organized and steady cash flow strategy for the Authority while meeting its obligations.

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor of Puerto Rico issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. Subsequently, the Governor has issued multiple executive orders to include curfew directives and other protective measures in response of the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of the Commonwealth and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico in response to the economic distress caused by the COVID-19 pandemic. As of today, and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management has estimated a negative impact of approximately $26 million in its operational cash flows.

All these events described in the previous paragraph compile a trend of negative indicators defined in GASB Statement No. 56, which has a significant impact in the Authority's ability to fully satisfy its obligations as they become due and raises substantial doubt about the Authority's ability to continue as a going concern, as defined in GASB Statement No. 56.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department of the Puerto Rico Ports Authority, P.O. Box 362829, San Juan, Puerto Rico 00936-2829.

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

Statement of Net Position (Deficit)
June 30, 2018

(In Thousands)

ASSETS		
CURRENT ASSETS:		
Cash	$	13,456
Accounts receivable, net of allowances for doubtful accounts of $89.04 million		25,874
Prepaid expenses and other current assets		2,572
		41,902
NON-CURRENT ASSETS:		
Cash - restricted		19,194
Certificates of deposit - restricted (Note 5)		-
Deposits consigned in court - restricted		25,351
Other assets - common shares		892
Due from governmental entities, net		4,314
Capital assets		
Non-depreciable		910,304
Depreciable, net		313,313
		1,273,368
		1,315,270
DEFERRED OUTFLOWS OF RESOURCES:		
Refunding loss		10,266
Pension related		57,982
Other postemployment benefits related		655
		68,903
Total assets and deferred outflows of resources	$	1,384,173

Continues…

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

Statement of Net Position (Deficit)
June 30, 2018

Continued…

(In Thousands)

LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$	22,949
Loan payable		196,226
Notes payable		212,356
Retainage and construction costs payable		3,711
Termination benefits accrual		1,369
Tenants deposits		1,316
Interest payable		96,003
Unearned revenues		105
Other liability		280
		534,315
NON-CURRENT LIABILITIES:		
Notes payable		83,949
Termination benefits accrual		7,779
Unearned revenues		44
Due to governmental entities		121,739
Net pension liability		249,587
Other postemployment benefits liability		8,165
Other liability		105
		471,368
		1,005,683
DEFERRED INFLOWS OF RESOURCES:		
Concession fees		661,980
Pension related		42,066
		704,046
NET POSITION (DEFICIT):		
Net investment in capital assets		520,997
Restricted:		
Acquisitiom of assets		25,351
Construction, renewal and improvements		19,194
Unrestricted - deficit		(891,098)
		(325,556)
Total liabilities, deferred inflows of resources and net position (deficit)	$	1,384,173

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

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

Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the year ended June 30, 2018

(In Thousands)

OPERATING REVENUES:	
Maritime operations (Note 21)	$ 80,654
Airport operations (Note 21)	33,659
Less: Discount and incentives	(254)
	114,059
OPERATING EXPENSES:	
Salaries and employee benefits	26,638
Pension (GASB No. 68)	12,099
Other postemployment benefit recovery adjustment (GASB No. 75)	(1,976)
General and administrative	22,708
Professional services	6,728
Insurance	3,305
Rent, repairs and maintenance	1,432
	70,934
Operating income before depreciation and amortization , and provision for bad debts from governmental entities	43,125
Depreciation and amortization	(33,159)
Provision for bad debts from governmental entities	(681)
Operating income	9,285
NON OPERATING REVENUES (EXPENSES):	
Federal financial assistance	4,148
Passenger facility charges	1
Penalties and other fees	111
Grant subsidies and awards	(957)
Impairment loss on capital assets, net of insurance recovery	(10,928)
Market value adjustment for common shares received	892
Interest expense	(29,358)
Interest income	90
	(36,001)
Increase in net deficit before early termination adjustment	(26,716)
Special item - early termination recovery adjustment	7,117
Increase in net deficit	(19,599)
Net position (deficit), at beginning of year - as previously reported	(299,862)
Effect of adoption of GASB No. 75 (Note 4)	(9,486)
Restatement adjustment (Note 4)	3,391
Net position (deficit), at beginning of year - as restated (Note 4)	(305,957)
Net position (deficit), at end of year	$ (325,556)

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

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

Statement of Cash Flows
For the year ended June 30, 2018

(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITES:		
Cash received from charges to customers	$	85,138
Cash payments to suppliers for goods and services		(35,796)
Cash payments to employees for services		(29,986)
Net cash provided by operating activities		19,356
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		(8,378)
Capital contribution		2,674
Interest paid		(952)
Principal payments on notes payable		(1,706)
Insurance claims proceeds		5,000
Passenger facility charges received for capital expenditures		1
Net cash used in capital and related financing activites		(3,361)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Penalties and other fees		111
Net change in due from (to) government agencies		(7,943)
Net cash used in non-capital and related financing activites		(7,832)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received		90
NET INCREASE IN CASH		8,253
CASH, beginning of year		24,397
CASH, end of year	$	32,650

Continues…

Statement of Cash Flows
For the year ended June 30, 2018

Continued…

(In Thousands)

RECONCILIATION OF CASH		
Unrestricted cash	$	13,456
Restricted cash:		
Construction		18,723
Renewal and replacements, maintenance and others		471
Total restricted cash		19,194
Total cash	$	32,650
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	9,285
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		33,159
Amortization of deferred inflows of resources-concession fees		(19,113)
Provision for due from governmental entities		681
Early termination recovery adjustment		7,117
Net change in operating assets, liabilities, deferred outflows of resources and deferred inflows of resources:		
Increase in accounts receivable		(9,618)
Increase in prepaid expenses and other assets		(238)
Decrease in accounts payable and accrued expenses		(2,647)
Decrease in tenant deposits		(85)
Decrease in other employee benefits		(9,963)
Decrease in unearned revenues		(105)
Decrease in net pension liability		(4,062)
Decrease in other postemployment benefits liability		(2,005)
Decrease in deferred outflows - pension related		15,750
Increase in deferred inflows - pension related		1,171
Decrease in deferred outflows - other postemployment benefits related		29
Net cash provided by operating activities	$	19,356
NON-CASH CAPITAL AND FINANCING ACTIVITIES:		
Capital assets additions placed in operations by Aerostar credited to deferred inflows of resources	$	9,738
Pension accrual and other postemployment benefits payments made after measurement date by the Commonwealth on behalf of the Authority	$	(25,185)
Capital asset impairment debited to deferred inflows of resources	$	(10,353)
Capital asset impairment charged to operations	$	(15,928)
Amortization of deferred outflows on refunding loss	$	(1,135)
Amortization of PRIFA bonds premium	$	597

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

(1) Reporting entity:

The Puerto Rico Ports Authority ("PRPA" or the "Authority") is a Component Unit of the Commonwealth of Puerto Rico, (the "Commonwealth") created by Act No. 125 on May 7, 1942, as amended. The purpose of the Authority is to administer port and aviation transportation facilities of the Commonwealth and to render other related services. The Authority owns ten airport facilities, including Luis Muñoz Marin International Airport ("LMMIA"), the main aviation port of entry into Puerto Rico, and most of government-owned maritime operations, including the Port of San Juan. The Authority's airport system consists of LMMIA, and other regional airports. Maritime operations consist principally of cargo and cruise ships with ports and docks all around Puerto Rico. See Note 22 for the Public-Private Partnership transaction regarding the administration and operations of the LMMIA (the "APP Agreements" or "Lease and Use Agreement").

The Board of Directors is composed of five members as follows: Secretary of Transportation and Public Works, Chairman; Secretary of Economic Development; Executive Director of the Tourism Company of Puerto Rico, Executive Director of Puerto Rico Industrial Development Company ("PRIDCO") and one private citizen appointed by the Governor with the consent of the Senate of Puerto Rico.

Act No. 82, approved on June 26, 1959, as amended, empowers the Authority to levy and collect a fee from the suppliers of aviation fuel and for the services and use of facilities in the Puerto Rico airports. This fee is currently two cents per gallon of aviation fuel supplied to airlines and other suppliers operating in the Puerto Rico airports.

(2) Basis of presentation and summary of significant accounting policies:

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The Authority follows Governmental Accounting Standard Board ("GASB") pronouncements under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The following describes the most significant accounting policies followed by the Authority:

Use of estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and cash equivalents –

The Authority considers all highly liquid investments with maturities of three (3) months or less from the date of acquisition to be cash equivalents. The Authority's cash composition as of June 30, 2018 is disclosed in Note 5 to the financial statements. There are no cash equivalents at June 30, 2018.

Allowance for doubtful accounts –

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the existing accounts receivable and related allowance may change in the future.

Prepaid expenses –

Prepaid expenses consist mostly of insurance policies, trustee fees and certain material and office supplies.

Capital assets –

Capital assets are stated at cost or at estimated historical cost. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs, buildings, furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and other direct costs incurred during the construction period.

Capital assets are defined by the Authority as assets with an initial, individual cost of $500 or more and an estimated useful life over one (1) year. Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or do not materially extend assets lives are charged to expenses as incurred.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. During the construction period, the interest costs related with specific assets qualify for interest capitalization. During the year ended June 30, 2018, no interest cost was capitalized by the Authority.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives of assets are determined by the Authority's Engineering Department using past experience, standard industry expectations, and information from external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset.

Useful lives used in the calculation of depreciation are generally as follows:

Description	Useful Life
Buildings, piers, improvements and other structures	Range from thirty (30) to fifty (50) years
Other infrastructure	Range from five (5) to twenty-five (25) years
Machinery, furniture and equipment	Range from three (3) to ten (10) years
Runways, roadways and other paving	Range from ten (10) to twenty (20) years
Utility infrastructure	Range from ten (10) to twenty (20) years
Automobile and service vehicles	Range from three (3) to ten (10) years
Infrastructure master plans	Five (5) years

Those assets located at facilities leased by the Authority are depreciated over the lesser of the remaining term of the lease or the asset's useful lives.

Capital assets related to the LMMIA under the APP Agreements, described in Note 22, are maintained in the Authority's books and are stated at cost or at estimated historical cost. Construction in progress made by Aerostar after the closing of the APP Agreements is not recorded by the Authority while the construction is in progress and not ready for use and operation; when completed, such assets and improvements are recognized at their corresponding fair value. The capital assets related to the APP Agreements are not being depreciated since the closing date of the APP Agreements, because it is required to Aerostar to return the related LMMIA facilities to the Authority in its original or enhanced condition. Such capital assets continued to apply existing capital asset guidance, including depreciation through February 27, 2013, the closing date of the APP Agreements. The carrying amount of capital assets, excluding construction in progress under the APP Agreements, amounted to approximately $649.9 million as of June 30, 2018. This amount includes approximately $129.9 million (net of an impairment charge of $10.3 million in 2018) of improvements and construction work already completed and placed in operations by Aerostar (approximately $9.7 million of which were completed and placed in operations during fiscal year 2018) therefore added to the carrying amount of capital assets under the APP Agreements.

During the year ended June 30, 2018, the Authority performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During 2018, as a direct result of Hurricane María, management identified certain assets as impaired, and accordingly recognized an impairment adjustment to such assets carrying value for approximately $15.9 million. Those capital assets impairment loss, net of a partial insurance recovery of $5 million, is presented as a separate line item in the accompanying statement of revenues, expenses and change in net position (deficit).

In addition, GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," addresses accounting and financial reporting principles for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. As of June 30, 2018, the Authority maintains an environmental reserve of approximately $990 thousand, which in the opinion of management, is adequate to cover the contingency exposure, if any. Such reserve is included as part of accounts payable and accrued expenses in the accompanying statement of net position (deficit). In establishing such reserve, management has evaluated its tenants' responsibilities in environmental and pollution exposures.

Claims and judgments –

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position (deficit) based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Refer to disclosures included in Note17 to the financial statements.

Compensated Absences –

Based on the provisions of Act No. 26 of April 29, 2017, known as the Fiscal Plan Compliance Act ("Act No. 26-2017"), employees earn vacation benefits at a rate of 15 days per year, with 60 days as the maximum permissible accumulation at the end of any natural year. In addition, employees accumulate sick leave at the rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year. After the enactment of Act 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sick leave balances are no longer liquidated upon employment termination, as provided by Act No. 26-2017. Accordingly, during the year ended June 30, 2018, the Authority's management, as disclosed in Note 4 to the accompanying financial statements, recognized as a prior year adjustment the total beginning balance of accrued sick leave and restated the beginning net position (deficit) balance. Union employees were paid for accumulations over 26 days within the next fiscal year. However, effective with the approval of Act No. 66 of June 17, 2014, known as the Fiscal Operation and Sustainability Act, such excess has ceased to be paid to employees. The Authority records as a liability and as an expense the vested accumulated vacation benefits accrue to employees, as provided by Act No. 26-2017. No accrual is recognized as related sick leave. Accrued vacation as of June 30, 2018, amounted to approximately $2.1 million and are included as a component of accounts payable and accrued expenses in the accompanying statement of net position (deficit).

Termination Benefits –

The Authority accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for *voluntary* termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. Refer to disclosure included in Note 14 to the financial statements for additional disclosure.

Pensions –

The Authority accounted for pensions under the provisions of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth ("ERS") plan and additions to/deductions from the fiduciary net position of the plan have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment benefits other than pensions –

The Authority accounted for postemployment benefits other than pensions (other postemployment benefit or "OPEB") under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual–basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years. GASB No. 45 was superseded by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. The effects of the implementation of GASB No. 75 on the Authority's operations, is disclosed in Note 4 to the accompanying financial statements. See also Note 16 to the financial statements for additional information.

Deferred outflows of resources –

The deferred outflows of resources represent the consumption of net position by the Authority that is applicable to a future reporting period. Deferred outflows of resources for the Authority are related to pension and OPEB items and a refunding loss associated to an issuance of PRIFA bonds and a swap agreement cancellation. This refunding loss is being amortized over the life of the PRIFA bonds that remain outstanding. The amortized amount during fiscal year 2018 is reported as a component of interest expense in the accompanying statement of revenues, expenses and change in net position (deficit). Of the pension related items and OPEB, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period.

Deferred inflows of resources –

Deferred inflows of resources represent the acquisition of net position by the Authority that is applicable to a future reporting period. The Authority has two components of deferred inflows of resources: one related to the APP Agreements and other to pension related items. In relation to the APP Agreements described in Note 22, on February 27, 2013, the Authority received an upfront fee of $615 million, the promise of annual payments of $2.5 million for the next five years, present valued at approximately $10.5 million; and also recognized a contractual obligation of $3.1 million to perform certain capital improvements. These resources were received in exchange for awarding Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA for a term of 40 years. The upfront fee and the promise of annual payments are considered deferred inflows of resources, which are recognized into revenue under the straight-line method over the APP Agreements term of 40 years. In addition, deferred inflows of resources include improvements and construction for approximately $129.9 million (net of an impairment of $10.3 million) done by Aerostar at the LMMIA facilities as part of the APP Agreement. Regarding to the pension related items, changes in the proportional share of contributions, differences between expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period.

Net position (deficit) –

Net position (deficit) is classified in the following components:

Net investment in capital assets –

This component of net position (deficit) consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position (deficit). If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position (deficit). Rather, that portion of the debt or deferred inflows of resources is included in the same net position (deficit) component (restricted or unrestricted) as the unspent amount.

Restricted –

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

Unrestricted –

This component of net position (deficit) is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position (deficit).

As of June 30, 2018, the reconciliation of net position (deficit) was as follows (expressed in thousands):

Net capital assets	$	1,223,617
Liabilities directly attributable to capital assets:		
Loan payable		(196,226)
Notes payable		(296,305)
Retainage payable to contractors		(3,711)
Accrued interest		(96,003)
Deferred inflows of resources - related to assets improvement		(120,641)
Deferred outflow of resources - deferred loss on refunding		10,266
Net investment in capital assets	$	520,997
Restricted funds, including certificates of deposit	$	19,194
Deposit consigned with court restricted for capital asset		25,351
	$	44,545

Revenue recognition –

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with maritime and airport operations are recorded as operating revenues. Expenses related to the administration and maintenance of piers and airports, repairs and maintenance of corresponding roads and equipment, and the Authority's administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues –

Non-operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, passenger facility charges, interest and penalties, recovered insurance losses and other fees. Federal financial assistance and Commonwealth of Puerto Rico appropriations are funds assigned by federal and local government entities such as the Federal Aviation Administration ("FAA"), Federal Transit Administration ("FTA"), Federal Emergency Management Agency ("FEMA") and the Transportation Security Administration ("TSA") to the Authority for the exclusive purpose of the construction of specific projects or infrastructure, repairs and maintenance, and equipment acquisition. Capital grants of the Authority are reported as non-operating revenues.

New accounting principles –

Some accounting principles became effective July 1, 2017; however, only the following new accounting principles were of relevance and applicability to the Authority:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. Refer to Note 4, for the effects of adoption of this Statement.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement, which was effective for the Authority's fiscal year 2018, had no effect in its operations, since there were no such agreements.

- GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

  This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This Statement is effective for fiscal year 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This Statement addressed matters that had no significant impact on the Authority's basic financial statements for 2018.

- GASB Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
  - Reporting amounts previously reported as goodwill and "negative" goodwill
  - Classifying real estate held by insurance entities
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, and had no effect on the 2018 Authority's financial statements.

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is in substance defeasance. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement had no effect in the Authority's financial statements for 2018.

Future adoption of accounting standards –

GASB has issued the following accounting standards that the Authority has not yet adopted:

- 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*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No.67, *Financial Reporting for Pension Plans,* and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administer through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that require by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues: information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions; and timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation. The Authority's management is evaluating the effects of this Statement in the Authority's basic financial statements.

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

  This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

  This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

  This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. This Statement is not expected to have any effect in the Authority's financial statements.

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

  Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. This Statement is not expected to have any effect in the Authority's financial statements.

- GASB 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority's management is evaluating the effects of this Statement in the Authority's basic financial statements.

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

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

- GASB Statement No. 90 *Majority Equity Interest – an amendment of GASB statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

  For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. This Statement is not expected to have any effect in the Authority's financial statements.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, and it is not expected to have any impact in the Authority's financial statements.

- GASB Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. This Statement addresses a variety of topics and includes specific provisions about the following:
  - The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports
  - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
  - The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
  - The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements
  - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
  - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
  - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
  - Terminology used to refer to derivative instruments
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

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

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

  - Statement No. 87, Leases
  - Implementation Guide No. 2019-3, Leases. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement 96, *Subscription – Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription – based information technology arrangements (SBITA's) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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

  The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

(3) <u>Financial condition and management plans – liquidity risks and uncertainties</u>:

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks, and uncertainties, provides the necessary background and support for management's evaluation as to whether there is a substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statements date, or for an extended period, if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows; possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements; and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

Over the past years, the Authority's net position (deficit) has been decreasing, from $337 million at June 30, 2010 to the current net deficit of ($325.6) million at June 30, 2018. The Authority's net deficit increased by $19.6 million during the year ended June 30, 2018 and it has a working capital deficiency of approximately $492.4 million at June 30, 2018. The Authority also has over $286 million in lines of credit payable to GBD Debt Recovery Authority ("GDBRA"), most of them as a result of the drawing of certain letters of credit from Government Development Bank for Puerto Rico ("GDB") guaranteeing certain bonds, which the Authority could not honor.

In order to reverse this trend and instill some stability in the Authority's operations, in 2013, management entered into the LMMIA lease and use agreements, as further described in Note 22. This transaction became a centerpiece strategy around which certain cost cutting measures and revenue-base enhancing activities for regional airports and maritime operations have been implemented, while others are in progress, all of which are expected to improve the Authority's financial condition and refocus the objectives of the Authority into the future.

As further described in Notes 11, 12 and 22, during fiscal year 2012, the Authority refinanced the majority of its long-term debt through a Puerto Rico Infrastructure Financing Authority's (PRIFA) conduit debt issuance of $678.4 million, in anticipation of the LMMIA lease and use agreements. The lease and use agreements involving the LMMIA generated an upfront leasehold fee of $615 million for the Authority, of which $500 million was used to cancel and fully redeem certain outstanding debt and related interest, relieving the Authority from the corresponding applicable debt service requirements. That is, the Authority's then existing debt was reduced by more than a half as a result of the LMMIA lease and use agreements. Consequently, interest expense was reduced from approximately $63 million in 2013 to approximately $29.4 million during 2018. Another $50 million from the aforementioned upfront leasehold fee were reserved and set aside for the early termination of several employees, commencing effective June 30 and July 15, 2013, which provided payroll savings. For instance, basic salary expenses have been reduced from approximately $27 million in 2013 to approximately $14.9 million and $14.7 million during the fiscal years ended in 2018 and 2017, respectively. Total salaries expense, including benefits and bonuses, have decreased from approximately $58 million in 2013 to $26.6 million at June 30, 2018, principally caused by the various early retirement plans adopted since 2011. In addition, $25 million were also set aside for improvements to the regional airports in order to attract visitors and consequently increase demand and revenues. One of such improvements covered the Aguadilla regional airport for the establishment of the Lufthansa's central operations of its fleet maintenance hub. For instance, since the closing of the LMMIA lease and use agreements, expenditures for the improvements and expansion of regional airports have created an additional rental revenue base at these airports that has materialized into an increase in rental revenue base of approximately $1 million since 2014, even though further projects continue in development. Future completion of the established development plans for the regional airports is expected to add more space rental room opportunities and increase passenger flow.

On June 17, 2014, the Governor of the Commonwealth of Puerto Rico signed into law the Act No. 66 of 2014 "*Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act*". This Act requires that all instrumentalities, entities, agencies and public corporations of the Commonwealth (or "Government") reduce their operating expenses, specifically those related to payroll and related benefits, professional services, contracted services and leases, among others. Under Act No. 66 of 2014, the excess accumulation of vacation and sick leave earned will not be paid to employees; instead, the Act requires that employees exhaust such excess accumulation by the end of each fiscal year. As a result of the Authority's execution of the provisions of Act No. 66 of 2014, the Authority's operating budgets for the years 2015 to 2018 has presented a significant reduction in the related expense categories. No significant variances were noted in comparison with actual results for the years then ended.

Despite the aforementioned efforts undertaken by the Authority, it continues to face growing challenges and uncertainties. In relation to the lines of credit owed to GDBRA, most of them remain unpaid since the closing of the LMMIA lease and use agreements. Some of these lines of credits have payments that were contingent on the availability of funds from the Commonwealth to appropriate in its annual budget process. These appropriations are contingent on the availability of funds from the Commonwealth and their legislative approval. The Commonwealth, including its executive agencies, faces significant risks and uncertainties, including liquidity risk, which has led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government, to continue as a going concern.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and debt service costs. As the Commonwealth's tax base has decreased and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited the GDB's ability to continue providing liquidity to the Commonwealth and have caused the GDB to fail to make a principal payment on its debt obligations and its eventually restructuring and wind-down. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. After the Commonwealth failed on its general obligation bonds and guaranteed bonds on July 1, 2016, the credit rating was lowered to "D", the lowest credit rating given to issuers that have defaulted on their obligations. They also lowered their credits ratings on the bonds of other component units of the Commonwealth, all of which were lowered multiple notches in the grading levels.

The prospects of securing any Commonwealth appropriation or additional liquidity assistance from GDB were significantly diminished by the passage of the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21) under which, the Commonwealth and certain of its component units suspended their respective debt service payments, as further described in Note 5. The GDB was declared to be in state of emergency with the signature of executive order EO-2016-010 ("the Executive Order"), in accordance with the emergency powers provided for in Act No. 21. The Executive Order implemented a regulatory framework governing GDB's operations and liquidity, including establishing a new procedure with respect to governmental withdrawals, payments, and transfer request in respect to funds held on deposit at GDB. As a result of Act No. 22 and the Executive Order, the Circular Letter 1300-08-17 was issued from the Secretary of the Treasury (see Note 5), on which the Authority recognized an impairment loss on all its deposits held with GDB, amounting to approximately $21 million during the year-ended June 30, 2016. In addition, pursuant the provisions of Act 21, the Authority has ceased to make, effective July 2016, the required monthly deposits to the trustee account needed to cover the debt service due on its PRIFA Bonds on December 15, 2016 and thereafter.

With the fiscal challenges affecting GDB, Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) was created to assume the roles of fiscal agent, financial advisor and disclosure agent of the Government. GDB's primary role was reduced to serve as an agent in collecting on its loan portfolio and disbursing funds pursuant to strict priority guidelines as all fundamental new business banking and origination activities ceased. Given the reduced services that GDB was providing, the Commonwealth decided to wind down its operations as contemplated in GDB’s fiscal plan submitted to the Financial Oversight and Management Board for Puerto Rico (“FOMB”). The fiscal plan also mentioned an orderly sale of real estate assets at fair value and a restructuring of GDB’s workforce by relocating employees and a voluntary separation program.

On June 30, 2016, President Barack Obama signed the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”) into law (as codified under 48 U.S.C. §§ 2101-2241), which grants the Commonwealth and its component units, access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth’s finances. In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). The Authority was also being designated as a covered entity under the PROMESA Act.

The Government has taken several measures to address the fiscal crisis. On January 2, 2017, vital structural reforms were taken among other cost reduction initiatives including: (1) reduction of ten percent in government spending for the fiscal year 2017; (2) reduction of ten percent (10%) in professional service contracts, and a five percent (5%) decrease in utility spending for all government agencies and public corporations; and (3) a twenty percent (20%) reduction in positions of trust in each agency and/or public corporation. Also, Executive Order No. 2017-005 requires all agencies and public corporations to establish a Zero-Base Budgeting methodology as a way to reduce government spending. Lastly, Executive Order No. 2017-009 imposes a five percent (5%) reduction in purchases goods in all government agencies. The above measures were submitted by the Government and evaluated by the FOMB, and were certified on March 13, 2017.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (“Act No. 5”), which repealed certain provision of Act No. 21 and authorized additional emergency measures. Pursuant to Act No. 5, the executive orders issued under Act No. 21 will continue in effect until amended, rescinded or suspended. The emergency period under Act No. 5 expired on December 31, 2018. Some additional powers provided to the Governor through Act No. 5 include the authority to: exercise receivership powers to rectify the financial emergency; exercise general supervisory control over their functions and activities of all government entities within the Executive Branch; and issue executive orders to implement and enforce compliance within Act No. 5.

On August 24, 2017, the Act 109 of 2017 “Government Development Bank for Puerto Rico Debt Restructuring Act” was signed into law with to establish a legislative framework for the GDB’s restructuring process on which a statutory public trust and a governmental public instrumentality of the Commonwealth was created known as GDB Debt Recovery Authority (“GDBRA”). The GDBRA was created for the purpose of (i) issuing the Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government and (ii) owning and managing the Restructuring Property. Finally, during 2018 the new bonds of GDBRA were issued and GDB’s assets were transferred to GDBRA. Refer to Note 23 for additional disclosure.

During April 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) on behalf of the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Authority entered into a Restructuring Support Agreement (RSA) with the Ad Hoc Group of holders of certain Series 2011 bonds issued by PRIFA; with the purpose of restructuring a large part of the Authority's debt. The RSA is subject to approval of the FOMB. Once approved and implemented, the proposed RSA will represent a significant reduction in debt service requirements and will allow the Authority to focus in its efforts on public-private partnerships and other long-term capital improvement initiatives. On December 27,2019 a final amended RSA was executed to restructure approximately 93% of these PRIFA Bonds. Refer to Note 23 for additional disclosure.

The Puerto Rico Public-Private Partnerships Authority ("P3A") is evaluating a transaction that contemplates the concession of Piers 1 through 4, Piers 11 through 14 and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority, to a private operator. Piers 11 through 14 are currently closed by the US Coast Guard due to poor structural conditions and the remaining piers could face similar risks. In exchange for the concession, the Authority expects the operator to invest in significant capital improvements that will bring the existing piers to adequate standards to accommodate larger cruise ships and allow for additional growth in cruise ship passenger volumes. Additionally, the Authority is expected to receive an upfront payment from a preferred proponent and participate in a revenue share agreement. Also, the P3A is currently conducting a market study to assess the feasibility of granting the concession of the nine regional airports owned by the Authority under multiple Public-Private Partnerships. Through this initiative, the Authority will cut its aeronautical expenses while securing revenue from those operations.

The Authority is also evaluating the disposition, through sale, of certain non-productive properties, such as land and structures, to obtain funds for its projects and operations.

Management of the Authority has also reacted with respect to its delinquent obligations by actively pursuing feasible payment plans for balances due to the Commonwealth's Treasury Department and the Puerto Rico Retirement Systems (see Note 8), as well as with the government utilities and most suppliers. These special payment arrangements have maintained an organized and steady cash flow strategy for the Authority while meeting its obligations.

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor of Puerto Rico issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. Subsequently, the Governor has issued multiple executive orders to include curfew directives and other protective measures in response of the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of the Commonwealth and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico in response to the economic distress caused by the COVID-19 pandemic. As of today, and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management has estimated a negative impact of approximately $26 million in its operational cash flows.

All these events described in the previous paragraphs compile a trend of negative indicators defined in GASB Statement No. 56, which has a significant impact in the Authority's ability to fully satisfy its obligations as they become due and raises substantial doubt about the Authority's ability to continue as a going concern, as defined in GASB Statement No. 56.

(4) Restatement to net position (deficit):

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017.

Also, during the year ended June 30, 2018, and resulting from the enactment of Act No. 26-2017, which eliminated the cash liquidation of accrued sick leave upon employment termination, the Authority's management adjusted the total beginning balance of accrued sick leave and restated the beginning net position (deficit) balance for its effect.

The effect of the above referred transactions on the net position (deficit) of the Authority, at July 1, is summarized as follows (expressed in thousands):

Net position (deficit) at beginning of year, as previously reported	$ (299,862)
Cumulative effect of GASB No. 75 adoption on:	
OPEB pension liability	(10,170)
Deferred outflow of resources - OPEB related	684
Net cumulative effect of GASB No. 75 adoption	(9,486)
Restatement adjustment for accrued sick leave elimination	3,391
Net position (deficit) at beginning of year, as restated	$ (305,957)

(5) Cash and certificates of deposit:

As of June 30, 2018, the Authority has cash balances in the amount of $32.7 million. There were no cash equivalents as of June 30, 2018. Cash balances as of June 30, 2018 consisted of the following (expressed in thousands):

Restricted cash		
For construction	$	18,723
Renewal and replacements, maintenance and other		471
Total restricted cash		19,194
Unrestricted cash		13,456
	$	32,650

Custodial credit risks related to deposits and impairment loss on deposits with Governmental Bank

As of June 30, 2018, the Authority maintained two (2) certificates of deposit at Government Development Bank for Puerto Rico ("GDB") amounting to approximately $19.4 million in the aggregate. As provided by Act No. 109 of August 24, 2017, related to the reorganization of GDB operations, these certificates of deposit, which were originally restricted as a guaranty fund for the LMMIA transaction ($15.5 million) and for regional airports improvements ($3.9 million), were applied to certain debts of the Authority with GDB, as described in Note 23.

Pursuant to the laws of the Commonwealth, the Authority's cash is required to be held only in banks designated as depository institutions of public funds by the Commonwealth's Secretary of the Treasury. Such deposits are required to be kept in separate accounts in the name of the Authority. Pursuant to the Investment Guidelines for the Commonwealth of Puerto Rico adopted by the GDB or the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking fund, if any, can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by bond resolutions, as applicable.

Custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits might not be recovered. However, the Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained at GDB and Economic Development Bank for Puerto Rico "("EDB") are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk that in the event of GDB's or EDB's failure, the Authority may not be able to recover these deposits. GDB and EDB are component units of the Commonwealth of Puerto Rico. The bank balance and carrying amount of the Authority's accounts with commercial banks at June 30, 2018, amounted to $33.0 million and $32.1 million, respectively.

The Authority was exposed to custodial credit risk arising from the balance of deposits maintained in GDB in the amount of approximately $21.5 million, which is the bank balance of cash and certificates of deposit with GDB. GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described below. Pursuant to 2016 enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No 21). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the EDB, and certain additional government instrumentalities in Puerto Rico. The temporary period set forth in Act No. 21 lasts until January 31, 2017. Pursuant to Act No. 5 of January 29, 2017, Puerto Rico Financial Emergency and Fiscal Responsibility Act, the moratorium on debt service payments was extended.

On April 8, 2016, the Governor signed Executive Order 2016-010 (EO 10), which declares an economic emergency in GDB. EO 10, in accordance with the emergency powers provided in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests with respect to funds held on deposit at GDB to that effect. EO 10 restricts the withdrawal, payment and transfer of funds held on deposit at GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements. Moreover, EO 10 prohibits GDB's depositors from printing or writing checks creditable against their accounts at GDB, unless they obtain a temporary waiver from GDB. In addition, on October 18, 2016, the Secretary of the Treasury of the Commonwealth issued Circular Letter 1300-08-17 (CC 1300-08-17) alerting all agencies and public corporations of the Commonwealth about the conditions affecting GDB as previously described and that as a result of such conditions, management of GDB believes there is significant doubt about GDB's ability to continue as a going concern. Accordingly, CC 1300-08-17 advises all such agencies and public corporations with deposits held at GDB to perform the necessary impairment analysis on the realizability of these deposits as it is probable that GDB will not be able to honor them and all its other remaining debt obligations beyond a reasonable period of time.

As GDB serves as the depositary of some of the Authority's funds, the Authority's cash and time deposits with GDB, pursuant to EO 10, will be subject to strict restrictions and limitations, as described herein; therefore, an impairment loss on these deposits was recorded on the Authority's financial statements as follows (expressed in thousands):

	Deposits Held with GDB at June 30, 2018		
Type of Deposit	Deposit Balance	Impairment Loss	Book Balance
Cash	$ 2,089	$ (2,089)	$ -
Certificates of Deposit	19,436	(19,436)	-
	$ 21,525	$ (21,525)	$ -

As part of the restructuring of GDB, and as provided by Act No. 109 of August 24, 2017, some of these deposits at GDB were principally applied to the GDB debts described in Note 12. Refer to Notes 12 and 23 for additional disclosure related to GDB restructuring process.

(6) Deposits consigned in court – restricted:

During November 2011, pursuant the objectives of the LMMIA Project, the Authority entered into certain expropriation proceedings through the Puerto Rico First Instance Court (the "Court"), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with GDB, out of which $25.4 million were consigned with the Court to start the expropriation process (this facility is known as the Caribbean Airport Facilities). The credit facility was fully repaid with the proceeds from the LMMIA concession agreement of February 2013. As of June 30, 2018, the $25.4 million deposited in Court is presented as a restricted asset in a separate line item in the accompanying statement of net position (deficit).

(7) Other assets – common shares:

Other assets – common shares, with a balance of $892 thousand, represent the market value, at June 30, 2018, of 23,500 shares of American Airlines Group, Inc. (AAL) received by the Authority as part of certain claims made under the bankruptcy proceedings of such entity.

(8) Due from/due to governmental entities:

Amounts due from governmental entities as of June 30, 2018 consisted of the following (expressed in thousands):

Governmental Entity	Amount
Office of Management and Budget ("OMB")	$ 11,000
Puerto Rico and Municipality Island Maritime Transportation Authority ("MTA")	38,902
Puerto Rico Highways Transportation Authority ("PRHTA")	3,905
Federal Transportation Administration ("FTA")	900
Federal Emergency Management Agency ("FEMA")	2,636
Other entities	3,415
Subtotal	60,758
Less: Allowance for doubtful receivables	(56,444)
Due from governmental entities, net	$ 4,314

Office of Management and Budget ("OMB") -

Balance due from the OMB relates to $11 million incentives given by the Authority to certain cruise lines, which should be reimbursed by the OMB. The balance does not bear interest and has no formal repayment terms, since the terms and conditions have not been established. Although the Authority has established a reserve for this balance, management is evaluating alternative courses of actions in order to continue pursuing the collection of this outstanding balance.

Puerto Rico and Municipality Islands Maritime Transportation Authority ("MTA") –

Balance due from MTA of $38.9 million mainly relates to expenses incurred by the Authority, such as payroll, on behalf of the MTA from 2000 to 2006. The balance does not bear interest and has no formal repayment terms. Although the Authority has established a reserve for this balance, management is evaluating alternative courses of actions, which will entail the combination of various transactions and administrative proceedings that would go in line with the already approved restructuring and merger of MTA's operations into the new *Integrated Transport Authority of Puerto Rico (ITAPR),* created by Act No. 123 of August, 3, 2014. In addition, the P3A has already published requests for proposal for the establishment of a service concession arrangement for the operation and maintenance of the collective transportation services administered by ITAPR. The Authority will be actively pursuing the introduction of some action plan within the context of this expected public private partnership arrangement that would facilitate or create the conditions conducive to a potential repayment of ITAPR's debt with the Authority.

Puerto Rico Highways and Transportation Authority ("PRHTA") –

Balance due from PRHTA relates to $3.9 million mainly associated with the rental of a hangar, a warehouse and land for which there are written agreements. Such balance does not bear interest and have no formal repayment terms, since the terms and conditions have not been established. Authority's management is working with the governmental entity for the collection of this outstanding balance; however, considering the actual fiscal difficulties of the PRHTA, management recognized an allowance for bad debt to fully reserve the related amount receivable.

Federal Transportation Administration ("FTA") –

Amount due from the FTA of approximately $900 thousand as of June 30, 2018 consisted of pass-through funds related to certain capital projects pending reimbursement to be transferred to MTA.

Federal Emergency Management Agency ("FEMA") –

Amounts due from FEMA of approximately $2.6 million are related to rental of facilities for the response to Hurricane María emergency ($2.2 million) and reimbursement of $473 thousand pending to be received in relation to certain capital projects.

Amounts due to governmental entities as of June 30, 2018, consisted of the following (expressed in thousands):

Governmental Entity	Amount
Commonwealth of Puerto Rico	$ 64,965
Puerto Rico Electric Power Authority ("PREPA")	27,796
Puerto Rico Aqueduct and Sewer Authority ("PRASA")	19,889
State Insurance Fund Corporation ("SIFC")	3,089
Governmental Development Bank ("GDB")	5,142
Other entities	858
Due to governmental entities:	$ 121,739

Commonwealth of Puerto Rico –

Balance due to the Commonwealth of Puerto Rico consists mainly of public insurance amounting to $19 million, income tax withheld amounting to $2.3 million owed to the Treasury Department, and $18.9 million to the Puerto Rico Retirement System ("PRRS") for employer contributions not fully paid since fiscal year 2012. In addition, the balance due to Commonwealth of Puerto Rico includes $24.2 million related to the 2018 unpaid contributions for the pension Pay-Go system, for which the Authority has continued doing partial payments on a monthly basis. The balance owed to the Treasury Department for the unpaid employer contributions (approximately $2.3 million) is subject to a formal payment plan that provides for consecutive monthly payments ranging from $50,000 to $100,000 during the next 57 months and a final payment of $5,110 during the 58th month. The Authority has been complying with the established repayment plan. During August 2014, the Authority and PRRS also approved a new payment plan for a pre-2015 debt amounting to $12.5 million, that provides for consecutive monthly payments ranging from $100,000 to $300,000 during the next 47 months and a final payment of $2.4 million during the 48th month. The Authority has been complying with the established repayment plan.

The balance due to GDB ($5.1 million) is related to annual fees on "GDB Letter of Credit", as described in Note 11. Balances due to PREPA and PRASA consist mainly of utilities or services provided by such entities.

The activity of amounts due to Commonwealth of Puerto Rico and due to other governmental entities for the year ended June 30, 2018, was as follows (expressed in thousands):

	2017	Charges	Payments	2018
Due to Commonwealth of PR	$ 44,197	$ 30,713	$ (9,945)	$ 64,965
Due to other governmental entities	58,190	7,562	(8,978)	56,774
	$ 102,387	$ 38,275	$ (18,923)	$ 121,739

(9) Capital assets:

The following schedule summarizes the capital assets held by the Authority as of June 30, 2018 and changes therein for the year then ended are as follows (expressed in thousands):

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Assets not being depreciated:				
Land and land improvements	$ 218,024	$ 11,264	$ -	$ 229,288
Construction in progress	26,181	8,513	(3,601)	31,093
Service concession arrangement (SCA) assets:				
Land and land improvements	99,386	-	-	99,386
Building improvements and structures	375,886	9,738	(10,353)	375,271
Machinery, furniture abd structures	4,558	-	-	4,558
Other infrastructure	25,810	-	-	25,810
Roads and parking areas	142,911	-	-	142,911
Infrastructure Master Plans	1,987	-	-	1,987
Total SCA assets	650,538	9,738	(10,353)	649,923
Total assets not being depreciated	894,743	29,515	(13,954)	910,304
Assets being depreciated:				
Building, piers, improvements and structure	620,986	-	(22,698)	598,288
Other infrastructure	142,990	6,277	(542)	148,725
Roads and parking areas	169,149	-	(5,240)	163,909
Machinery, furniture abd structures	108,145	-	(1,398)	106,747
Automobiles and service vehicles	11,621	959	(205)	12,375
Infrastructure Master Plans	12,442	-	(768)	11,674
Total	1,065,333	7,236	(30,851)	1,041,718
Less: accumulated depreciation and amortization	(695,527)	(33,159)	281	(728,405)
Net total assets being depreciated	369,806	(25,923)	(30,570)	313,313
Total capital assets, net	$ 1,264,549	$ 3,592	$ (44,524)	$ 1,223,617

As a result of the damages caused by Hurricane María on the LMMIA facilities during September 2017, the Authority recognized an impairment adjustment of $10.3 million on its structures and improvements operated by Aerostar. Such impairment was recorded reducing the capital assets and its related deferred inflows of resources. Also, during 2018, and as direct results of the adverse effects of Hurricane María, the Authority recognized an impairment adjustment to certain capital assets for approximately $15.9 million, which is presented, net of a related insurance recovery of $5 million, as a separate line item in the accompanying statement of revenues, expenses and change in net position (deficit).

(10) Unearned revenue:

The Authority entered into an agreement with Puerto Rico Industrial Development Company ("PRIDCO") in December 1989 for a tract of land at the Rafael Hernández Airport in Aguadilla, in which PRIDCO constructed some facilities and leased them to a tenant. Under the agreement, the Authority is the ultimate owner of the improvements. Accordingly, the Authority capitalized $3.2 million in 1997 and recognized an unearned revenue, which is being amortized on a straight-line basis through December 2019.

Unearned revenue as of June 30, 2018 consisted of the following (expressed in thousands):

	Amount
Carrying amount of unamortized portion of construction costs, amortized on straight-line basis through December 2019	$ 149
Less: current portion	(105)
	$ 44

(11) Loan and trust agreement (the PRIFA bonds):

On December 28, 2011, the Authority entered into a refinancing transaction in the amount of $678.4, by issuing bonds through the Puerto Rico Infrastructure Finance Authority ("PRIFA") as conduit. The issuance was structured as follows (expressed in thousands):

Series	Amount
PRIFA Series 2011 A	$ 340,000
PRIFA Series 2011 B	202,066
PRIFA Series 2011 C	136,385
	$ 678,451

The proceeds of these bonds (the PRIFA Bonds) were provided to the Authority pursuant to a Loan and Trust Agreement (the Loan Agreement) between the Authority, PRIFA and the trustee of the PRIFA Bonds (the Trustee). Pursuant to the terms of the Loan Agreement, the Authority has unconditionally agreed to repay the loan in the amounts and at times necessary to pay the principal of, premium, if any, and interests on the PRIFA Bonds when due. Therefore, the Authority recognized a mirror effect of the PRIFA Bonds in its own debt as loans payable. The proceeds from the PRIFA Bonds were used mostly to repay and cancel certain loans obligations and swap agreements.

A refunding loss of $61.8 million resulted from this transaction, attributed to the write-off of the existing deferred outflow associated with a swap agreement cancellation. The notional amount of the swap agreement cancelled ($396 million) exceeded the outstanding principal balance of a hedged Wells Fargo loan being cancelled ($363.9 million); therefore, the proportion of that excess amount (un-hedging portion) applied to the resulting refunding loss was recognized as a realized loss of approximately $5 million, which was charged to the result of operations for fiscal year 2012. The rest of the refunding loss ($56.8 million) was deferred and is amortized into interest expense over the life of the PRIFA Bonds based on the effective interest method. As of June 30, 2018, the unamortized deferred loss on refunding balance was $10.3 million and is included in deferred outflows of resources in the accompanying statement of net position, as required by GASB No.65.

The PRIFA Series 2011 A Bonds were issued as fixed rate bonds carrying interest at 2.990%, payable on each June 15 and December 15, commencing on June 15, 2012. This series matured on June 15, 2013. The PRIFA Series 2011 B Bonds were also issued as fixed rate bonds and mature at different repayment periods from 2014 to 2026, with each maturity period carrying its own fixed interest rates ranging from 3.00% to 6.00%, payable in each June 15 and December 15, commencing on June 15, 2012. The PRIFA Series 2011 C Bonds (two series) were issued initially in a Term Rate Mode bearing interest at 2.75% and 3.00% (the initial term rates), convertible at June 14, 2013 and December 14, 2013, proportionally, to another term rate period or to a fixed term mode. Interest is payable each June 15 and December 15, commencing on June 15, 2012. The Series C Bonds were subject to redemption from sinking funds installment payments beginning in 2014 through 2026; however, under certain circumstances, one of the Series C segments amounting to $39.6 million was subject to a mandatory repurchase through one of the GDB Letters of Credit described in the paragraph below.

The Loan Agreement is payable solely from revenues of the Authority, such as all rates, rents, fees, charges and other income and receipts. The Loan Agreement was also secured by drawings from two irrevocable transferable direct-pay letters of credit issued by GDB (collectively referred as the GDB Letters of Credit). One letter of credit was for the maximum amount of $543.1 million to cover ultimately the PRIFA Series 2011 A and B Bonds, while the second letter of credit was for the maximum amount of $138.3 million to cover ultimately the PRIFA Series 2011 C Bonds. These letters of credit carried an annual fee of 1% on their outstanding amounts, payable semiannually, commencing on December 15, 2011. During fiscal years 2018 and 2017, the Authority was not charged for fees related to the remaining letter of credit outstanding.

During fiscal year 2013, the Authority used $266.9 million from the proceeds of the APP Agreement (described in Note 22) and drew $74.6 million from the GDB Letters of Credit for the full redemption of PRIFA Series A Bonds. In addition, $96.8 million from the GDB Letters of Credit were also drawn for the mandatory partial redemption of a portion of the PRIFA Bonds Series C. Later during fiscal year 2014, the remaining balance of $39.6 million of PRIFA Bonds Series C was also repaid through the use of the corresponding GDB Letters of Credit. By having drawn on the GDB Letters of Credit, new notes payable to GDB were issued and included in the accompanying statement of net position. See description of notes payable to GDB in Note 12 to the financial statements.

Under the Loan and Trust Agreement for the PRIFA Bonds, as previously described, the Authority used to set aside and deposit on a monthly basis to the trustee account approximately $1 million for the debt service of the PRIFA Bonds outstanding. Effective July 2016, pursuant to the provisions of Act 21, the Authority ceased making such deposits to the trustee; consequently, the debt service of the PRIFA Bonds due on December 15, 2017 and June 15, 2018 was not honored.

In May 2017, the Bank of New York Mellon (BNYM), as trustee of the PRIFA Bonds, made a final request to GDB on its GDB Letters of Credit for $190.6 million of principal, and approximately $9.4 million of interest, since events of default had occurred and accordingly the principal and interest was declared immediately due and payable. Such draw request was a participating bond claim, subject to the re-organization and elimination plans of GDB. As part of GDB re-organization and elimination plan, this obligation was transferred to GDB Debt Recovery Authority (GDBRA), as part of the collateral of the new bonds issued and exchanged with GDB's creditors.

The whole loan carrying value of $196.2 million was considered as a current liability in the accompanying statement of net position, since the Authority has not done any payment since July 2016 and accordingly, is in default as related to its obligation. Refer to Note 23 for subsequent Restructuring Support Agreement related to PRIFA Bonds.

(12) Notes payable:

Notes payable as of June 30, 2018 consisted of the following (expressed in thousands):

	Amount
Borrowing under line of credit agreement with GDB, used for mandatory tender of PRIFA Series C1 Bonds, converted into 5 years term loan payable in monthly principal installments of $1.608 million, bearing interest at prime rate plus 150 basis points with a minimum rate of 6%, due in February 2019.	$ 96,785
Borrowing under line of credit agreement with GDB, used for mandatory tender of PRIFA Series A Bonds, converted into 5 years term loan payable in monthly principal installments of $1.243 million, bearing interest at prime rate plus 150 basis points with a minimum rate of 6%, due in December 2018.	74,589
Borrowing under line of credit agreement with GDB, bearing interest at 90 days LIBOR rate plus 50 basis points with a minimum rate 016%, due in June 2023. Collateralized by the San Juan Water Front (SJWF) Project.	44,000
Borrowing under line of credit agreement with GDB, used for mandatory tender of PRIFA Series C2 Bonds, converted into 5 years term loan payable in monthly principal installments of $658 thousand, bearing interest at prime rate plus 150 basis points with a minimum rate of 6% due in March 2019.	39,600
Borrowing under line of credit agreement with GDB, bearing interest at prime rate plus 150 basis points with a minimum rate of 7%, due in December 2044 (with a 5 years grace period); used for deposit in the Special Incentives Fund administered by PRIDCO; collateralized with funds maintained at GDB for improvements to regional airports, legislative assignments, certain PRIDCO's properties and limited guarantee of Lufthansa AG, among other guarantees.	31,513
Promissory note payable to Carnival Corporation, bearing interest at 7.50%, due through May 2024. Collateralized by tariff income from Carnival Corporation.	6,220
Credit granted to Tote Shipholdings, Inc. in exchange for certain improvements made by them at facilities of the Authority. The total amount of credit was discounted at 6% and provides for monthly payments of $59,622, including interest, for seven (7) years; commencing in July 2017 through June 2024.	3,598
	296,305
Less: Current portion	(212,356)
	$ 83,949

Government Development Bank (GDB) –

In February 2014, the line of credit of $96.8 million payable to GDB, used for the mandatory partial tender of the PRIFA Series C1 Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.6 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The outstanding balance of the term loan at June 30, 2018 is $96.8 million. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility.

In December 2013, the line of credit of $74.6 million payable to GDB, used for the mandatory partial tender of the PRIFA Series A Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.2 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The outstanding balance of the term loan at June 30, 2018 is $74.6 million. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility.

On July 1, 2008, the Authority entered into a $180 million line of credit for the development of the San Juan Water Front (SJWF) project (known as Bahía Urbana) authorized by an executive order signed on February 20, 2008. Borrowings under this line of credit bear interest at 90 days Libor plus 50 basis points with a minimum rate of 6%, due through June 20, 2023. This line of credit is collateralized with the SJWF project. At June 30, 2018, $44 million were outstanding. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, on September 6, 2014, Joint Resolution #88 was approved authorizing annual Legislative Appropriations of $5 million, commencing on fiscal year 2015 through fiscal year 2023, to repay the balance outstanding under this line of credit. The appropriations for fiscal years 2015 through 2018 were not made and there is no assurance that such appropriation and the remaining ones until fiscal year 2023 will be made.

In March 2014, the line of credit of $39.6 million payable to GDB, used for the mandatory partial tender of the PRIFA Series C2 Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $658 thousand, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The outstanding balance of the term loan as of June 30, 2018 is $39.6 million. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility.

In December 2014, the Authority entered into a $41.4 million line of credit with GDB, the proceeds of which were deposited in the Special Incentives Fund administered by PRIDCO, for the development maintenance, repairs and overhaul operations at the regional airport of Aguadilla, Puerto Rico. The line of credit is due on December 5, 2044 with a grace period of five years for the payment of principal. This loan bears interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 7% and is payable in December every year. The loan will be payable from the future rental revenue of the related facilities developed. The balance outstanding as of June 30, 2018 amounted to $31.5 million. Principal and interest payments were not made during the current fiscal year.

The above referred obligations with GDB were transferred to GDB Debt Recovery Authority (GDBRA), a new entity, which was created as part of the restructuring and wind-down of GDB, and are part of the collateral of new bonds issued on November 30, 2018 and exchanged with GDB's creditors. No changes have been made to the terms of the obligations once transferred to GDBRA. Refer to Note 23 for additional information regarding GDB's Debt Restructuring Act.

Carnival Cruise Lines –

On June 7, 2001, the Authority entered into a Master Development Agreement with Carnival Corporation for the performance of certain improvements to Terminal 4 of the Port of San Juan. Total financed costs amounted to approximately $13.5 million, and will be payable to Carnival by 240 monthly deductions of $108,735 (including principal and interest at 7.50%) from the tariffs payable from Carnival to the Authority, commencing in May 2004, until May 2024. As of June 30, 2018, such note had an outstanding balance of $6.2 million.

Tote Shipholdings –

During June 2016, as approved by the Board of Directors, the Authority granted a credit of approximately $5 million to Tote Shipholdings, Inc. for certain improvements done on Piers J, K and L. The Board of Directors resolution provides for credit of $715 thousand, during the next seven (7) years or as determined by the Authority's management. The total credit amount was discounted at 6% and provides for 84 monthly payments or credits of $59.6 thousand (including principal and interest) from July 2017 to June 2024. As of June 30, 2018, the outstanding discounted balance was $3.6 million.

International Shipping –

During November 2011, the Authority entered into an agreement with International Shipping for the performance of certain improvements to piers M, N and O. Total financed costs amounted to approximately $5.4 million, bearing an interest of 6% and payable to International Shipping by seven monthly payments of $36,000, commencing on December 31, 2011; followed by 70 consecutive monthly payments (including interests) of $71,000 and a final payment of $9,908. Payment will be made through the rent income from International Shipping. During fiscal year 2018, the outstanding balance of the note was liquidated.

Summarized Notes Payable Activity –

The summarized notes payable activity for the fiscal year ended June 30, 2018, was as follows (expressed in thousands):

	June 30, 2017	Borrowings	Payments	June 30, 2018
Notes payable	$ 298,010	$ -	$ (1,705)	$ 296,305

Principal repayments on notes payable with estimated interest payments for the next five years and thereafter, are as follows (expressed in thousands):

Fiscal Year ending June 30,	Principal	Interest	Total
2019	$ 212,356	$ 81,291	$ 293,647
2020	1,480	5,386	6,866
2021	1,587	5,279	6,866
2022	1,701	5,166	6,867
2023	45,823	5,043	50,866
2024-2028	1,845	11,095	12,940
2029-2033	-	11,030	11,030
2034-2038	-	11,030	11,030
2039-2043	-	11,030	11,030
2044	31,513	919	32,432
	$ 296,305	$ 147,269	$ 443,574

(13) Other liability:

Other retiree benefits obligation is related to a medical plan provided by the Authority to eligible retirees and its described as follows:

Plan Description –

The Authority agreed to provide medical prescription, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of four to five years, for union and non-union employees, respectively (the "Plan").

The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan did not issue a stand-alone financial report since there were no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy –

The obligations of the employer were established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer varied depending on the applicable agreement. There was no contribution requirement for plan’s participants. 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.

Plan Elimination –

Resulting from certain approved legislation, which limited the benefits granted to government employees, the Authority eliminated these benefits to active employees, maintaining only the liability related to the employees that were retired during the last five (5) years (principally those related to Law No. 27 of June 2013). As of June 30, 2018, the liability related to these benefits for retirees, amounted to approximately $385 thousand, for which approximately $280 thousand were disbursed during the fiscal year 2019.

(14) 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 Act 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:

Years of service in public sector	Incentive gross amount
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day 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:

Credited years of service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50%

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. However, after July 1, 2017, and based on Retirement System's Circular Letter No. 2019-01 of October 29, 2018, the applicable employer and employee contributions being made by the Authority were eliminated.

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.

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.

As of June 30, 2018, the present value of future incentive payments reported as a liability amounted to approximately $9.1 million. A recovery adjustment for $7.1 million was recorded for the year ended June 30, 2018, and presented as early termination recovery adjustment in the statement of revenues, expenses and changes in net position. As explained above, this credit resulted principally from the elimination of the employer and employee contribution being made by the Authority, and previously considered in the present value of future incentive payments computation. As of June 30, 2018, the discount rate was of 2.45%. The total aggregate liability of the program as of June 30, 2018 amounted to $9.1 million, of which $1.4 million should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to $7.7 million. Such amounts are disclosed respectively, as short-term and long-term liabilities in the accompanying statement of net position.

(15) Retirement plans:

The Employees' Retirement System of the Commonwealth of Puerto Rico (the Retirement System or "ERS"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by, and reported as a fiduciary component unit of the Commonwealth. The Retirement System administers different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program, and a defined contribution hybrid program. The ERS's governance is vested in an eleven-member Board of Trustees (the Board), which establishes policy and oversees the operations consistent with applicable laws. Pursuant to Act. No. 106 of August 23, 2017, the Board was substituted by the Retirement Board of the Government of Puerto Rico.

(a) Cost-Sharing, Multiple-Employer, Defined Benefit Program

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

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

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

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

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

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

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

(b) System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

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

On April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

(c) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447, Act No. 1 and Act. No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reached the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from $400 to $500 per month.

2. The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.

3. The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.

4. Eliminated the "merit annuity" available to participants who joined the retirement System prior to April 1, 1990.
5. The retirement age for new employees was increased to age 67.

6. The employee contribution rate was increased from 8.275% to 10%.

7. For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.

9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

10. Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2018, the Authority entered into the "Pay-Go" system with a required contribution of $25.2 million for the year. The Authority paid $1 million from the required contribution. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit.

Total employee contributions for the defined contribution hybrid program during the year ended June 30, 2018, amounted to approximately $1.6 million. There were no contributions to the defined benefit plan during fiscal year 2018. The Authority's contributions (either paid or accrued) during the year ended June 30, 2018, 2017 and 2016 amounted to approximately $25.2 million, $3.7 million, and $3.6 million, respectively. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $17.9 million for the year ended June 30, 2018.

The Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries, referred to as System Administered Pension Benefits. The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act No. 3 and Act No. 160 amended various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014). The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Authority. The System Administered Pension Benefits corresponding to former employees of the Authority are obligations of the Authority. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

(d) Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2018, the Authority reported net pension liability of $249.6 million for its proportionate share of the ERS collective total pension liability, which were determined by an actuarial valuation as of June 30, 2017. The Authority's proportionate share of the collective total pension liability was .72940% at measurement date of June 30, 2017 (.67283% for June 30, 2016). The Authority's proportion of the ERS collective total pension liability was based on the actual required contribution of each participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: Act No. 116 of 2010 statutory payroll-based contribution, Act No, 3 of 2013 supplemental contribution, and other special benefits contributions.

For the year ended June 30, 2018, the Authority recognized pension expense of approximately $12.1 million. As of June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (expressed in thousands):

	Pension related deferred outflows of resources	Pension related deferred inflows of resources
Difference between actual and expected experience	$ 169	$ (4,417)
Changes in proportion	-	(10,789)
Changes of assumptions	32,628	(25,402)
Difference between projected and actual earnings on pension plan investments	-	(1,458)
Benefits paid and accrued subsequent to June 30, 2017	25,185	-
	$ 57,982	$ (42,066)

The $25.2 million, reported as deferred outflows of resources related to pension resulting from benefits paid and accrued subsequent to the measurement date, is related to the 2018 Pay-Go contribution to the pension plan and will be recognized as a reduction of the net pension liability after June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, except for changes in proportion, will be recognized in the pension expense as follows (expressed in thousands):

Year ending June 30,	Amount
2019	$ 2,418
2020	2,765
2021	2,854
2022	(1,136)
2023	(5,382)
	$ 1,519

Based on five (5) years straight-line amortization period.

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion; therefore, the deferred outflows of $25,185 and deferred inflows of $(10,789) related to changes in proportion have not been included in the table above.

Actuarial methods and assumptions –

The following is a description of the actuarial methods and assumptions used for the computation of the net pension liability as of June 30, 2017(measurement date):

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	3.58%
Inflation	Not applicable
Salary increase	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 2017, four year extension of Act No. 66-2014 and the current general economy
Investment rate of return	Not applicable
Mortality	(See below)

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

- *Pre-retirement Mortality* – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

- *Post-retirement Healthy Mortality* – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational basis, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Disable Mortality* – Rates which vary by gender are assumed for disable retirees based on a study of the ERS Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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 tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.58% as of June 30, 2017.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –

The following presents the net pension liability as of June 30, 2017, calculated using the discount rate of 3.58%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent-point level lower (2.58%) or 1 percent-point higher (4.58%) than the current rate (expressed in thousands):

	1% Decrease (2.58%)	Current Discount rate (3.58 %)	1% Increase (4.58%)
Net pension liability	$ 283,021	$ 249,587	$ 222,669

Pension Plan Fiduciary Net Position –

Detailed information about the ERS's fiduciary net position is available in its Annual Financial Report which can be found on the ERS's website at www.retiro.pr.gov.

Payable to the Pension Plan –

As of June 30, 2018, the Authority had approximately $24.2 million included in due to governmental entities, which is related to the required contribution of the Pay-Go system for the year then ended.

Establishment of Pay-Go System –

On June 23, 2017, the Legislature approved other assignments for the Fiscal Year 2017-2018 Joint Resolution, which among other things, ordered the Retirement System to liquidate its assets and pass the net proceeds to the Treasury Department. On June 27, 2017, The Treasury Department issued Circular Letter No. 1300-46-17 in order to convey the governmental agencies, public corporations and municipalities the new implementation procedures to be adopted, effective July 1, 2017, the new "pay as you go (Pay-Go)" mechanism for all the Commonwealth's Retirement Systems. With the start of fiscal year 2018, employer's contributions ordered by special laws and the additional uniform contribution were all eliminated and replaced by a monthly Pay-Go charge to be collected from the aforementioned government entities to pay retirees. The Commonwealth's Retirement Systems will determine and administer the payment amount per retiree to be charged to each agency, public corporation and municipality. Under the Pay-Go system, pension payments are made from the Commonwealth's General Fund, according to the extent money is available, and public corporations and municipalities reimburse the General Fund for any payments made on behalf of their retirees. The Pay-Go charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the Pay-Go charge is expected to increase.

The Pay-Go system was one component of Act No. 106 of August 23, 2017, which created the legal framework for the Commonwealth of Puerto Rico to guarantee benefit payments to pensioners through the Pay-Go system.

(16) Other postemployment benefits (OPEB):

Plan Description –

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer defined benefit other postemployment healthcare 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* (GASB Statement No. 75).

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 43, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

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

OPEB Liability, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB –

As of June 30, 2018, the Authority reported OPEB liability of $8.2 million for its proportionate share of the collective total OPEB liability, which were determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The Authority's proportionate share of the collective total OPEB liability was .88707% at measurement date of June 30, 2017 (.85816% for June 30, 2016). The Authority's proportion of the collective total OPEB liability was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

For the year ended June 30, 2018, the Authority recognized an OPEB recovery adjustment of approximately ($1.9) million. As of June 30, 2018, the Authority reported deferred outflows of resources related to OPEB of approximately $655 thousand. These deferred outflows of resources represent OPEB benefits paid subsequent to the measurement date. No deferred inflows of resources related to OPEB were reported as of June 30, 2018.

Actuarial assumptions -

Discount Rate

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

Mortality -

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational basis, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disable Mortality

Rates which vary by gender are assumed for disable retirees based on a study of the ERS Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The following presents the total OPEB liability as of June 30, 2017, calculated using the discount rate of 3.58%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percent-point level lower (2.58%) or 1 percent-point higher (4.58%) than the current rate (expressed in thousands):

	1% Decrease (2.58%)	Current Discount rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	$ 8,992	$ 8,165	$ 7,468

(17) <u>Commitments and contingencies</u>:

Construction –

As of June 30, 2018, the Authority had commitments for approximately $5.6 million, related to construction contracts.

Litigation –

The Authority is defendant or co-defendant in various lawsuits, with claims amounting to approximately $263.6 million, as a result of the normal course of operations and also for alleged damages in cases principally related to its concessionaries. As of June 30, 2018, the Authority has reserves amounting to approximately $6.4 million to cover the aggregate exposure assessment. In the opinion of the Authority's management, based on legal advice, any liability in excess of insurance coverage and/or of the recorded reserves that may arise from final judgments would not affect significantly the Authority's financial position or result of operations.

Human Resources –

The Authority is defendant in various separate class action suits brought by employees, which are requesting the payment of overtime, accrued compensated absences, fringe benefits and increase in salaries. Due to the complexity of some of the claims, the total amount to be paid, if any, by the Authority cannot be determined, and as a result no specific reserve have been attributed to those legal actions as of June 30, 2018.

Environmental Remediation –

On May 23, 2002, the Authority, as well as other oil companies (the members), was contacted by the United States Environmental Protection Agency ("EPA") regarding certain alleged environmental conditions at the LMMIA related to the Hydrant Fuel System ("HFS"). The Authority and the other members entered into an Administrative Order Consent ("AOC") with EPA to perform a subsurface investigation and certain other tasks in connection with the HFS, with the exception of the assessment of the HFS, which will be undertaken by the Authority. In March 2003, the Authority and the other members entered into a Joint Defense, Participation and Cost Sharing Agreement to jointly conduct the subsurface investigation established in the AOC, constitute a Steering Committee and share the underlying costs. As informed by its legal counsel, the Authority is subject to share cost of 30% between responsible parties for expenses related to investigation and remedial actions set forth in the AOC. Up to June 30, 2018, the Authority is subject to pay $990 thousand, which is included as part of the accounts payable and accrued expenses in the accompanying statement of net position as of June 30, 2018.

Tenant Lease Agreements –

The Authority entered in two lease agreements with a tenant for a tract of land at LMMIA. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the agreements, the Authority will charge a fixed monthly rent, plus an additional rent based on sales volume. The Authority also agreed to grant rental credits to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. Also, as of June 30, 2018, the tenant and the Authority are under litigation of certain aspects of the lease agreements, as described in the ensuing paragraph.

Pursuant to the objectives of the LMMIA Project (see Note 22), during December 2011, the Authority entered into certain expropriation proceedings through the Puerto Rico First Instance Court (the "Court"), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with the GDB, out of which $25.4 million were consigned with the Court to start the expropriation process. The consigned amount was based on the Authority's determination of the properties' fair value, and it is included in a separate line item in the accompanying statement of net position. The counterparties have the right to contest the amount deposited, pursuant to the presentation of acceptable evidence indicating a higher fair value. As of the date of issuance of the financial statements, it is uncertain if the final settlement will be for the consigned amount, or for a higher consideration.

AMR Bankruptcy and Other Related Litigation –

On November 28, 2011, AMR Corp. ("AMR"), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. The Authority derived over 20% of its rental revenues and landing and other fees from AMR during the fiscal year 2012. Prior to the closing of lease and use agreements with respect to the LMMIA, as described in Note 22, the Authority's collection of revenues could have been affected if AMR's bankruptcy proceedings caused delays or suspension of payments, or if AMR's operations were modified as part of the underlying corporate reorganization. However, pursuant to the lease and use agreement closed on February 27, 2013, referred to in Note 22, this potential risk was transferred to Aerostar, which is managing and monitoring such risk as part of the lease and use agreements.

Trocadero-Diverplex Federal Funds Funding –

During the 1980's, a water taxi terminal station was constructed in Hato Rey, as part of a water transportation system running from Hato Rey to Old San Juan. This project, also known as the "Aqua Express Project", was funded with approximately $30 million of federal financial assistance from the Federal Transit Administration (FTA) channeled through the Department of Transportation and Public Works (DTOP), as grantee, and various other governmental entities as participants in the project, including the Authority, the Maritime Transportation Authority of Puerto Rico (MTA) and the Puerto Rico Highways and Transportation Authority (PRHTA). During the early years of the 2000 decade, the water transportation service through Aqua Express was suspended principally due to high sedimentation on the maritime channel of the system and frequent technical problems with the water vessels of the system. During 2011, in an attempt to find an alternate productive use to the water terminal area that was otherwise being wasted, the Commonwealth administration then announced the conversion of the area into a restaurant and shopping center complex to be known as Trocadero-Diverplex, where at the present time several businesses operate.

The FTA learned about the new utilization of the federally funded water terminal area and confirmed that these changes were not consulted with them, which might expose the DTOP to a potential exposure of having to return the $30 million funding to the FTA, unless FTA and the DTOP can find a way to alleviate this apparent violation. The FTA has already frozen other $30 million in federal funding that could have been used for improvements to existing transportation systems elsewhere in Puerto Rico. The FTA has continued with its investigation of all the events and activities surrounding the change in the original purpose of the water terminal area and the DTOP, along with MTA and PRHTA, are evaluating who would bear the ultimate responsibility, if any, or how to share it in the eventuality of having to return the funds to FTA. The Authority's management has not considered necessary, at the moment, to recognize any reserve to cover this potential exposure.

(18) Passenger facility charge:

Pursuant to the Aviation Safety and Capacity Act of 1990 (the Act), airports may collect a Passenger Facility Charge (PFC) of up to $4.50 per ticket, out of which $0.11 belong to the airline companies for administrative expenses and $4.39 to the Authority. Under the Act, PFC revenues are restricted to be used for financing eligible airport-related projects that preserve or enhance safety, capacity or security of the air transportation system, subject to the approval of the Secretary of Transportation of the United States. The PFC income for the year ended June 30 2018, amounted to approximately $1 thousand. As of June 30, 2018, the Authority has unexpended resources amounting to approximately $4.5 million, which are restricted for PFC projects. PFC revenues are recognized as collected and are included in non-operating revenues. As part of the service concession arrangement for the LMMIA facilities signed with Aerostar (described in Note 22), after February 27, 2013, the PFC revenues related to the LMMIA operations are received and administered by Aerostar.

Under the provisions of the Act, the Authority is required to provide an annual independent audit of the PFC revenues, which expresses an opinion of the fairness and reasonableness of the Authority's procedures for receiving, holding and using PFC revenue. In addition, auditors are required to report whether the quarterly reports that must be filed by the Authority fairly represent the net transactions within the PFC accounts. After having performed no such independent audits since the inception of the PFC program in 1993, the Authority engaged one during fiscal year 2014 to cover compliance with the PFC requirements for the periods since inception through February 28, 2013. The resulting PFC audit report contained disclaimers of opinion for the first 10 years of the program and several noncompliance exceptions since 2003, mostly due to inadequate document retention policies that enabled the destruction and unavailability of supporting documentation to be inspected. The Authority had been following the local seven-year retention policy regulations of the Commonwealth, rather than the ones prescribed by the PFC regulations. Also, the PFC audit report and certain other forensic report issued identified questioned costs of approximately $8.1 million and unsupported interest payments of approximately $6.6 million. Despite these results, management felt that such findings were not necessarily indicative of illegal or inappropriate expenditures outside the applicable PFC projects, as all PFC projects since inception of the program have been completed, in-process or accounted for. The Federal Aviation Administration ("FAA") provided comments on the results of the audit report, which included requiring the Authority to prepare a detailed corrective action plan for remediating the findings noted and to identify the support for the aforementioned questioned costs and unsupported interest payments or in the alternative, to provide a credit to the PFC accounts for any unsupported amount. The Authority identified and provided most of the unsupported evidence and implemented, during 2016, its "Puerto Rico Ports Authority PFC Guide" to address most of the deficiencies identified in the 2014 PFC audit. In addition, the PFC Program was audited for the fiscal year ended June 30, 2015 and the reported findings were properly addressed. Therefore, management believes no allowance for potential exposure is considered necessary as of June 30, 2018.

(19) Rental income:

The Authority leases its property to commercial airlines, car rental companies, concessionaires and to several fixed base operators who service the airline industry, the Transportation Security Administration ("TSA"), and other Federal and Commonwealth agencies.

Minimum future rentals to be received on non-cancelable operating leases are approximately as follows (expressed in thousands):

Year ending June 30,	Amount
2019	$ 23,412
2020	20,725
2021	20,159
2022	19,042
2023	18,220
2024-2028	86,426
2029-2033	57,819
2034-2038	22,246
2039-2043	13,051
Thereafter	10,940
	$ 292,040

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under these leases is not included in future minimum rental amounts above. Rental income for the fiscal year ended June 30, 2018 amounted to approximately $25.2 million.

(20) <u>Federal assistance programs</u>:

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 2000*, Uniform Administrative Requirements Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance), or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Federal financial assistance for the year ended June 30, 2018, consist of grants and donations as follows (expressed in thousands):

Federal financial assistance:	Amount
Federal grants received from:	
Federal Aviation Administration	$ 3,183
Federal Transit Administration	957
U.S. Treasury - Equitaqble Sharing Program	8
Total grants	4,148
Less: pass-through grant program payments	(957)
	$ 3,191

Pass-through grants program payments of approximately $957 thousand are included as grant subsidies and awards in the accompanying statement of revenues, expenses and change in net position.

(21) Operating revenues:

Operating revenues for the fiscal year ended June 30, 2018, consists of the following (expressed in thousands):

Description	Amount
Maritime operations:	
Wharfage, dockage and ports services	$ 32,771
Tourist ship fees	17,545
Equipment and property rental	11,424
Demurrage, utilities and other	1,150
Engagement security fee	18,235
Less: provision for doubtful accounts	(471)
	80,654
Airport operations:	
Landing fees	1,168
Passenger facilities fees	641
Space rental [1]	35,763
Utilities, gas sales and others	1,012
Less: provision for doubtful accounts	(4,925)
	33,659
	114,313
Less: discounts and incentives	(254)
	$ 114,059

[1] Includes $19.1 million for amortization of deferred inflows related to concession fees.

(22) Lease and use agreements – LMMIA:

On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the APP Agreements) entered into on July 27, 2012 between the Authority and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Muñoz Marin International Airport Project (the LMMIA Project). Aerostar is a partnership formed between Grupo Aeropuertuario de Sureste S.A.B de C.V. (ASUR), a New York Stock Exchange-listed Mexican airport management firm, and Highstar Capital L.P., a fourth-generation infrastructure investor and private equity funds manager. The Authority's objectives for entering into the APP agreements are discussed in Note 3.

The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the Authority. In addition, upon the closing of the APP Agreements, the Authority receives from Aerostar annual rental payments for each of the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, the Authority will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, the Authority will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years. Aerostar also funded with a $6 million deposit a separate escrow account called the *Puerto Rico Air Travel Promotion and Support Fund*, with the purpose of compensating airlines that increase their services to the LMMIA over certain established thresholds during the first three years of the APP Agreements. Under the APP Agreements, the Authority is responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.068 million at the transaction date. Pursuant to the adoption of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* the Authority recognized at February 27, 2013, the date of the closing of the APP Agreements, a resulting deferred inflow of resources amounting to $622.5 million and a liability of $3.1 million for the present value of the capital improvement commitments of the Authority; in exchange for the receipt of the $615 million upfront leasehold fee and the receivable of the annual payments of $2.5 million from Aerostar for the first 5 years since the closing, with a present value estimate of $10.5 million. Since the closing date through June 30, 2018, approximately $93.2 million of the deferred inflow of resources have been amortized into revenue, $19.1 of which belonged to fiscal year 2018 and recognized within operating revenues-airport in the accompanying statement of revenues, expenses and change in net position. As of June 30, 2018, the Authority has satisfied approximately $2.8 million (none during fiscal year 2018) of its capital improvement commitments, leaving a remaining obligation of approximately $313,000, recognized within accounts payable and accrued expenses in the accompanying statement of net position.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and the Authority) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to the Authority. Aerostar will also be able to charge a maximum level of fees to the airlines at LMMIA, as established in the APP Agreements.

The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. This capital improvement program called for an investment in capital expenditures for the ensuing five years after the closing of the APP Agreements in amounts ranging from $246 million to $290 million, to be executed over three phases. Phase 1 would consist of “accelerated upgrades” ranging from $16 million to $24 million, including the acquisition of approximately 22 new boarding bridges, starting in September 2013. Phase 2 expected an investment of approximately $92 million extending through December 2014, mostly in the remodeling of Terminal B and the establishment of a new automated luggage management system. Phase 3 would require the investment of approximately $130 million to start in January 2015 through December 2015, principally in the remodeling and revamping of Terminal C. At June 30, 2018, approximately over $173 million have been invested in capital expenditures by Aerostar, $129.9 million (net of an impairment of $10.3 million) of which have been completed and placed in operations; thus, recognized by the Authority as an increase in its capital asset with the corresponding credit to deferred inflows of resources by the same amount. The amortized balance of deferred inflows of resources at June 30, 2018, after all the activities referred to in the paragraphs above amounts to $661.9 million.

The Authority was required to provide police and fire services to the LMMIA in exchange for annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also established certain compensation events, the occurrence of which from either party would trigger a compensation amount or activity from the defaulting party to the affected party, as defined. Finally, the Authority will be responsible to Aerostar, at the termination of the APP Agreements, for any capital related improvements not fully reimbursed to Aerostar from the Passenger Facility Charge (PFC) program or other airline charges. No such compensation events have occurred through June 30, 2018.

The LMMIA facilities leased to the Puerto Rico Air National Guard are excluded from the APP Agreements and upon the satisfaction of certain conditions, as defined, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments. The hotel property within the LMMIA and the cargo facilities leased to CAF and the ongoing related litigation, remain under the responsibility of the Authority, although the properties are included in the APP Agreements. If the litigation is resolved, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments.

Upon the closing of the APP Agreements, the Authority used $525 million of the $615 million upfront leasehold fee received to repay debt obligations to lenders and suppliers and to cover certain related transaction costs. The rest of the remaining upfront leasehold fee ($90 million) was used to establish the following supporting funds:

- A fund of $50 million for the early retirement of certain Authority's employees. At June 30, 2018, $774 thousand remain in this early retirement fund.
- A fund of $25 million for the development of the Authority's regional airports. At June 30, 2018, $4.3 million remain in the fund used for regional airports development.
- A fund of $15 million for the guaranty to cover the Authority's obligations in case of losses sustained on the APP Agreements. At June 30, 2018, including interest, $15.5 million remain in this guaranty fund.

The aforementioned supporting funds were maintained in a separate bank account and deposits with GDB. These funds would require GDB's authorization for release, following the Authority's submission of the supporting documentation for such expenditures and their validation by GDB. Refer to Notes 5 and 23 for additional information.

- The APP Agreements also set the basis for the creation and establishment of a program for the supervision and monitoring of Aerostar's compliance with such agreements. Under this program, the Authority maintains offices inside the LMMIA's facilities, housing employees and consultants in charge of monitoring the APP Agreements' clauses related to Aerostar construction, environmental control and commercialization plan. Progress reports are being provided to top management of the Authority on a periodic basis.

(23) Subsequent events:

Government Development Bank for Puerto Rico (GDB) – Debt Restructuring Act –

GDB entered into a Restructuring Support Agreement, and Title VI Process under PROMESA, providing for a transaction resulting in the wind-down of GDB's operations. The GDB Title VI Plan provides for certain GDB creditors (primarily holders of GDB public bonds and deposit claims held by certain municipalities and certain municipal and non-public entities) to exchange their claims against GDB at a 45% discount for new bonds. On August 24, 2017, the Governor signed into law Act No. 109 – "GDB Debt Restructuring Act", which provides for the determination of liabilities between any government entity and GDB, by automatically applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB, in a manner consistent with the Qualifying Modification - as described in Title VI of PROMESA.

On November 29, 2018, GDB completed the restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification certain bondholders and deposits claims were exchanged for bonds issued by GDB Debt Recovery Authority "GDBRA") (a newly created public entity). GDB transferred to such entity its municipal loans, a portion of its public entities loan portfolio, certain real estate owned and its unencumbered cash. Resulting from this Qualifying Modification, loans in the total aggregated amount of $266.2 million owed by the Authority to GDB were transferred to the GDBRA. These loans, as provided by Act No. 109, were adjusted for approximately $20.3 million of deposits of the Authority at GDB. In addition, approximately $1.8 million of deposits balance were applied to outstanding balance of guarantee fees related to letters of credit.

Restructuring Support Agreement – PRIFA Bonds –

On December 27, 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), on behalf of the Puerto Rico Infrastructure Financing Authority ("PRIFA") and the Puerto Rico Ports Authority ("Authority"), entered into a final amended restructuring support agreement with certain PRIFA creditors, representing approximately 93% of the outstanding $190.6 million principal of PRIFA Bonds Series 2011B ("PRIFA Bonds"). The final settlement provided for the repurchase of all the outstanding PRIFA Bonds of such creditors for their pro-rata share of a cash payment of approximately $88.7 million. The remaining 7% of the PRIFA Bonds continues outstanding, and AAFAF is pursuing negotiations with certain of such bondholders. The final settlement also provided for customary mutual releases between the participating parties and The Bank of New York Mellon ("BNYM") in its capacity of trustee of the PRIFA Bonds.

As part of the restructuring and wind-down of Government Development Bank for Puerto Rico ("GDB"), GDB transferred to the GDB Debt Recovery Authority ("GDBRA") its reimbursement claim against the Authority for amounts honored by GDB under the GDB Letter of Credit securing the PRIFA Bonds (the "Letter of Credit"). GDBRA was created by Act 109 of August 24, 2017, as amended, to facilitate the restructuring of certain of GDB's indebtedness and the release of certain claims against GDB pursuant to a Qualifying Modification under Title VI of PROMESA. Pursuant to the terms of the Qualifying Modification, each $1,000 of affected claims, including the claims of BNYM, on behalf of the holders of PRIFA Bonds, against GDB in respect of the un-honored draws under the Letter of Credit, received new bonds issued by GDBRA having a face value of $550. On November 30, 2018, the new bonds of GDBRA were issued and BNYM, as trustee of PRIFA Bonds, received bonds with value of approximately $116.3 million for the unfunded letter of credit.

Based on the above-described events, and considering that the Authority was released from its obligations with PRIFA, during fiscal year 2020, the Authority reduced the outstanding principal balance of its PRIFA Bonds obligation by $177.1 million to reflect a balance of $13.5 million, which represents approximately 7% of the PRIFA Bonds outstanding, which has not yet been settled.

Earthquake –

On or about January 7, 2020, Puerto Rico experienced a 6.4 magnitude earthquake that shook its southern coast, which was one of the most damaging quakes that the island has seen. Puerto Rico's Governor declared a state of emergency and requested direct federal assistance and emergency protective measures. The Authority retained the services of a public adjuster to provide technical assistance and advisory services related to this earthquake disaster recovery, in order to ensure a maximum recovery for property damage, real or personal; loss of use and/or business interruption claims, as well as any and all policy coverages. As of today, the public adjuster is working in its evaluation for the insurance claim, and the Authority has no final estimate of damages.

Hurricane María –

On September 7 and 20, 2017, the Hurricanes Irma and María made landfall in Puerto Rico, respectively, causing island-wide damage, flooding, and significant destruction of the infrastructure and the power grid. During 2018, the Authority began the claim process with its insurance company to recover such losses. On June 6, 2018, the Authority received an unallocated advance, towards its 2017 losses, from the insurance company amounting to $5 million.

During 2019, Management re-evaluated the extent of the hurricane-related damages to the Authority's property and estimated losses. Accordingly, the Authority presented a maximum value claim in the amount of $155.4 million in respect to material damage to certain insured locations and premises, business interruption, incurred extra expenses, mitigation, claim preparation, and unclassified expenses due to the passing of Hurricane María on September 20, 2017. In September 2020, the claim was finally adjusted and transacted for a net amount of approximately $54.3 million. Such transacted amount was received by the Authority as follows: $5 million on June 6, 2018, as described above; $14.5 million on January 23, 2020, and a final payment of $34.7 million on September 30, 2020.

COVID-19 Pandemic -

(i) Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor of Puerto Rico issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. Subsequently, the Governor has issued multiple executive orders to:

- order and extend a curfew for all citizens requiring them to stay at home and allowing them to use the public roads, within certain time frame, under specific circumstances,
- mandate that any person with reasonable suspicion of being exposed to the COVID-19 remain quarantined to prevent them from posing a risk to public health and transmission to non-infected persons,
- order the closure of all governmental operations, except for those related to essential services, and the closure of all businesses in Puerto Rico from certain time frame, unless otherwise provided,
- create and establish the Executive Committee of Medical Advice, also known as the COVID-19 Medical Task Force, which will perform functions jointly with the Puerto Rico Department of Health and will be in charge of studies, research and development of strategic plans to manage the Coronavirus pandemic emergency and provide a coordinated response to the citizens of Puerto Rico,
- order a lockdown in Puerto Rico where the citizens of Puerto Rico were instructed to stay at their residences the 24 hours of a day for the 7 days of the week from a specified time frame and only be allowed to use the public roads, during the hours between specified hours, under specific circumstances,
- lift certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules, and
- continue with the gradual reopening of various economic sectors.

From June 12 through December 7, 2020 various executive orders have been approved with the intention of minimize the spread of the COVID-19 since a spike in new cases among the population was noted after trying to reopen the economy. Executive order EO-2020-087 issued on December 7, 2020 extended the curfew until January 7, 2021, and considers additional restrictions for commerce and citizens. Executive order EO-2021-010 issued on January 5, 2021 extended the curfew until February 7, 2021 and executive order EO-2021-014 issued on February 4, 2021 extended the curfew until March 14, 2021. Both executive orders consider additional restrictions for commerce and citizens.

(ii) Economic Stabilization Measures

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

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

As of today, and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority’s management has estimated a negative impact of approximately $26 million in its operational cash flows.

Other Events –

- On November 6, 2019, the Authority sold certain real property (parcel of land) located at the Isla Verde area for $7 million.
- On October 2, 2019, PRASA received a transfer of $7.3 to be credited to the outstanding past due balances from the Authority. These funds, as approved by the Fiscal Oversight and Management Board for Puerto Rico (FOMB), were provided from the PRASA’s unallocated reserve under the custody of the Office of Management and Budget (OMB).
- On April 9, 2019, the Authority received 114,129 common shares of American Airlines (AAL), as distribution from claims under the bankruptcy filing of AMR Corporation. The aggregate market value of the common shares, at distribution date, was approximately $3.5 million. Also, as part of the April 9, 2019 distribution, the Authority received cash for approximately $217 thousand.

- On February 12, 2019, the Norwegian Epic Cruise Line Ship impacted the San Juan Pier causing damages to the structure. The re-construction costs were estimated in $11.8 million. In April 2019, the Authority contracted a public insurance adjuster to handle the insurance claim on damages caused by this accident. As of the date of the financial statements, the public insurance adjuster and the insurance company have not reached a final settlement in relation to the insurance claim, however, the Authority have received interim payments for approximately $1.4 million from the insurance company.

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 26, 2021, the date in which the basic financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

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

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

(Dollar in thousands)

For the fiscal year ended June 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered employee payroll	Authority's proportionate share of the net pension liability as percentage of covered employee payroll	ERS plan's fiduciary net position	ERS Plan's fiduciary net position as percentage of the total pension liability
2018	0.72940%	$ 249,587	$ 21,849	1142.33%	$ (2,108,853)	-6.57%
2017	0.67283%	253,649	22,723	1116.26%	(1,265,885)	-3.47%
2016	0.73066%	243,582	24,001	1014.88%	(668,273)	-2.05%
2015	0.75571%	277,762	25,778	883.55%	80,666	0.27%

Notes

This schedule will be expanded to show 10 years, once the information becomes available in the future.

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

Schedule of Pension Contributions (Unaudited)
June 30, 2018

(Dollar in thousands)

For the fiscal year ended June 30,	Contractually required contribution	Contributions in relation to contractually determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 25,186	$ 1,000	$ 24,186	$ 21,021	4.76%
2017	3,717	3,462	255	21,849	15.85%
2016	3,580	3,580	-	22,723	15.75%
2015	3,516	3,516	-	24,001	14.65%
2014	3,518	3,518	-	25,778	13.65%

Notes

This schedule will be expanded to show 10 years, once the information becomes available in the future.

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

Schedule of the Authority's Proportionate Share of the Other Postemployment Benefits Liability (Unaudited)
June 30, 2018

(Dollar in thousands)

For the fiscal year ended June 30,	Authority's proportion of the OPEB liability	Authority's proportionate share of the OPEB liability	Authority's covered employee payroll	Authority's proportionate share of the OPEB liability as percentage of covered employee payroll	OPEB Plan's fiduciary net position as a percentage of the total OPEB liability
2018	0.88707%	$ 8,165	N/A	N/A	N/A
2017	0.85816%	10,170	N/A	N/A	N/A

Notes

This schedule will be expanded to show 10 years, once the information becomes available in the future.

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

Schedule of Other Postemployment Benefits Contributions (Unaudited)
June 30, 2018

(Dollar in thousands)

For the fiscal year ended June 30,	Contractually required contribution	Contributions in relation to contractually determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 684	$ 684	$ -	N/A	N/A
2017	685	685	-	N/A	N/A

Notes

This schedule will be expanded to show 10 years, once the information becomes available in the future.