GOBIERNO DE PUERTO RICO
AUTORIDAD DE LOS PUERTOS

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PRESIDENCIA DEL SENADO

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16 de junio de 2023

**VÍA MENSAJERO**

José L. Dalmau Santiago
Presidente
Senado de Puerto Rico
El Capitolio
Apartado 9023431
San Juan, Puerto Rico 00902-3431

Estimado Presidente:

**ESTADOS FINANCIEROS AUDITADOS Y "SINGLE AUDIT" AL 30 DE JUNIO DE 2021**

Adjunto copia de los Estados Financieros Auditados y "Single Audit" de la Autoridad de los Puertos de Puerto Rico, para el año terminado al 30 de junio de 2021.

Estamos a sus órdenes de necesitar información adicional al respecto.

Cordialmente,

Luis A. De Jesús Clemente
DEA en Desarrollo Económico y Finanzas

Anejo

16 de junio de 2023 Suzette

GOBIERNO DE PUERTO RICO
AUTORIDAD DE LOS PUERTOS

# MENSAJERO

ENVIADO POR: **SR. LUIS A. DE JESÚS CLEMENTE**

DIRECTOR EJECUTIVO AUXILIAR, EN DESARROLLO ECONÓMICO Y FINANZAS

**AUTORIDAD DE LOS PUERTOS DE PUERTO RICO**

RECIBIDO JUN20'23AM

**A:** Honorable José L. Dalmau Santiago, Presidente

DEPARTAMENTO O AGENCIA: **Senado de Puerto Rico**

**El Capitolio**

PRESIDENCIA DEL SE

DOCUMENTO O ARTÍCULOS: **CARTA Y APPR ESTADOS FINANCIEROS Y "SIGLE AUDIT"**

**AL AÑO TERMINADO EL 30 DE JUNIO DE 2021**

NOMBRE DE LA PERSONA QUE RECIBE:

FIRMA FECHA

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements

June 30, 2021

Table of Contents

Galíndez LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

## Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Ports Authority (the Authority), a Component Unit of the Government of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Auditors' Responsibility – (continued)

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, 2021, 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

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 3 to the financial statements, 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 and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 3. 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.

Restatement of Net Position (Deficit)

As discussed in Note 4 to the financial statements, the 2020 financial statements have been restated to correct a misstatement related to the elimination of debts with the Employees' Retirement System at the effective date of Act No. 106 of August 23, 2017. Our opinion is not modified with respect to this matter.

Effect of COVID-19 Pandemic

As discussed in Note 16 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.

Galíndez LLC

To the Board of Directors of
Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)


As of September 2022 and based on the adverse effects of the COVID-19 pandemic emergency in the economy of Puerto Rico, the Authority's management has estimated a negative net impact of approximately $29.1 million in its operational cash flows.

## 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 15, the Schedule of the Proportionate Share of the Collective Total Pension Liability, the Schedule of the Proportionate Share of the Collective Other Postemployment Benefits Liability and the Notes to Required Supplementary Information on pages 90 through 91 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.


Galindez LLC

San Juan, Puerto Rico
November 15, 2022
License No. LLC-322
Expires December 1, 2023

## Introduction

The following Management's Discussion and Analysis of the financial performance and activity of the Puerto Rico Ports Authority (the Authority) is intended to provide an introduction to its financial statements for the fiscal year ended June 30, 2021, with selected comparative information from the fiscal year ended June 30, 2020. 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.

## Financial Highlights

- The Authority's net position (deficit) improved for approximately $18.4 million from a restated deficiency of ($320.9) million at June 30, 2020 to ($302.5) million at June 30, 2021.

- Current assets, composed of: unrestricted cash, accounts receivable - net of allowance for doubtful accounts, prepaid expenses and other current assets, had a net increase of approximately $21.2 million, comparing figures at June 30, 2021 to those of June 30, 2020.

- Net capital assets increased for approximately $24.1 million, when comparing fiscal years 2021 and 2020.

- Other non-current assets, which includes: restricted cash, restricted deposit consigned at court, due from governmental entities and other assets, had a net increase of $52.9 million for fiscal year 2021, as compared to restated balances of 2020.

- Deferred outflows of resources increased for approximately $50.1 million during fiscal year 2021.

- Total current liabilities, principally composed of: current portions of loans and notes payable, accounts payable and accrued expenses, current portion of total pension, unearned revenues and interest payable, increased in the aggregate for approximately $30.5 million during fiscal year 2021.

- Non-current liabilities, principally composed of: long term portions of notes payable, unearned revenues, due to governmental entities, total pension liability and other postemployment benefits, increased for approximately $104.5 million during fiscal year 2021.

- Deferred inflows of resources had a net decrease of $4.0 million during fiscal year 2021.

- During fiscal year 2021, the Authority commenced the collection of passenger facility charges (PFC) for operations related to the Aguadilla regional airport (approximately $121 thousand were collected).

Financial Highlights – (continued)

- For comparative purposes of the Management's Discussion and Analysis overview of the financial statements, the Authority restated its net position deficiency at June 30, 2020 for a release of debts from Employees' Retirement System (ERS) for approximately $23 million, reduced debts for $18.5 million and increased amount receivable from ERS for $4.5 million. These debts came from before June 30, 2017, and should have been adjusted during fiscal year 2019, as provided by Law No. 106-2017.

- During fiscal year 2021, the Authority received in the aggregate net proceeds for approximately $97.3 million related to federal and local contributions and insurance recoveries (approximately $39.9 million of the local contributions were recognized as unearned revenues). In addition, during 2021, the Authority received the LMMIA operations revenue share from Aerostar, related to natural year 2020, for approximately $5.5 million.

Other Highlights

Related to the Luis Muñoz Marín International Airport (LMMIA) lease and use agreements (APP Agreements) entered into with Aerostar in February 2013, the Authority recognized approximately $19.1 million ($6.07 million in 2020) of additions to capital assets as a result of improvements and construction works already completed and placed in operations at the LMMIA by Aerostar. During 2018, 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 estimated annual rental income for 2021 was approximately $7.4 million, for which $3.7 million were recognized as accounts receivable as of June 30, 2021.

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.

*Statements 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:

| | 2021 | 2020 (as restated) | Change In Dollars | Change Percentage |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Assets: | | | | |
| Current assets | $ 67,400 | $ 46,232 | $ 21,168 | 46% |
| Non-current assets: | | | | |
| Capital assets, net | 1,255,539 | 1,231,474 | 24,065 | 2% |
| Other non-current assets | 115,901 | 63,022 | 52,879 | 84% |
| Total assets | 1,438,840 | 1,340,728 | 98,112 | 7% |
| Deferred outflows of resources | 91,226 | 41,129 | 50,097 | 122% |
| Total assets and deferred outflows | $ 1,530,066 | $ 1,381,857 | $ 148,209 | 11% |
| Liabilities: | | | | |
| Current liabilities | $ 422,326 | $ 391,792 | $ 30,534 | 8% |
| Non-current liabilities: | | | | |
| Loans and notes payable | 85,863 | 87,098 | (1,235) | -1% |
| Other non-current liabilities | 639,502 | 534,959 | 104,543 | 20% |
| | 1,147,691 | 1,013,849 | 133,842 | 13% |
| Deferred inflows of resources | 684,862 | 688,871 | (4,009) | -1% |
| Net position (deficit): | | | | |
| Net investment in capital assets | 666,989 | 673,202 | (6,213) | -1% |
| Restricted | 105,682 | 55,713 | 49,969 | 90% |
| Unrestricted (deficit) | (1,075,158) | (1,049,778) | (25,380) | 2% |
| | (302,487) | (320,863) | 18,376 | -6% |
| Total liabilities, deferred inflows and net position (deficit) | $ 1,530,066 | $ 1,381,857 | $ 148,209 | 11% |

Analysis of Net Position (Deficit) at June 30, 2021 and 2020

The Authority's net position (deficit) at June 30, 2021 includes assets of $1.439 billion, deferred outflows of resources of $91.2 million, liabilities of $1.148 billion and deferred inflows of resources of $684.9 million.

The increase in current assets of approximately $21.2 million is principally related to the final settlement, collection and deposit of the insurance claim related to Hurricane María and from the insurance proceeds related to the Norwegian ship accident; reduced from a net decrease in balance receivable from customers. The decrease in accounts receivable from customers resulted from increase the balance of the allowance for bad debts of $2.9 million basically due to changes in the composition of the accounts receivable aging, which is the base used for the reserve allowance estimate.

Net capital assets increased for approximately $24.1 million, when comparing fiscal years 2021 and 2020. This increase resulted from a net effect of additions to construction in progress and to other capital assets of approximately $49.1 million were offset by the depreciation for the year (net of retirements) of approximately $25 million. Approximately $19.1 million ($6.07 million in 2020) of the additions came from improvements and works completed and placed in operations by Aerostar in LMMIA.

Net increase of approximately $52.9 million in other non-current assets is related to increase in restricted cash of $50 million, increase in other assets of $1.1 million and increase in due from governmental entities of $1.8 million. Restricted cash increased principally from funds received in advance from the Government of Puerto Rico for construction projects for the Aguadilla regional airport runway, San Juan Bay dredging and other aviation and maritime projects; other assets change is related to increase in the fair market value of the 137,629 common shares of American Airlines (AAL) received by the Authority, resulting from its bankruptcy legal procedures. Increase in due from governmental entities is mainly related to invoices pending of collection from Federal Aviation Administration (FAA) ($1.7 million). Increase in deferred outflows of resources of approximately $50.1 million resulted from net increase in pension and other post-employment benefits related deferred outflows. This net increase in deferred outflows, which is basically related to pension, resulted from market-rate change in the GASB No. 73 discount rate from 3.5% as of June 30, 2019 to 2.21% at June 30, 2020.

Analysis of Net Position (Deficit) at June 30, 2021 and 2020 – (continued)

Net change of approximately $30.5 million in current liabilities is principally related to $12.7 million increase in accounts payable and accrued expenses (principally related to payable for scanning services), increase in interest payable for $16.0 million, increase in contractors' retainage of approximately $797 thousand and increase of approximately $1.0 million in the GASB No. 73 payments made after the measurement date. Increase in non-current liabilities of $104.5 million resulted as a net effect of the following: net increase in balance due to governmental entities for $14 million (principally related to increase in Pay-Go balance due and reductions in due to PREPA and PRASA; increase in total pension and OPEB liabilities of $51.6 million (related principally to market-rate change in the GASB No. 73 discount rate from 3.5% as of June 30, 2019 to 2.21% at June 30, 2020); offset by decreases related to repayment of notes payable and Law No. 70 benefits payment of $1.2 million and $900 thousand, respectively. Deferred inflows of resources had a net decrease of approximately $4.0 million, responding to the approximately $19.1 million of additions for works and improvements completed and placed in operation by Aerostar under the LMMIA lease and use agreement, and decrease in pension related deferred inflows of $3.1 million, offset by the scheduled amortization for the year of $20.0 million.

Net position (deficit) totaled approximately ($302.5) million at June 30, 2021, a reduction in (deficit) of approximately $18.4 million compared to restated 2020 balance. Net investment in capital assets totaled $666.9 million at June 30, 2021, 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 $105.7 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 approximately ($1.075) billion.

Statement of Revenues, Expenses and Changes 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 Changes in Net Position (Deficit) for the years ended on June 30, 2021 and 2020.

*This space was intentionally left in blank intentionally*

## Statement of Revenues, Expenses and Changes in Net Position (Deficit) – (continued)

| | 2021 | 2020 (as restated) | Change In Dollars | Change Percentage |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Operating revenues: | | | | |
| Maritime operations | $ 57,605 | $ 75,404 | $ (17,799) | -24% |
| Airport operations | 37,134 | 37,075 | 59 | 0% |
| Less: discount and incentives | (228) | (477) | 249 | -52% |
| Total operating revenues | 94,511 | 112,002 | (17,491) | -16% |
| Non operating revenues: | | | | |
| Federal financial assistance | 21,142 | 6,997 | 14,145 | 202% |
| Contribution from Commonwealth of Puerto Rico | 9,198 | 7,768 | 1,430 | 18% |
| Gain on sale of capital assets | - | 6,944 | (6,944) | -100% |
| Insurance recovery - net of impairment loss in 2020 | 28,743 | 11,352 | 17,391 | 153% |
| Market value adjustment for common shares received | 1,120 | (2,689) | 3,809 | -142% |
| Gain on debts released from Employees' Retirement System | - | - | - | - |
| Gain on partial release of PRIFA debts | - | 203,914 | (203,914) | -100% |
| Passenger facility charges | 121 | - | 121 | - |
| Penalties and other fees | 64 | 201 | (137) | -68% |
| Total non-operating revenues | 60,388 | 234,487 | (174,099) | -74% |
| Total revenues | 154,899 | 346,489 | (191,590) | -55% |
| Operating expenses: | | | | |
| Salaries and employees benefits | 21,634 | 25,506 | (3,872) | -15% |
| Pension expense (GASB No. 73) | 23,252 | 14,417 | 8,835 | 61% |
| OPEB expense (GASB No. 75) | 1,117 | 309 | 808 | 261% |
| Early termination adjustment | 5 | 607 | (602) | -99% |
| General and administrative | 26,871 | 29,681 | (2,810) | -9% |
| Professional services | 6,036 | 6,504 | (468) | -7% |
| Insurance, rent, repairs and maintenance | 14,784 | 10,767 | 4,017 | 37% |
| Operating expenses before depreciation, amortization and provision for bad debts from governmental entities | 93,699 | 87,791 | 5,908 | 7% |
| Provision for bad debt from governmental entities | 386 | 1,362 | (976) | -72% |
| Depreciation and amortization | 25,060 | 30,984 | (5,924) | -19% |
| Total operating expenses | 119,145 | 120,137 | (992) | -1% |
| Non-operating expenses: | | | | |
| Interest expense, net | 17,378 | 17,822 | (444) | -2% |
| Total expenses | 136,523 | 137,959 | (1,436) | -1% |
| Increase in net position (deficit) | 18,376 | 208,530 | (190,154) | -91% |
| Net position (deficit), at beginning of year, as previously reported | (320,863) | (552,405) | 231,542 | -42% |
| Restatement adjustment (Note 4) | - | 23,012 | (23,012) | -100% |
| Net position (deficit), at beginning of year, as restated | (320,863) | (529,393) | 208,530 | -39% |
| Net position (deficit) at end of year | $ (302,487) | $ (320,863) | $ 18,376 | -6% |

Analysis of Changes in Net Position (Deficit) during Fiscal Year 2021

Net maritime operating revenues, totaled $57.6 million compared to $75.4 million in 2020, a decrease of $17.8 million which resulted principally as a net effect of reduction in tourist ship fees ($18.2 million), decrease in rental properties income ($1.7 million), decrease in demurrage, utilities and others ($518 thousand) and increase in bad debts provision ($462 thousand), offset by increase in revenue from wharfage, dockage and ports services ($386 thousand) and increase in revenue related to enhanced security fee ($2.6 million). All these revenue reductions are direct consequences of the COVID-19 pandemic in the economy during the full fiscal year 2021, principally in the cruise industry. Net airport operating revenues totaled approximately $37.1 million for fiscal years 2021 and 2020. Although there was a reduction in landing fees, utilities and passenger fees, it was offset from increase in revenue shared from the LMMIA and the amortization of the deferred concession fees.

Non-operating revenues consist principally of Federal Aviation Administration (FAA), and other governmental agencies approved programs, appropriation from the Commonwealth of Puerto Rico, net insurance recoveries, market value adjustment for AAL common shares, passenger facility charges, and penalties and other fees. Non-operating revenues presented net decrease of approximately $174.1 million during 2021, as compared to 2020. Such decrease resulted mainly as a net effect of the following: a one-time recognized gain of $203.9 million on partial release of PRIFA Bonds related debt and also a gain on sale of properties for $6.9 million during 2020; which were offset with increases in Federal and contributions from the Commonwealth of Puerto Rico for $14.1 million and $1.4 million, respectively, $17.4 million of increase in insurance claims proceeds, and improvement in the market value of AAL common shares of $3.8 million.

Operating expenses, excluding depreciation, amortization and provision for bad debts from governmental entities totaled $93.7 million in 2021, which increased by $5.9 million as compared to 2020. This change resulted principally from the net effect of: decrease in salaries and employee benefits ($3.9 million), increases in pension and other post-employment expenses ($9.6 million), net decrease in general and administrative expenses ($2.8 million), decrease in the present value of benefits under Law No. 70 and professional services for $602 thousand and $468 thousand, respectively, increase in insurance premiums and repairs and maintenance for $4.0 million. The decrease in salaries and employee benefits is consequence of reduction in overtime and differences between Pay-Go amount billed by the Puerto Rico Retirement System and amount finally reported for pension adjustments. The increase in pension and other post-employment benefits resulted from the recognized effect of GASBs No. 73 and No. 75, and its principally related to market-rate change in the discount rate from 3.5% as of June 30, 2019 to 2.21% at June 30, 2020. Net decrease in general and administrative expenses of $2.8 million is principally related to the following: the 2021 evaluation of reserve for legal contingencies, which required an adjustment of $972 thousand, while for 2020 increased for $7.4 million. Such decrease in legal reserve was offset by increases in scanning services expense, fuel expenses, cleaning services, materials supplies and other expenses.

Analysis of Changes in Net Position (Deficit) during Fiscal Year 2021 – (continued)

Non-operating expenses (interest expense) had a net decrease of $444 thousand during 2021, as compared to 2020. This change resulted principally from the reductions of the outstanding principal balance of notes payable.

Capital Activities

The Authority's net disbursements for capital construction projects totaled approximately $25.4 million in 2021. During 2021, the Authority received federal and local contributions for $19.4 million and $49.1 million, respectively. Approximately $39.9 million of the local contribution remains as unearned revenues and as restricted cash to be used for capital construction projects expenditures.

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.

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 $13.5 million at June 30, 2021 and 2020. The outstanding principal balance of the total notes payable, amounted to $282.4 million and $283.6 million at June 30, 2021 and 2020, respectively. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) is pursuing negotiations with the $13.5 million PRIFA Series 2011B bondholders.

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 2021.

Refer to Notes 11, 12 and 21 of the Authority's 2021 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 were 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. As described here in, such impairment loss was recovered during fiscal year 2019. In addition, pursuant the provisions of Act No. 21, the Authority 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.

For many years the Commonwealth, which generally provided financial support to the Authority through legislative appropriations, was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, and economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, a high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing reasonable interest rates.

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 was also designated as a covered entity under the PROMESA Act.

Liquidity Risks, Uncertainties and Recent Events – (continued)

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted Law to End the Bankruptcy of Puerto Rico (Law No. 53) to, among other things, approve the issuance of New General Obligations Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eight Amended Plan of Adjustment. Based on current events that remediated the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern subsequent to June 30, 2020. Despite the emergence of the Commonwealth from Title III of PROMESA, the remediation of its financial condition and addressing its liabilities, it is uncertain the continued assignment of any legislative funds to the Authority.

On August 24, 2017, the Act 109 of 2017 "Government Development Bank for Puerto Rico Debt Restructuring Act" (Act No. 109) 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 (GDBDRA). The GDBDRA 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 GDBDRA were issued and GDB's assets were transferred to GDBDRA. As provided by Act No. 109, the Authority's lines of credit payable to GDB, after the application of its deposits at GDB, were transferred to GDBDRA.

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 was subject to approval of the Financial Oversight and Management Board for Puerto Rico (FOMB). On December 27, 2019 a final amended RSA was executed to restructure approximately 93% of these PRIFA Bonds. The RSA represented 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.

During August 2022, the Puerto Rico Public-Private Partnerships Authority (P3A) announced an agreement with San Juan Cruise Port LLC (SJCP), a subsidiary of Global Ports Holding (GPH), for the concession of Piers 1, 3, 4, Piers 11 through 14, and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority. The concession agreement, which is for a 30-year term, provides for the repair, design, build,

Liquidity Risks, Uncertainties and Recent Events – (continued)

finance, maintenance service and operation of the referred piers. The main goals of the agreement are: (1) to accelerate the completion of significant capital improvements that enhance the performance and safety conditions of the piers; (2) to reduce the Authority's debt burden and financial obligations; (3) to spur private infrastructure investment in Puerto Rico; (4) to increase the number of cruise ships and tourism; and (5) to provide a world class level of service to visitors of the San Juan Bay cruise terminals. Based on studies conducted by United States Marine Administration (MARAD), in the event that Pier 4 and the Pan American piers are not repaired, the Authority risks the eventual closure of these piers due to their deteriorated condition. In exchange for the concession, the SJCP is obligated to provide an initial payment of $75 million comprised of upfront payment of $72 million, plus $3 million for an escrow account (to be held as security for any concession compensation event due prior to completion of initial investment projects), and 5% annual revenue share of the gross cruise port revenue earned by SJCP. The annual revenue share could increase if federal funds are used to accelerate certain infrastructure projects or if certain improvements are not completed during the first 5 to 10 years pursuant to the agreement. SJCP should also cover the matching costs for the Authority's cruise pier dredging responsibilities ($1.6 million for the first three years and between $310 and $410 thousand thereafter). SJCP will also invest approximately $75 million in initial investment projects of repair and replacements in existing Piers; $197 million in expansion projects, including the construction of a new terminal in Piers 11-12 subject to demand triggers being met; and an amount yet to be determined in further expansions, constituting part of a Phase 2 (Piers 13-14), which will be undertaken once the current piers and the new terminal are used at capacity, based on reaching certain number of vessel calls. Unless extended, the financial closing of the concession agreement should occur on or before one hundred and eighty (180) days after the commercial closing date of August 15, 2022 (the date of signature), or the next business day, which is February 13, 2023.

The Authority is also assessing the feasibility of granting a concession of its nine regional airports. Through this initiative, the Authority would delegate the administration and operation of the airports while still securing revenue from those operations. Also, the Authority has various rehabilitation projects at regional airports, maritime ports and administrative buildings, which are eligible for federal government reimbursement programs. The preliminary estimated costs for such projects, subject to final auctions, are approximately $227.3 million.

The Authority continues 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.

Liquidity Risks, Uncertainties and Recent Events – (continued)

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 issued multiple executive orders to include curfew directives and other protective measures in response of the COVID-19 spread. Also, economic stabilization measures were 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 September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management has estimated a negative net impact of approximately $29.1 million in its operational cash flows, considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19.

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.

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, 2021

(In Thousands)

Assets

| | |
|---|---|
| Current assets: | |
| Cash | $ 48,591 |
| Accounts receivable, net of allowance for doubtful accounts of $98 million | 15,173 |
| Prepaid expenses and other current assets | 3,636 |
| | 67,400 |
| Non-current assets: | |
| Cash - restricted | 80,331 |
| Deposits consigned at court - restricted | 25,351 |
| Other assets - common shares | 2,919 |
| Due from governmental entities, net of allowance for doubtful accounts of $57.5 million | 7,300 |
| Capital assets | |
| Non-depreciable | 953,017 |
| Depreciable, net | 302,522 |
| | 1,371,440 |
| | 1,438,840 |
| Deferred outflows of resources: | |
| Pension related | 90,493 |
| Other postemployment benefits related | 733 |
| | 91,226 |
| Total assets and deferred outflows of resources | $ 1,530,066 |

(Continued)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) - (Continued)

June 30, 2021

(In Thousands)

Liabilities

| | |
|---|---|
| Current liabilities: | |
| Accounts payable and accrued expenses | $ 53,650 |
| Loan payable | 13,465 |
| Notes payable | 196,537 |
| Retainage and construction costs payable | 4,783 |
| Termination benefits accrual | 885 |
| Total pension liability | 23,390 |
| Other postemployment benefits liability | 733 |
| Tenants deposits | 1,308 |
| Interest payable | 127,481 |
| Unearned revenues | 94 |
| | 422,326 |
| Non-current liabilities: | |
| Notes payable | 85,863 |
| Termination benefits accrual | 5,576 |
| Unearned revenues | 39,797 |
| Due to governmental entities | 101,888 |
| Total pension liability | 483,609 |
| Other postemployment benefits liability | 8,632 |
| | 725,365 |
| | 1,147,691 |
| Deferred inflows of resources: | |
| Concession fees | 654,984 |
| Pension related | 29,878 |
| | 684,862 |
| Net position (deficit): | |
| Net investment in capital assets | 666,989 |
| Restricted: | |
| Acquisition of assets | 25,351 |
| Construction, renewal and improvements | 80,331 |
| Unrestricted - deficit | (1,075,158) |
| | (302,487) |
| Total liabilities, deferred inflows of resources and net position (deficit) | $ 1,530,066 |

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, 2021

(In Thousands)

| | |
|---|---|
| Operating revenues: | |
| Maritime operations (Note 20) | $ 57,605 |
| Airport operations (Note 20) | 37,134 |
| Less: discount and incentives | (228) |
| | 94,511 |
| Operating expenses: | |
| Salaries and employee benefits | 21,634 |
| Pension expense | 23,252 |
| Other postemployment benefit expense | 1,117 |
| Early termination adjustment | 5 |
| General and administrative | 26,871 |
| Professional services | 6,036 |
| Insurance | 11,832 |
| Rent, repairs and maintenance | 2,952 |
| | 93,699 |
| Operating income before depreciation and amortization and provision for bad debts from governmental entities | 812 |
| Depreciation and amortization | (25,060) |
| Provision for bad debts from governmental entities | (386) |
| Operating loss | (24,634) |
| Non operating revenues (expenses): | |
| Federal financial assistance | 21,142 |
| Contribution from Commonwealth of Puerto Rico | 9,198 |
| Passenger facility charges | 121 |
| Penalties and other fees | 64 |
| Insurance recoveries | 28,743 |
| Market value adjustment for common shares received | 1,120 |
| Interest expense | (17,391) |
| Interest income | 13 |
| | 43,010 |
| Increase in net position (deficit) | 18,376 |
| Net position (deficit), at beginning of year, as previously reported | (343,875) |
| Restatement adjustment (Note 4) | 23,012 |
| Net position (deficit), at beginning of year, as restated | (320,863) |
| Net (deficit), at end of year | $ (302,487) |

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, 2021

(In Thousands)

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from charges to customers | $ 78,762 |
| Cash payments to suppliers for goods and services | (40,529) |
| Cash payments to employees for services, Pay-Go and related benefits | (46,394) |
| Net cash used in operating activities | (8,161) |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (25,429) |
| Federal and local contribution | 28,541 |
| Advance funds from Office of Management and Budget | 40,000 |
| Interest paid | (1,396) |
| Principal payments on notes payable | (1,164) |
| Passenger facility charges received for capital expenditures | 121 |
| Insurance claims proceeds | 28,743 |
| Net cash provided by capital and related financing activities | 69,416 |
| Cash flows from non-capital and related financing activities: | |
| Penalties and other fees | 64 |
| Net change in due from (to) governmental agencies | 14,068 |
| Net cash provided by non-capital and related financing activities | 14,132 |
| Cash flows from investing activities- | |
| Interest received | 13 |
| Net increase in cash | 75,400 |
| Cash, beginning of year | 53,522 |
| Cash, end of year | $ 128,922 |

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - (Continued)

For the year ended June 30, 2021

(In Thousands)

| | |
|---|---|
| Reconciliation of cash | |
| Unrestricted cash | $ 48,591 |
| Restricted cash: | |
| Construction | 78,264 |
| Renewal and replacements, maintenance and others | 2,067 |
| Total restricted cash | 80,331 |
| Total cash | $ 128,922 |
| Reconciliation of operating loss to net cash used in operating activities | |
| Operating loss | $ (24,634) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 25,060 |
| Amortization of deferred inflows of resources-concession fees | (20,079) |
| Provision for bad debts from governmental entities | 386 |
| Net change in operating assets, liabilities, deferred outflows of resources and deferred inflows of resources: | |
| Decrease in accounts receivable | 4,328 |
| Increase in prepaid expenses and other assets | (66) |
| Increase in accounts payable and accrued expenses | 8,402 |
| Increase in tenants deposits | 2 |
| Decrease in termination benefits and other liability | (994) |
| Increase in total pension liability | 51,494 |
| Increase in other postemployment benefits liability | 1,102 |
| Increase in deferred outflows - pension related | (50,111) |
| Decrease in deferred inflows - pension related | (3,065) |
| Decrease in deferred outflows - other postemployment benefits related | 14 |
| Net cash used in operating activities | $ (8,161) |
| Non-cash capital and financing activities: | |
| Capital assets additions placed in operations by Aerostar credited to deferred inflows of resources | $ 19,137 |
| Pension accrual and other postemployment benefits payments made after measurement date by the Commonwealth on behalf of the Authority | $ (23,390) |

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

Note 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 21 for the Public-Private Partnership transaction regarding the administration and operations of the LMMIA (the APP Agreements or Lease and Use Agreement).

The Authority's 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.

Note 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.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

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, 2021 is disclosed in Note 5 to the financial statements. There are no cash equivalents at June 30, 2021.

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 collectability 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 employees and supplier advances, trustee fees and certain material and office supplies.

Capital assets

Capital assets are stated at cost. Contributions by third parties are recorded at acquisition value on the date of contribution. 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, 2021, no interest cost was capitalized by the Authority.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

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.

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Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

Capital assets related to the LMMIA under the APP Agreements, described in Note 21, are maintained in the Authority's books and are stated at cost or at estimated historical cost, net of any related impairment. 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 $702 million as of June 30, 2021. This amount includes approximately $182.02 million of improvements and construction work already completed and placed in operations by Aerostar (approximately $19.1 million of which were completed and placed in operations during fiscal year 2021) therefore added to the carrying amount of capital assets under the APP Agreements.

During the year ended June 30, 2021, 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. Based on the Authority's management evaluation for capital assets impairment, no impairment loss was identified during the fiscal year ended on June 30, 2021.

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Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

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, 2021, 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 Note 16 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. 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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Compensated absences – (continued)

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 to sick leave. Accrued vacation as of June 30, 2021, amounted to approximately $3.4 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 accounted for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. Refer to Note 13 to the financial statements for additional disclosure.

Pensions

The Authority accounted for pensions under the provisions of the 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 requires that the primary government and the component units that provide pension through the same defined benefit pension plan of its primary government, recognize their proportionate share of the collective total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (benefit). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which 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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Postemployment benefits other than pensions – (continued)

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. See also Note 15 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. 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.

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:

APP agreements

In relation to the APP Agreements described in Note 21, 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 $182.02 million done by Aerostar at the LMMIA facilities as part of the APP Agreement.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Deferred inflows of resources – (continued)

Pension related

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 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.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Net position (deficit) – (continued)

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, 2021, the reconciliation of net investment in capital assets and the restricted components of net position (deficit) was as follows (expressed in thousands):

| | |
|---|---|
| Net capital assets | $ 1,255,539 |
| Liabilities directly attributable to capital assets: | |
| Loan payable | (13,465) |
| Notes payable | (282,400) |
| Retainage payable to contractors | (4,783) |
| Accrued interest | (127,481) |
| Deferred inflows of resources - related to assets improvement | (160,421) |
| Net investment in capital assets | $ 666,989 |
| Restricted cash | $ 80,331 |
| Deposit consigned at court restricted for capital asset | 25,351 |
| | $ 105,682 |

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, when earned. 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, when incurred. All other revenues and expenses are considered non-operating, which are recognized when earned and incurred, respectively.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Non-operating revenues

Non-operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, common shares market value adjustment, passenger facility fees charges, interest, insurance recoveries and penalties 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 an exclusive purpose, such as 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

The following accounting standards are effective in fiscal year 2021:

- 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 space was intentionally left in blank intentionally*

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles – (continued)

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 were originally effective for reporting periods beginning after December 15, 2018, however as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* its adoption was delayed over one year. In the case of the Authority, this Statement was effective for fiscal year ended June 30, 2021, and did not have any effect in the Authority's 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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles – (continued)

subsequent to the acquisition. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2018, however as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, its adoption was delayed over one year. In the case of the Authority, this Statement was effective for fiscal year ended June 30, 2021, and did not have any effect in the Authority's financial statements.

As described below, some accounting standards, such as GASB Statement No. 87, *Leases* and GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, were originally effective for periods beginning after December 15, 2019, however, as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, its adoption was delayed over 18 months for GASB No. 87 and over one year for GASB No. 89.

Future adoption of accounting standards

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

- 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 (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after June 15, 2021. The Authority's management is evaluating the effects of this Statement in the Authority's 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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

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 (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after December 15, 2020. The Authority's Management is evaluating the impact that this Statement will have on its basic 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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- o 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

- o The applicability of certain requirements of Statement No. 84, *Fiduciary Activities,* to postemployment benefit arrangements

- o Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

- o Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers

- o Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature

- o 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 Statemenl.l.t 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.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- 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.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription – based information technology arrangements (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 No. 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.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- GASB Statement No. 98, *The Annual Comprehensive Financial Report* – This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, and it has no effect in the result of operations of the Authority.

- GASB Statement No. 99, *Omnibus 2022* – The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
  - Clarification of provisions in Statement No. 87, *Leases,* as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition, and measurement of a lease liability and a lease asset, and identification of lease incentives
  - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
  - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements,* related to the subscription - based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

• GASB Statement No. 100, *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

  This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amounts of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- GASB Statement No. 101, *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

  This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

  This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

  This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties

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 has been decreasing, from $337 million at June 30, 2010 to the current net deficit of ($302.5) million at June 30, 2021. The Authority has a working capital deficiency of approximately ($354.9) million at June 30, 2021. The Authority also has $266.2 million in lines of credit payable to GDB Debt Recovery Authority (GDBDRA), most of them as a result of the drawing of certain letters of credit from GDB guaranteeing certain bonds, which the Authority could not honor. In addition, total interest payable associated to long-term debt amounted to $127.5 million at June 30, 2021.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

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 21. 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 21, 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, also related to a partial release of the PRIFA conduit debt during year fiscal year 2020, interest expense was reduced from approximately $63 million in 2013 to approximately $17.4 million during 2021. 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 $15.6 million during the fiscal years ended in 2021 and 2020, respectively. Total salaries expense, including benefits and bonuses, have decreased from approximately $58 million in 2013 to $21.7 million for the year ended on June 30, 2021, 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. Also, during 2021, the Federal Aviation Administration (FAA) approved for the Authority the collection of Passenger Facility Charges (PFC) at the regional airports of Aguadilla and Ponce. The collected funds will be used in the capital improvement plans for these airports. Future completion of the established development plans for the regional airports is expected to add more space rental room opportunities and increase passenger flow.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

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 2021 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 GDBDRA, 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.

For many years the Commonwealth, which generally provided financial support to the Authority through legislative appropriations, was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

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

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

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.

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted Law to End the Bankruptcy of Puerto Rico (Law No. 53) to, among other things, approve the issuance of New General Obligations Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III of Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eight Amended Plan of Adjustment. Based on current events that remediated the Commonwealth's financial condition and addressed its liabilities, its management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern subsequent to June 30, 2020. Despite the emergence of the Commonwealth from Title III of PROMESA, the remediation of its financial condition and addressing its liabilities, it is uncertain the assignment of any legislative funds to the Authority.

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. 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. 21 and the Executive Order, the Circular Letter 1300-08-17 was issued from the Puerto Rico Secretary of the Treasury, 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.

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Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

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 August 24, 2017, the Act No. 109 of 2017 "Government Development Bank for Puerto Rico Debt Restructuring Act" was signed into law 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 (GDBDRA). The GDBDRA 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 GDBDRA were issued and GDB's assets were transferred to GDBDRA. Refer to Notes 11 and 12 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 was 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 11 for additional disclosure.

During August 2022, the Puerto Rico Public-Private Partnerships Authority (P3A) announced an agreement with San Juan Cruise Port LLC (SJCP), a subsidiary of Global Ports Holding (GPH), for the concession of Piers 1, 3, 4, Piers 11 through 14, and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority. The concession agreement, which is for a 30-year term, provides for the repair, design, build, finance, maintenance service and operation of the referred piers. The main goals of the agreement are: (1) to accelerate the completion of significant capital improvements that enhance the performance and safety conditions of the piers; (2) to

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

reduce the Authority's debt burden and financial obligations; (3) to spur private infrastructure investment in Puerto Rico; (4) to increase the number of cruise ships and tourism; and (5) to provide a world class level of service to visitors of the San Juan Bay cruise terminals. Based on studies conducted by United States Marine Administration (MARAD), in the event that Pier 4 and the Pan American piers are not repaired, the Authority risks the eventual closure of these piers due to their deteriorated condition. In exchange for the concession, the SJCP is obligated to provide an initial payment of $75 million comprised of an upfront payment of $72 million, plus $3 million for an escrow account (to be held as security for any concession compensation event due prior to completion of initial investment projects), and 5% annual revenue share of the gross cruise port revenue earned by SJCP. The annual revenue share could increase if federal funds are used to accelerate certain infrastructure projects or if certain improvements are not completed during the first 5 to 10 years pursuant to the agreement. SJCP should also cover the matching costs for the Authority's cruise pier dredging responsibilities ($1.6 million for the first three years and between $310 and $410 thousand thereafter). SJCP will also invest approximately $75 million in initial investment projects of repair and replacements in existing Piers; $197 million in expansion projects, including the construction of a new terminal in Piers 11-12 subject to demand triggers being met; and an amount yet to be determined in further expansions, constituting part of a Phase 2 (Piers 13-14), which will be undertaken once the current piers and the new terminal are used at capacity, based on reaching certain number of vessel calls. Unless extended, the financial closing of the concession agreement should occur on or before one hundred and eighty (180) days after the commercial closing date of August 15, 2022 (the date of signature), or the next business day, which is February 13, 2023.

The Authority is also assessing the feasibility of granting a concession of its nine regional airports. Through this initiative, the Authority would delegate the administration and operation of the airports while still securing revenue from those operations. Also, the Authority has various rehabilitation projects at regional airports, maritime ports and administrative buildings, which are eligible for federal government reimbursement programs. The preliminary estimated costs for such projects, subject to final auctions, are approximately $227.3 million.

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

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

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 September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management has estimated a negative net impact of approximately $29.1 million in its operational cash flows, considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19.

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.

Note 4 - Restatement of net position (deficit)

As provided by Article 2.5 of the Act No. 106 of August 23, 2017 – *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act No. 106-2017), payments related to Pay-Go done by the Central Government, municipalities, public corporations, the Legislative Assembly and the Court Administration will be applied to unpaid contributions and other debts outstanding with the Employees' Retirement System (ERS), at the effective date of Act No. 106-2017. The balance due by the Authority to ERS at June 30, 2017 was approximately $23 million, which consisted principally of amounts related to Uniform Additional Contribution, special laws and interest. During fiscal year 2019, such balance due to ERS was exceeded by Pay-Go payments made by the Authority and accordingly, the total amount should have been eliminated.

At June 30, 2021, as related to debts from before June 30, 2017, the Authority had an outstanding balance of approximately $18.5 million. The outstanding balance reduction of $4.5 million, from 2017 to 2021, is due to the fact that the Authority, in addition to the Pay-Go, continued paying this debt after June 30, 2017. The Authority have paid $2.7 million and a credit for $1.8 million (related to excess payments made to ERS under Law No. 27 for early retirement of certain Authority's employees) was also applied.

Note 4 - Restatement of net position (deficit) – (continued)

The Authority restated the beginning net position (deficit) for the effect of these transactions belonging to prior years as follows (expressed in thousands):

| | |
|---|---|
| Net position (deficit) at beginning of year, as previously reported | $ (343,875) |
| Restatement adjustment - effect of elimination of debts with the ERS from before June 30, 2017 | 23,012 |
| Net position (deficit) at beginning of year, as restated | $ (320,863) |

Note 5 - Cash

As of June 30, 2021, the Authority has cash balances in the amount of $128.9 million. There were no cash equivalents as of June 30, 2021. Cash balances as of June 30, 2021 consisted of the following (expressed in thousands):

| | |
|---|---|
| Restricted cash | |
| For construction | $ 78,264 |
| Renewal and replacements, maintenance and other | 2,067 |
| Total restricted cash | 80,331 |
| Unrestricted cash | 48,591 |
| | $ 128,922 |

Custodial credit risks related to deposits at Economic Development Bank

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 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.

Note 5 - Cash – (continued)

Custodial credit risks related to deposits at Economic Development Bank – (continued)

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. At June 30, 2021, the Authority has no deposits at GDB. The bank balance and carrying amount of the Authority's accounts with commercial banks at June 30, 2021, amounted to $128.5 million and $128.4 million, respectively.

The Authority was exposed to custodial credit risk arising from the balance of deposits maintained in EDB in the amount of approximately $543.4 thousand, which was the bank balance of cash with EDB. EDB is a component unit of the Commonwealth of Puerto Rico and has faced the same risks and uncertainties of the other governmental entities.

Note 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, 2021, 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).

Note 7 - Other assets – common shares

Other assets – common shares, with a balance of $2.9 million, represent the market value, at June 30, 2021, of 137,629 shares of American Airlines Group, Inc. (AAL) received by the Authority as part of certain claims made under the bankruptcy proceedings of such entity.

Note 8 - Due from/due to governmental entities

Amounts due from governmental entities as of June 30, 2021 consisted of the following (expressed in thousands):

| Governmental Entity | Amount |
|---|---|
| Office of Management and Budget (OMB) | $ 11,000 |
| Puerto Rico and Municipality Islands Maritime Transportation Authority (MTA) | 39,919 |
| Puerto Rico Highways and Transportation Authority (PRHTA) | 4,036 |
| Employees' Retirement System (ERS) | 4,503 |
| Federal Aviation Administration (FAA) | 1,690 |
| Federal Emergency Management Agency (FEMA) | 450 |
| Other entities | 3,224 |
| Subtotal | 64,822 |
| Less: allowance for doubtful receivables | (57,522) |
| Due from governmental entities, net | $ 7,300 |

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 $39.9 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. The Authority has established a full amount reserve for this balance, based on the deteriorated economic condition of MTA. Recently, the P3A established a service concession arrangement for the operation and maintenance of the collective transportation services of MTA, however no action plan was considered in relation to this balance due from MTA.

Note 8 - Due from/due to governmental entities – (continued)

Puerto Rico Highways and Transportation Authority (PRHTA)

Balance due from PRHTA relates to $4.03 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.

Employees' Retirement System (ERS)

Balance due from ERS for approximately $4.5 million is related to a claim for payments made by the Authority after June 30, 2017, for balance due from on or before such date. As provided by Law No. 106-2017, outstanding balances due to ERS that came from before June 30, 2017 should be eliminated once the Pay-Go payments exceed the balance due. The Authority's management has requested ERS to credit this amount to current debt outstanding related to Pay-Go program. Refer Note 4 for additional disclosure.

Federal Aviation Administration (FAA)

Amount due from the FAA of approximately $1.7 million, as of June 30, 2021, consists of pending reimbursements to be received in relation to certain capital projects.

Federal Emergency Management Agency (FEMA)

Amounts due from FEMA of approximately $450 thousand are related to rental of facilities for the response to Hurricane María emergency.

Other entities

Balance due from other entities for approximately $3.2 million relates principally to rental and other services provided to various governmental agencies and municipalities. An allowance for doubtful accounts for approximately $2.1 million has been assigned to cover any losses on this balance receivable.

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Note 8 - Due from/due to governmental entities – (continued)

Amounts due to governmental entities as of June 30, 2021, consisted of the following (expressed in thousands):

| Governmental Entity | Amount |
|---|---|
| Commonwealth of Puerto Rico | $ 66,184 |
| Other governmental entities: | |
| Puerto Rico Electric Power Authority (PREPA) | 21,814 |
| Puerto Rico Aqueduct and Sewer Authority (PRASA) | 8,162 |
| State Insurance Fund Corporation (SIFC) | 2,183 |
| GDB Debt Recovery Authority (GDBDRA) | 3,391 |
| Others | 154 |
| | 35,704 |
| Due to governmental entities | $ 101,888 |

Commonwealth of Puerto Rico

Balance due to the Commonwealth of Puerto Rico consists mainly of public insurance amounting to $19.1 million owed to the Treasury Department, and $47.1 million related to the unpaid contributions for the pension Pay-Go system, for which the Authority will continue doing partial payments on a monthly basis, until a formal payment plan is finally approved. As disclosed in Note 4, the Authority had a balance due to the ERS for $18.5 million related to employer contributions not fully paid since fiscal year 2012, subject to certain payment plan, which was eliminated during fiscal year ended June 30, 2021, as provided by Act No. 106-2017.

Balance payable to SIFC for approximately $2.2 million is related to unpaid workmen compensation insurance premiums principally for fiscal years 2015 and 2014. Actually, there is no formal payment plan, however, the Authority has been making partial payments related to this amount due to SIFC.

The balance due to GDBDRA (approximately $3.4 million) is related to previous years unpaid 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.

Note 8 - Due from/due to governmental entities – (continued)

Commonwealth of Puerto Rico – (continued)

The activity of amounts due to Commonwealth of Puerto Rico and due to other governmental entities for the year ended June 30, 2021, was as follows (expressed in thousands):

| | 2020 | Charges | Payments | 2021 |
|---|---|---|---|---|
| Due to Commonwealth of PR | $ 46,505 | $ 29,431 | $ (9,752) | $ 66,184 |
| Due to other governmental entities | 41,382 | 7,872 | (13,550) | 35,704 |
| | $ 87,887 | $ 37,303 | $ (23,302) | $ 101,888 |

Beginning balance of due to Commonwealth of PR was restated for an adjustment of $18.5 million for the elimination of old balances due to ERS, as described above and in Note 4.

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Note 9 - Capital assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2021 and changes therein for the year then ended are as follows (expressed in thousands):

| | Balance June 30, 2020 | Increases | Decreases | Balance June 30, 2021 |
|---|---|---|---|---|
| Assets not being depreciated: | | | | |
| Land and land improvements | $ 228,974 | $ - | $ - | $ 228,974 |
| Construction in progress | 25,978 | 32,133 | (36,064) | 22,047 |
| Service concession arrangement (SCA) assets: | | | | |
| Land and land improvements | 99,386 | - | - | 99,386 |
| Building improvements and structures | 408,207 | 19,137 | - | 427,344 |
| Machinery, furniture and equipment | 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 | 682,859 | 19,137 | - | 701,996 |
| Total assets not being depreciated | 937,811 | 51,270 | (36,064) | 953,017 |
| Assets being depreciated: | | | | |
| Building, piers, improvements and structure | 623,728 | 16,670 | - | 640,398 |
| Other infrastructure | 149,413 | 213 | - | 149,626 |
| Roads and parking areas | 174,267 | 14,945 | - | 189,212 |
| Machinery, furniture and equipment | 108,505 | 1,749 | - | 110,254 |
| Automobiles and service vehicles | 12,651 | 298 | - | 12,949 |
| Infrastructure Master Plans | 14,815 | - | - | 14,815 |
| Total | 1,083,379 | 33,875 | - | 1,117,254 |
| Less: accumulated depreciation and amortization | (789,716) | (25,060) | 44 | (814,732) |
| Net total assets being depreciated | 293,663 | 8,815 | 44 | 302,522 |
| Total capital assets, net | $ 1,231,474 | $ 60,085 | $ (36,020) | $ 1,255,539 |

Note 10- Unearned revenues

During February 2021, as requested by the Authority through the Office of Management and Budget (OMB), the Fiscal Oversight & Management Board for Puerto Rico (FOMB) approved an interagency transfer from Appropriations Under the Custody of the OMB. The approved funds are to be used to cover the "non-federal share" of projects for reconstruction of the Aguadilla's Airport runway and for the San Juan Bay dredging. The funds, $40 million in total, were received in advance by the Authority on February 16, 2021 and assigned as follows: $29.2 million for the project at Aguadilla and $10.8 million for the San Juan Bay project.

The $40 million transfer was considered by the Authority as funds received in advance and recorded as unearned revenues, to be amortized into income based on the corresponding portion of "non-federal share" amount subsequently used for these projects. During the year ended June 30, 2021, the Authority commenced the project for the reconstruction of the Aguadilla's Airport and amortized into income approximately $109 thousand for the "non-federal share" of the costs incurred. At June 30, 2021, the unearned revenues have a balance of $39.9 million, which is presented in the accompanying statement of net position (deficit), as current and long-term portions for $94 thousand and $37.8 million, respectively. The current portion of unearned revenues represents the "non-federal share" used during fiscal year 2022.

Note 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 million, 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.

Note 11 - Loan and trust agreement (the PRIFA bonds) – (continued)

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 was amortized into interest expense over the life of the PRIFA Bonds based on the effective interest method. As of June 30, 2019, the unamortized deferred loss on refunding balance was approximately $9.1 million. During 2020, such balance was eliminated as part of the partial release of the PRIFA Bonds Series 2011B negotiated with the bondholders, as further explained below.

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. As further explained below, the PRIFA Bonds Series 2011 B, were subject to negotiations and settlement with bondholders. 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 was 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 was 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. Since 2017, the Authority has not been charged for fees related to the remaining letter of credit outstanding.

Note 11 - Loan and trust agreement (the PRIFA bonds) – (continued)

During fiscal year 2013, the Authority used $266.9 million from the proceeds of the APP Agreement (described in Note 21) 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 (deficit). See description of notes payable to GDB (actually GDBDRA) 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 No. 21, the Authority ceased making such deposits to the trustee; consequently, the debt service of the PRIFA Bonds due on December 15, 2017 and thereafter 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, as related to PRIFA Bonds Series 2011 B. 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 GDBDRA, as part of the collateral of the new bonds issued and exchanged with GDB's creditors.

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 2011 B (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% ($13.5 million) 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 GDBDRA its reimbursement claims against the Authority for amounts honored by GDB under the GDB Letter of Credit securing the PRIFA Bonds (the Letter of Credit). GDBDRA was created by Act 109 of August 24, 2017, as amended, to facilitate the restructuring of

Note 11 - Loan and trust agreement (the PRIFA bonds) – (continued)

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 GDBDRA having a face value of $550. On November 30, 2018, the new bonds of GDBDRA were issued and BNYM, as trustee of PRIFA Bonds, received bonds with value of approximately $116.3 million for the unfunded letter of credit.

During fiscal year 2020, based on the above-described events, and considering that the Authority was released from its obligations with PRIFA, 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. In addition to the principal balance due, the Authority eliminated all accrued interest on the PRIFA Bonds, its related unamortized balance of deferred outflows or resources related to refunding loss, and its related unamortized premium, recognizing a net gain on partial release of PRIFA Bonds of $203.9 million. Also, the Authority discontinued its monthly accrual of interest for the remaining PRIFA Bonds balance due.

During fiscal year 2021, AAFAF has continued its efforts to negotiate the remaining $13.5 PRIFA Bonds. At June 30, 2021 the loan carrying value of $13.5 million was considered as a current liability in the accompanying statement of net position (deficit), since the Authority has not done any payment since July 2016 and, accordingly, is in default as related to its obligation.

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## Note 12 - Notes payable

Notes payable as of June 30, 2021 consisted of the following (expressed in thousands):

| | Amount |
|---|---|
| Borrowing under line of credit agreement with GDB, transferred to GDBDRA, 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 since February 2019. | $ 88,701 |
| Borrowing under line of credit agreement with GDB, transferred to GDBDRA, 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 since December 2018. | 68,359 |
| Borrowing under line of credit agreement with GDB, transferred to GDBDRA, bearing interest at 90 days LIBOR rate plus 50 basis points with a minimum rate of 6%, due in June 2023. Collateralized by the San Juan Water Front (SJWF) Project. | 44,000 |
| Borrowing under line of credit agreement with GDB, transferred to GDBDRA, 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. | 36,292 |
| Borrowing under line of credit agreement with GDB, transferred to GDBDRA, 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. | 28,881 |
| Promissory note payable to Carnival Corporation, bearing interest at 7.50%, due through May 2024. Collateralized by tariff income from Carnival Corporation. | 5,775 |
| 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. | 1,910 |

Note 12 - Notes payable – (continued)

| | Amount |
|---|---|
| Credit granted to Crowley Line Services 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 maximum annual payments or credits of $480,000, including interest; commencing in September 2017 through September 2046. | 6,435 |
| Credit granted to Prime Alliance Company, LLC 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 $21,854, including interest; commencing in June 2019 through October 2028. | 1,463 |
| Credit granted to Norwegian Cruise Line in exchange for certain improvements made by them at facilities of the Authority. The agreement provides for credits to be applied, for a 3 years period, to services invoices based on the volume of passengers carried. The application of credits began in fiscal year 2020. | 584 |
| | 282,400 |
| Less: current portion | (196,537) |
| | $ 85,863 |

Government Development Bank (GDB) – GDB Debt Recovery Authority (GDBDRA)

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 Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $8.1 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding balance of the term loan at June 30, 2021 is $88.7 million.

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 Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $6.2 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding balance of the term loan at June 30, 2021 is $68.4 million.

Note 12 - Notes payable – (continued)

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. 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 2021 were not made and there is no assurance that such appropriation and the remaining ones until fiscal year 2023 will be made. At June 30, 2021, $44 million were outstanding on this credit facility.

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 Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $3.3 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding balance of the term loan at June 30, 2021 is $36.3 million.

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. During fiscal year 2019, and resulting from the enactment of Law No. 109 of August 24, 2017, $2.6 million of the deposits at GDB were used to reduce the balance outstanding of this line of credit. During 2021, no principal payments were made, and approximately $935 thousand were paid for accrued interest on this line of credit. At June 30, 2021, the outstanding balance of this line of credit is $28.9 million.

The above referred obligations with GDB were transferred to GDBDRA, 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 GDBDRA. Refer to Notes 3 and 11 for additional information regarding GDB's Debt Restructuring Act.

Note 12 - Notes payable – (continued)

Carnival Corporation

On June 7, 2001, the Authority entered into a Master Development Agreement with Carnival Corporation (MDA) 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 approved by the Board of Directors, in May 2019, the Authority signed a supplementary agreement to the MDA, which provided an estimated additional credit of approximately $1.6 million for certain improvements to be done by Carnival at Terminal 4. At June 30, 2021, improvements for approximately $1.3 million were completed. This additional credit bears interest at 7.5% and should be fully paid by April 30, 2024. Also, the monthly deductions from tariffs payable should increase from $108,735 to $166,162, resulting from this additional credit.

During the year ended June 30, 2020, as consequence of the COVID-19 pandemic, the cruise industry postponed its visits to Puerto Rico, and as a result the Authority was not able to provide fully the monthly scheduled deductions from tariffs payable from Carnival, nor during fiscal year 2021. Accordingly, at June 30, 2021, the Authority has accrued interest payable to Carnival for approximately $433.1 thousand, and principal balance outstanding for approximately $5.8 million.

Tote Shipholdings, Inc.

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 thousands (including principal and interest) from July 2017 to June 2024. As of June 30, 2021, the outstanding discounted balance was approximately $1.9 million.

Crowley Line Services

As approved by the Board of Directors, in March 2015, the Authority amended its lease agreement with Crowley Line Services (CLS) to provide for a 30-year term extension and also to include a new concrete berth facility to be built in the Authority's facilities at Isla Grande Terminal. Also, as previously approved by the Board of Directors, and subject to certain conditions, the Authority granted an investment credit of approximately $14.4 million to CLS for reimbursement of certain improvements to be done at the Isla Grande Terminal. Based on the Board resolution, such credit will be granted on maximum consecutive annual payments or credits of $480 thousand for 30

Note 12 - Notes payable – (continued)

Crowley Line Services – (continued)

years. The annual investment credit amount is subject to the achievement of certain operational charges (dockage, port service and wharfage fees) paid by CLS to the Authority. Investment credits not earned during a given year shall not be carried over to subsequent years. The total investment credit amount was finally recognized for $6.607 million, discounted at 6%, providing for 30 consecutive annual payments or credits of $480 thousand (including principal and interest). During 2019, the Authority began to recognize the previous year credits earned by CLS. During fiscal years 2021 and 2020, no payment was applied and accordingly the Authority has accrued interest of $766.6 thousand. As of June 30, 2021, the outstanding discounted balance was approximately $6.4 million.

Prime Alliance Company, LLC

During December 2018, the Board of Directors approved a maximum credit of $3.9 million to Prime Alliance Company, LLC for improvement made to rented facilities. The credit was part of a new rental agreement and the offsetting of certain rental outstanding balance due to the Authority by a related entity of Prime Alliance Company, LLC. The credit was finally settled for approximately $2.5 million, after reducing the maximum credit amount for $1.4 million due to the Authority. The total credit amount was discounted at 6% and provides for monthly payments or credits of $21.9 thousand, including interest, commencing in June 2019 through October 2028. As of June 30, 2021, the outstanding discounted balance was approximately $1.5 million.

Norwegian Cruise Line

During November 2018, the Authority and Norwegian Cruise Line (NCL) signed a Memorandum of Understanding (MOU), which provides for volume incentive credits in exchange for certain pier improvements to be made by NCL at facilities of the Authority. The agreement provides for the following: NCL guarantees 100,000 passengers each calendar year for three (3) years, starting in January 2019 and the Authority will reimburse the funds provided by NCL (not in excess of $1.5 million) for the pier improvements. The volume incentive will be $5 per passenger, for a period of three (3) years, assuming that NCL meet its passenger guarantee. If NCL does not meet its annual passenger guarantee in any given year (unless due to a Major Force Event, as defined in the MOU) there will not be any volume incentive credit applied or paid to NCL for that year and there is no further obligation of the Authority to reimburse NCL for the applicable year. The incentive will be honor by the Authority in the form of credit notes applied to the wharfage services billing to NCL.

Note 12 - Notes payable – (continued)

Norwegian Cruise Line – (continued)

The piers improvements were made and certified by the Authority's Engineering area during fiscal year 2020 for approximately $1.3 million and credit notes for approximately $733 thousand were applied to wharfage billings. During 2021, there were no credit notes applied. As of June 30, 2021, the outstanding unapplied volume incentive credit balance was approximately $584 thousand.

Summarized notes payable activity

The summarized notes payable activity for the fiscal year ended June 30, 2021, was as follows (expressed in thousands):

| | June 30, 2020 | Borrowings | Payments | June 30, 2021 |
|---|---|---|---|---|
| Notes payable | $ 283,564 | $ - | $ (1,164) | $ 282,400 |

Based on loan requirements and their corresponding debt amortization schedules, the 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 |
|---|---|---|---|
| 2022 | $ 196,537 | $ 133,084 | $ 329,621 |
| 2023 | 46,689 | 2,784 | 49,473 |
| 2024 | 3,578 | 2,585 | 6,163 |
| 2025 | 345 | 2,419 | 2,764 |
| 2026 | 367 | 2,397 | 2,764 |
| 2027-2031 | 1,152 | 11,729 | 12,881 |
| 2032-2036 | 1,065 | 11,443 | 12,508 |
| 2037-2041 | 1,425 | 11,083 | 12,508 |
| 2042-2046 | 30,789 | 7,568 | 38,357 |
| 2047-2048 | 453 | 27 | 480 |
| | $ 282,400 | $ 185,119 | $ 467,519 |

Note 13 - 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.

Note 13 - Termination benefits – (continued)

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

As of June 30, 2021, the present value of future incentive payments reported as a liability amounted to approximately $6.5 million. As of June 30, 2021, the discount rate was of 1.43%. The total aggregate liability of the program as of June 30, 2021 amounted to $6.5 million, of which $885 thousand should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to $5.6 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

Note 14 - Retirement plans

The Employees' Retirement System of Puerto Rico (the Retirement System or ERS) created pursuant to Act No. 447 of May 15. 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to July 1, 2017, the Retirement System administered 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 was vested in an eleven-member Board of Trustees (the Board), which established policy and oversaw the operations consistent with applicable laws.

Pursuant to Act. No. 106 of August 23, 2017 - *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act No. 106-2017), effective on July 1, 2017 the previously existing programs under Act No. 447, as amended, were terminated and transitioned to a pay-as-you-go (Pay-Go) system, in which the Retirement System stopped receiving contributions from employers or plan participants and is no longer managing contributions on behalf of participants. Under Act No. 106-2017, all employers' obligations to contribute to the ERS were eliminated. Also, based on the provisions of Act No. 106-2017, the Board was substituted by the Retirement Board of the Government of Puerto Rico, comprised of thirteen members, including six ex-officio members (or their designees). Act No. 106-2017 also created a Define Contribution Plan, similar to a 401 (k) plan, in which the members of the prior programs and new members hired on or after July 1, 2017 have been enrolled. The ERS operations are limited to maintain custody of the unliquidated assets that are pending to be transferred to the Commonwealth's general fund, servicing the bonds payable and administrative services on behalf of the Commonwealth.

Note 14 - Retirement plans – (continued)

Prior to the effect of Act No. 106-2017, the circumstances of the Retirement System were as follows.

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, were 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 were 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 required 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 consisted 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.

Note 14 - Retirement plans – (continued)

Cost-sharing, multiple-employer, defined benefit program – (continued)

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.

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 required employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions were 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 was credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants were 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 was not a separate plan and the Commonwealth did not guarantee benefits at retirement age.

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.

Note 14 - Retirement plans – (continued)

System 2000 Program – (continued)

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 had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Defined contribution hybrid program

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.

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 System 2000 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

Note 14 - Retirement plans – (continued)

Defined contribution hybrid program – (continued)

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.

Note 14 - Retirement plans – (continued)

Defined contribution hybrid program – (continued)

Employee contributions were 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%) was 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.

Total employee contributions for the defined contribution hybrid program during the year ended June 30, 2021, amounted to approximately $1.4 million.

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 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.

Pension liability, pension expense and deferred outflows/inflows of resources related to pension

As of June 30, 2021, the Authority reported total pension liability of $507 million for its proportionate share of the ERS collective total pension liability, of which $23.4 million should be funded during next fiscal year and reported as long-term portion amounting to 483.6 million. Such liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020 (measurement date). The Authority's proportionate share of the collective total pension liability was 1.80621% at measurement date of June 30, 2020 (1.83299% for June 30, 2019). The

Note 14 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

Authority's proportion of the ERS collective total pension liability was based on the ratio of its actual benefit payments to the total actual benefits payments paid, by all participating entities, during the year ending on the measurement date.

For the year ended June 30, 2021, the Authority recognized pension expense of approximately $23.3 million. As of June 30, 2021, 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 | $ 1,046 | $ (11,413) |
| Changes in proportion | 2,408 | (9,762) |
| Changes of assumptions | 63,649 | (8,703) |
| Benefits paid and accrued subsequent to June 30, 2020 | 23,390 | - |
| | $ 90,493 | $ (29,878) |

The $23.4 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 2021 Pay-Go contribution to the pension plan and will be recognized as a reduction of the net pension liability after June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense (recovery) as follows (expressed in thousands):

| Year ending June 30, | Amount (1) |
|---|---|
| 2022 | $ 8,384 |
| 2023 | 8,384 |
| 2024 | 8,384 |
| 2025 | 12,073 |
| | $ 37,225 |

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

Note 14 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

Actuarial methods and assumptions

| | |
|---|---|
| Valuation date | July 1, 2019 |
| Measurement date | June 30, 2020 |
| Actuarial cost method | Entry age normal |
| Actuarial assumptions: | |
| Discount rate | 2.21% |
| Inflation | Not applicable |
| Salary increases | 3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy |
| Investment rate of return | Not applicable |
| Mortality | (See below) |

The mortality tables used in the June 30, 2020 actuarial valuation were as follows:

- *Pre-retirement Mortality* – For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- *Post-retirement Healthy Mortality* – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 14 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

- *Post-retirement Disabled Mortality* – Rates which vary by gender are assumed for disabled retirees based on a study of the ERS Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

The discount rate was 2.21% as of June 30, 2020, which represents the municipal bond return rate chosen by the Commonwealth of Puerto Rico. The tax-exempt municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index), with an average rating of AA/Aa or higher, was applied to all periods of projected benefits payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the total pension liability to changes in the discount rate

The following presents the total pension liability as of June 30, 2020, calculated using the discount rate of 2.21%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1 percent-point level lower (1.21%) or 1 percent-point higher (3.21%) than the current rate (expressed in thousands):

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|---|---|---|
| Total pension liability | $ 581,570 | $ 506,999 | $ 446,865 |

Pay-Go System

Act No. 106-2017 approved a substantial pension reform for all the Commonwealth's retirement systems, which created the legal framework for the Commonwealth to guarantee benefit payments to pensioners. This reform modified most of the retirement systems activities, eliminated the employer contributions, established a separate "Account for the Payment of Accrued Pensions" to implement a pay-as-you-go (Pay-Go) system, and required the Commonwealth retirement systems to liquidate all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Effective on July 1, 2017, the previously existing programs under Act No. 447, as amended, were terminated and transitioned to Pay-Go

Note 14 - Retirement plans – (continued)

Pay-Go System – (continued)

system. Under the Pay-Go system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employer. 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.

For the years ended June 30, 2021 and 2020, the Authority's corresponding payments under the Pay-Go system were approximately $24.4 million and $24.9 million, respectively. As of June 30, 2021, the Authority had approximately $47.1 million, included in due to governmental entities in the accompanying statement of net position (deficit), which is related to previous years Pay-Go system billings.

Note 15 - 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. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations.

However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

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

Note 15 - Other postemployment benefits (OPEB) – (continued)

OPEB liability, OPEB expense and deferred outflows/inflows of resources related to OPEB

As of June 30, 2021, the Authority reported OPEB liability of $9.4 million for its proportionate share of the collective total OPEB liability, of which $733 thousand should be funded during the next fiscal year and reported as long-term portion amounting to $8.6 million. Such liability was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. The Authority's proportionate share of the collective total OPEB liability was 1.07068% at measurement date of June 30, 2020 (.99276% for June 30, 2019). The Authority's proportion of the collective total OPEB liability was based on the ratio of its actual benefit payments to the total actual benefit payments paid, by all participating entities, during the year ending on the measurement date.

For the year ended June 30, 2021, the Authority recognized an OPEB expense adjustment of approximately $1.1 million. As of June 30, 2021, the Authority reported deferred outflows of resources related to OPEB of approximately $733 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, 2021.

Actuarial assumptions

Discount rate

The discount rate for the measurement date of June 30, 2020 was 2.21%. 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, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Note 15 - Other postemployment benefits (OPEB) – (continued)

Mortality – (continued)

- *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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement disabled mortality* – Rates which vary by gender are assumed for disabled retirees based on a study of the ERS Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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, 2020, calculated using the discount rate of 2.21%, 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 (1.21%) or 1 percent-point higher (3.21%) than the current rate (expressed in thousands):

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|---|---|---|
| Total OPEB liability | $ 10,324 | $ 9,365 | $ 8,554 |

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## Note 16 - Commitments and contingencies

### Construction

As of June 30, 2021, the Authority had commitments for approximately $45.9 million, related to construction contracts.

### Litigation

The Authority is defendant or co-defendant in various lawsuits, with claims amounting to approximately $52.5 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, 2021, the Authority has reserves amounting to approximately $13.3 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. Based on the advice of legal counsel and opinion of management, no specific reserve have been attributed to those legal actions as of June 30, 2021.

### 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, 2021, 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 (deficit) as of June 30, 2021.

Note 16 - Commitments and contingencies – (continued)

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, 2021, 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 21), 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 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 (deficit). 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 21, 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 21, this potential risk was transferred to Aerostar, which is managing and monitoring such risk as part of the lease and use agreements.

Note 16 - Commitments and contingencies – (continued)

COVID-19 Pandemic

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. The EO 2020-020 authorizes the Secretary of the Treasury of the Commonwealth and the Executive Director of the Puerto Rico Oversight Management Board to set up a special budget, from any available funds, including Emergency Fund, to cover all necessary costs for the containment of the virus throughout the Island and sharing information with the municipalities. Subsequent executive orders have been issued in response to the COVID-19 spread, including there-opening of certain economic areas, curfew directives and other protective measures. In addition, economic stabilization measures were implemented by the Commonwealth of Puerto Rico and the US Federal Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic. As the Government, observes and assesses the results of the re-opening, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

As of September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management has estimated a negative net impact of approximately $29.1 million in its operational cash flows, considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19.

Note 17 - 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. 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.

Note 17 - Passenger facility charge – (continued)

PFC revenues are recognized as collected and are included in non-operating revenues. As of June 30, 2021, the Authority has unexpended resources amounting to approximately $4.7 million, which are restricted for PFC projects. As part of the service concession arrangement for the LMMIA facilities signed with Aerostar (described in Note 21), after February 27, 2013, the PFC revenues related to the LMMIA operations are received and administered by Aerostar. During July and August 2020, the Federal Aviation Administration (FAA) approved for the Authority, the collection programs of PFC at the regional airports of Ponce and Aguadilla, respectively. The collection process in such regional airports commenced during 2021. PFC income for the year ended June 30 2021 amounted to approximately $121 thousand.

Note 18 - 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 |
|---|---|
| 2022 | $ 19,196 |
| 2023 | 18,796 |
| 2024 | 18,053 |
| 2025 | 17,643 |
| 2026 | 18,111 |
| 2027-2031 | 76,130 |
| 2032-2036 | 35,741 |
| 2037-2041 | 16,278 |
| 2042-2046 | 11,446 |
| Thereafter | 1,643 |
| | $ 233,037 |

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, 2021 amounted to approximately $22.0 million.

## Note 19 - Federal assistance programs

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, 2021, consists of grants and donations as follows (expressed in thousands):

| Federal financial assistance: | Amount |
|---|---|
| Federal grants received from: | |
| Federal Aviation Administration | $ 11,837 |
| U.S. Treasury - CARES Act | 7,647 |
| U.S. Treasury - Equitable Sharing Program | 1 |
| U.S. Department of Homeland Security - FEMA | 1,657 |
| | $ 21,142 |

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Note 20 - Operating revenues

Operating revenues for the fiscal year ended June 30, 2021, consist of the following (expressed in thousands):

| Description | Amount [1] |
|---|---|
| Maritime operations: | |
| Wharfage, dockage and ports services | $ 31,058 |
| Tourist ship fees | 36 |
| Equipment and property rental | 9,594 |
| Demurrage, utilities and other | 296 |
| Enhanced security fee | 18,371 |
| Less: provision for doubtful accounts | (1,750) |
| | 57,605 |
| Airport operations: | |
| Landing fees | 875 |
| Passenger facilities fees | 188 |
| Space rental [1] | 38,931 |
| Utilities, gas sales and others | 485 |
| Less: provision for doubtful accounts | (3,345) |
| | 37,134 |
| | 94,739 |
| Less: discounts and incentives | (228) |
| | $ 94,511 |

[1] Includes $20.1 million for amortization of deferred inflows related to concession fees.

Note 21 - 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 Marín 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.

Note 21 - Lease and use agreements – LMMIA – (continued)

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 was responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.1 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, 2021, approximately $152.3 million of the deferred inflow of resources have been amortized into revenue, $20.1 million of which belonged to fiscal year 2021 and recognized within operating revenues-airport in the accompanying statement of revenues, expenses and changes in net position (deficit). As of June 30, 2021, the Authority has fully satisfied its capital improvement commitments.

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

Note 21 - Lease and use agreements – LMMIA – (continued)

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, 2021, capital expenditures by Aerostar, which have been completed and placed in operations amounted to approximately $182.02 million. These capital expenditures have been 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, 2021, after all the activities referred to in the paragraphs above amounts to $654.9 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 since the inception of the APP Agreement.

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.

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Note 21 - Lease and use agreements – LMMIA – (continued)

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.
- A fund of $25 million for the development of the Authority's regional airports.
- A fund of $15 million for the guaranty to cover the Authority's obligations in case of losses sustained on the APP Agreements.

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. However, during 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, the outstanding unused deposits balance of the above referred funds (approximately $21.7 million) were used to offset certain Authority's debts with GDB.

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.

Note 22 - Subsequent events

The Authority evaluated subsequent events through November 15, 2022, which is the date the financial statements were available to be issued. Except as described below and in Notes 3 and 16, no other events have occurred subsequent to the statement of net position (deficit) date that would require additional adjustment to, or disclosure in the financial statements.

Hurricane Fiona

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona, leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the Government of the United Sates a request of a declaration of major disaster and the activation of funds from the Public Assistance program of FEMA, which was approved on September 21, 2022. Actually, the Authority is evaluating any significant damage caused to its properties for insurance recoveries.

Note 22 - Subsequent events – (continued)

Early Retirement Program

During July 2022, the Government of Puerto Rico (Government) and the Fiscal Oversight & Management Board for Puerto Rico (FOMB) entered into a final agreement to begin the implementation of the early retirement program established under Act No. 80 of August 3, 2020 – "Law *for Incentivized Retirement Program and Justice for Our Servants*" (Act No. 80). Act No. 80 will allow eligible employees of the Government agencies (including municipalities and public corporations), who entered retirement system under Act No. 447 of May 15, 1951 and Act No. 1 of February 16, 1990, to voluntary opt for incentivized separation from their employment before retirement age. The incentive for eligible employees, under both acts, include a lifetime retirement pension equivalent to 50% of their highest yearly gross remuneration earned during the last three years before entering in the Act No. 80 program, a monthly employer contribution of $100 to the medical plan selected by the participant until age 62, among other liquidation benefits. The Authority has estimated that 141 employees are eligible for the incentivized program under Act No. 80. The actual annual payroll cost for these employees is approximately $7.2 million, while the incentivized retirement benefits will be around $3.0 million, resulting in savings of approximately $4.2 million after fiscal year 2022.

Other events

On March 3, 2022, as approved by the FOMB, the Puerto Rico Office of Management and Budget (OMB) transferred approximately $5.8 million to the Authority. These funds came from the FY-22 Certified Budget PREPA Employees and Pension Obligation Reserve assignments under the custody of OMB for the different governmental entities that received PREPA mobilized employees.

Required Supplementary Information
(Unaudited)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of the Collective
Total Pension Liability (Unaudited)

June 30, 2021, 2020, 2019 and 2018

(Dollar in Thousands)

| For the fiscal year ended June 30, | Authority's proportion of the collective total pension liability | Authority's proportionate share of the collective total pension liability | Authority's covered employee payroll | Authority's proportionate share of the collective total pension liability as percentage of covered employee payroll |
|---|---|---|---|---|
| 2021 | 1.80621% | $ 506,999 | N/A | N/A |
| 2020 | 1.83299% | $ 455,505 | N/A | N/A |
| 2019 | 1.86047% | $ 455,621 | N/A | N/A |
| 2018 | 1.84339% | $ 519,622 | N/A | N/A |

Notes:
The amounts presented have a measurement date of the previous fiscal year end.
As required, this schedule will be expanded to show 10 years, once the information becomes available in the future.

See accompanying independent auditors' report
and notes to required supplementary information

# Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

## Schedule of Proportionate Share of the Collective Other Postemployment Benefits Liability (Unaudited)

June 30, 2021, 2020, 2019, 2018 and 2017

(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 |
|---|---|---|---|---|---|
| 2021 | 1.07068% | $ 9,365 | N/A | N/A | N/A |
| 2020 | 0.99276% | 8,262 | N/A | N/A | N/A |
| 2019 | 0.93690% | 7,890 | N/A | N/A | N/A |
| 2018 | 0.88707% | 8,165 | N/A | N/A | N/A |
| 2017 | 0.85816% | 10,170 | N/A | N/A | N/A |

Notes

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

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

See accompanying independent auditors' report and notes to required supplementary information

Note 1 - Criteria in paragraph 4

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

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

Note 2 - Factors that significantly affect trends in the amounts reported

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

Proportionate share allocated – Under GASB Statement No. 73, the collective pension liability, pension expense and deferred outflows and inflows should be determined for the plan as a whole. According to GASB Statement No. 73, "the basis for the government's proportion should be consistent with the manner in which the amounts that are paid as benefits come due are determined". The actuarial approach to determine the proportionate share as the ratio of each entity's benefit payments to the total benefit payments during the year ending on the measurement date complies with GASB Statement No. 73. The proportionate share allocated to the Authority decreased to 1.80621% at measurement date of June 30, 2020 from 1.83299% at June 30, 2019.

As related to GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the proportionate share allocated increased to 1.07068% at measurement date of June 30, 2020 from .99276% at June 30, 2019.

Actuarial assumptions – There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the decrease in the discount rate to 2.21% as measurement date of June 30, 2020 from 3.50% as of June 30, 2019.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Profile of Independent Public Accountants

Year Ended June 30, 2021

| | |
|---|---|
| **CPA Firm:** | GALÍNDEZ LLC |
| **Employer Identification Number:** | 66-0703468 |
| **Lead Auditors:** | Henry Flores – Audit and Consulting Director<br>Gloria Sorroche, CPA – Senior Audit and Assurance Manager |
| **Address:** | PO Box 364152, San Juan, PR 00936-4152 |
| **Telephone Number:** | (787) 725-4545 |

The audit was performed between May 2022 through September 2022.