

**PUERTO RICO HIGHWAYS AND  
TRANSPORTATION AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements with Independent Auditor's Report  
Required Supplementary Information  
and Audit of Federal Awards

Fiscal Year Ended June 30, 2025

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Puerto Rico Highways and Transportation Authority  
(a Component Unit of the Commonwealth of Puerto Rico)

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of the **Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico)**, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2025, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Authority's ability to continue as a going concern for a reasonable period of time.

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

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of Changes in Commonwealth Total Pension Liability and Related Ratios for Multiple-Employer Pension Plans*, and the *Schedule of Changes in the Commonwealth's Total Postemployment Benefits other than Pensions (ERS MIPC OPEB Plan) Liability and Related Ratios* be presented to supplement the financial statements. Such information is the responsibility of management and, 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.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements.

### Supplementary Information (Continued)

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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March 27, 2026

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DPSC16-1037

Puerto Rico Highways and Transportation  
Authority

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

For the Fiscal Years Ended June 30, 2025 and 2024

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2025, and 2024. This discussion was prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

### **Financial Statements**

The basic financial statements provide information about the Authority's financial activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by Governmental Accounting Standards Board (GASB).

### **Financial Highlights**

The Authority's net position as of June 30, 2025, totaled \$5.5 billion as compared to net position of \$5.4 billion as of June 30, 2024 (as restated). Net Position increased by \$65.4 million during the fiscal year ended June 30, 2025, as compared to an increase in net position of \$27.1 million during the fiscal year ended June 30, 2024, as restated. This change is mainly attributable to a decrease of operating revenues of \$20.8 million, an increase of \$41.9 million in operating expenses, a decrease of interest on bonds obligations of \$36.2 million, a decrease of \$3.8 million of operating grants from the Commonwealth of Puerto Rico (Commonwealth), an increase of operating grants from U.S. Federal Government of \$52.7 million and an increase of investment income of \$9.6 million.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled \$8.5 billion on June 30, 2025, as compared to \$8.4 billion on June 30, 2024. Net capital assets, including assets under the Service Concession Agreements, increased by 1% on June 30, 2025, when compared with the balance on June 30, 2024.

The total aggregate amount of the Authority's non-current liabilities was \$573.2 million as of June 30, 2025, as compared to \$604.1 million on June 30, 2024, which consisted principally of bonds payable, accrued legal claims, voluntary termination incentive plans, the Authority's net pension liability, and general unsecured claims.

### **Overview of the Basic Financial Statements**

The basic financial statements consist of the: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the Financial Statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

### **Statement of Net Position**

The Statement of Net Position reports on all financial and capital resources of the Authority. The statement is formatted to show that assets combined with deferred outflows of resources are equal to liabilities plus deferred inflows of resources and Net Position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and non-current. The focus of the Statement of Net Position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's Net Position is reported in the following categories:

**Net Investment in Capital Assets** - This component of Net Position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

**Restricted for Debt Service** - This component of Net Position is used to account for restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

**Restricted for Construction** - This component of Net Position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

**Unrestricted Deficit** - This component of Net Position represents amounts that do not meet the definition of net investment in capital assets or amounts restricted for debt service or construction. The unrestricted deficit primarily reflects the cumulative effect of operating results, long-term obligations not related to capital assets, and other obligations for which no external restrictions apply.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position includes: (i) operating revenues, including toll fares, other operating income, concession agreements, and operating expenses like the operation of toll roads, transportation systems, administrative costs, road and bridge maintenance, and capital asset depreciation; and (ii) non-operating revenues and expenses, such as transfers from the Commonwealth, investment income, and others. The statement also includes capital contributions and payments received from the Commonwealth and federal government grants. The focus of the Statement of Revenues, Expenses, and Changes in Net Position is the change in net position (economic resources measurement focus). This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

**Statement of Cash Flows**

The statement of cash flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital, and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay for current liabilities.

**Notes to the Financial Statements**

The notes to the financial statements are an integral part of the basic financial statements and provide essential information necessary for a full understanding of the Authority's financial position and results of operations. The notes describe the Authority's significant accounting policies, relevant financial and contractual matters, and other disclosures required by U.S. generally accepted accounting principles. They also include information regarding significant transactions, commitments, contingencies, and the restatement of the 2024 financial statements. Readers are encouraged to consider the notes in conjunction with the management's discussion and analysis and the accompanying financial statements.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

**Financial Analysis of the Authority**

***Condensed Statements of Net Position***

The following table reflects the condensed Net Position of the Authority as of June 30, 2025 and 2024 (Restated):

|                                                                   | 2025                    | 2024<br>(Restated)      |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                                                     |                         |                         |
| Current assets                                                    | \$ 36,678,741           | \$ 19,619,372           |
| Restricted assets                                                 | 1,474,216,278           | 1,547,368,452           |
| Capital assets, net                                               | 7,945,660,998           | 7,883,191,849           |
| Highways and bridge under concession agreements, net              | 566,504,578             | 555,806,749             |
| Lease receivable                                                  | 2,074,810               | 2,698,588               |
| Total assets                                                      | 10,025,135,405          | 10,008,685,010          |
| Deferred outflows of resources                                    | 35,676,890              | 54,576,414              |
| Total assets and deferred outflows of resources                   | <u>\$10,060,812,295</u> | <u>\$10,063,261,424</u> |
| <b>Liabilities</b>                                                |                         |                         |
| Current liabilities                                               | \$ 318,836,303          | \$ 266,444,005          |
| Non-current liabilities                                           | 573,195,610             | 604,060,588             |
| Total liabilities                                                 | 892,031,913             | 870,504,593             |
| Deferred inflows of resources                                     | 3,697,419,869           | 3,786,787,101           |
| Total liabilities and deferred inflows of resources               | <u>4,589,451,782</u>    | <u>4,657,291,694</u>    |
| <b>Net position</b>                                               |                         |                         |
| Net investment in capital assets                                  | 8,473,529,604           | 8,400,487,263           |
| Restricted for debt service                                       | -                       | -                       |
| Restricted for construction                                       | 1,417,732,303           | 1,498,088,487           |
| Unrestricted                                                      | <u>(4,419,901,394)</u>  | <u>(4,492,606,020)</u>  |
| Total net position as restated in fiscal year 2024                | <u>5,471,360,513</u>    | <u>5,405,969,730</u>    |
| Total liabilities, deferred inflows of resources and net position | <u>\$10,060,812,295</u> | <u>\$10,063,261,424</u> |

Current assets increased by approximately 87% to \$36.7 million during the fiscal year ended June 30, 2025. The net increase in current assets of \$17.1 million was principally due to an increase in cash by approximately \$10.8 million. The cash balance increased by \$10.8 million, primarily due to an additional \$14.5 million in state funds, which were mainly allocated for construction projects and administrative expenses.

Restricted assets decreased by approximately 4.7% to \$1.5 billion during the fiscal year ended June 30, 2025. The decrease is primarily attributable to the utilization of previously restricted funds for capital improvement projects and other authorized purposes, partially offset by changes in restricted federal receivables. All other restricted balances remained generally consistent with the prior fiscal year.

Capital assets increased by 1% to approximately \$7.9 billion as compared to fiscal year 2024. The increase was mainly due to the net result of an aggregate increase in construction in process, roads, bridges, and equipment and vehicles of approximately \$332.6 million, offset by depreciation expense of approximately \$280.6 million, for the fiscal year ended June 30, 2025.

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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

Highways and bridge under the Service Concession Agreements (as defined below) increased by 1.9% to approximately \$566.5 million as compared to fiscal year 2024. This increase was primarily due to \$12.3 million in additions to the toll roads performed by Puerto Rico Tollroads, LLC (the Concessionaire), partially offset by \$1.6 million in depreciation expense related to the Teodoro Moscoso Bridge. Note that assets under service concession agreements, except for the Teodoro Moscoso Bridge, are not depreciated since the service concession agreements require the Concessionaire to return the assets to the Authority in their original or enhanced condition.

Deferred outflows of resources decreased by approximately \$18.9 million during the current fiscal year. This represents a decrease of 34.6%, which is mainly due to a decrease in deferred outflows related to the Authority's share of the Puerto Rico Government Employees Retirement System (PRGERS) for the fiscal year ended June 30, 2025.

Current liabilities increased by 19.7% to approximately \$318.8 million as compared to fiscal year 2024. This increase mainly shows a higher volume of construction activity during the fiscal year ended June 30, 2025, which resulted in larger outstanding balances related to construction project expenditures.

Non-current liabilities decreased by 5.1% to approximately \$573.2 million as compared to fiscal year 2024. The decrease in non-current liabilities of approximately \$30.9 million during the fiscal year was primarily driven by the net effect of a reduction in Teodoro Moscoso bonds, of approximately \$17.5 million; a decrease in pension liability of approximately \$16.6 million; offset by an increase of \$5.1 million in compensated absences.

Legal claims not related to expropriation and related costs, decreased by 3.4% to approximately \$18.3 million during the fiscal year ended June 30, 2025, as compared to the prior year period. Legal claims related to property expropriations increased by 3.4% to approximately \$45.4 million. The value of the legal claims was recorded based on advice from internal and external legal counsel.

Deferred inflows of resources during the fiscal year ended June 30, 2025, decreased by 2.4% to \$3.7 billion as compared to fiscal year 2024. The decrease was mainly due to the effect of a decrease of \$85.3 million by the recognition of amortization of deferred inflows of resources related to the service concession agreements and a decrease of deferred inflows related to the PRGERS pension-related amortizations by 100%.

The Authority's Net Position increased by 1.1% to \$5.5 billion as compared to fiscal year 2024. The increase in Net Position was due to a decrease of operating revenues of \$20.8 million, an increase of \$41.9 million in operating expenses, a decrease of interest on bonds of \$36.2 million, a decrease of \$3.8 million of operating grants from the Commonwealth, an increase of operating grants from U.S. Federal Government of \$52.7 million, and an increase of investment income of \$9.6 million. The largest portion of the Authority's Net Position was its investments in capital assets net of related debt outstanding used to acquire such capital assets.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

The following table reflects a condensed summary of the Statements of Revenues, Expenses, and Changes in Net Position for fiscal years ended June 30, 2025 and 2024 (Restated):

|                                                                              | <b>2025</b>                | <b>2024<br/>(Restated)</b> |
|------------------------------------------------------------------------------|----------------------------|----------------------------|
| Operating revenues:                                                          |                            |                            |
| Toll fares                                                                   | \$ 62,102,419              | \$ 109,486,317             |
| Other operating income                                                       | 8,486,085                  | 15,910,352                 |
| Concession agreements                                                        | <u>115,220,389</u>         | <u>81,242,137</u>          |
| Total operating revenues                                                     | <u>185,808,893</u>         | <u>206,638,806</u>         |
| <br>Total operating expenses                                                 | <br>423,745,969            | <br>381,826,573            |
| Depreciation and amortization                                                | <u>280,602,682</u>         | <u>279,670,764</u>         |
| Operating loss                                                               | <u>(518,539,758)</u>       | <u>(454,858,531)</u>       |
| Non-operating revenues (expenses):                                           |                            |                            |
| Operating grants from the Commonwealth of Puerto Rico                        | 135,724,000                | 139,564,000                |
| Operating grants from U.S. Federal Government                                | 95,634,416                 | 42,978,217                 |
| Interest on bonds and GDB Debt Recovery Authority Obligations                | (2,261,014)                | (38,509,452)               |
| Investment income                                                            | 53,789,077                 | 44,149,284                 |
| Transfer to Puerto Rico Ports Authority                                      | (39,490,156)               | -                          |
| Other non-operating revenues                                                 | <u>76,300</u>              | <u>293,003</u>             |
| Total non-operating revenues, net                                            | <u>243,472,623</u>         | <u>188,475,052</u>         |
| Loss Before Capital Contributions                                            | (275,067,135)              | (266,383,479)              |
| Capital grants (U.S. Federal and Commonwealth)                               | <u>340,457,918</u>         | <u>293,555,827</u>         |
| Change in net position                                                       | 65,390,783                 | 27,172,348                 |
| <br>Net position at beginning of year, less \$4,705,095, restatement in 2024 | <br><u>5,405,969,730</u>   | <br><u>5,378,797,382</u>   |
| <br>Net position at end of year                                              | <br><u>\$5,471,360,513</u> | <br><u>\$5,405,969,730</u> |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

Operating revenues, which consisted of toll fares, concession agreements and other operating revenues decreased by 10.1% to \$185.8 million during the fiscal year ended June 30, 2025, as compared to fiscal year 2024. This decrease is the net effect of the following:

- a. A decrease in toll fares of \$47.4 million primarily attributable to the execution of the Toll Road Service Concession Agreement in December 2023. Under the agreement, the Concessionaire assumed the operation and administration of toll roads PR-52, PR-53, PR-20, and PR-66, and the substantial majority of toll revenues from those roads are now collected and retained by the Concessionaire. Fiscal year 2024 included approximately six months of toll revenues recognized by the Authority prior to the transfer of operations, whereas fiscal year 2025 reflects a full twelve months during which most toll fare revenues were assigned to the Concessionaire. Although the Authority continues to recognize limited residual toll-related revenues, fiscal year 2025 reflects the full-year impact of the concession arrangement on toll fare revenue.
- b. A decrease in other operating income of approximately \$7.4 million during the current fiscal year due to a decrease in insurance reimbursements of \$6.9 million.
- c. An increase in concession agreement revenue of approximately \$34 million attributable to the Toll Road Service Concession Agreement executed in December 2023 for the operation and administration of PR-52, PR-53, PR-20, and PR-66. Fiscal year 2024 reflected approximately six months of concession-related revenue following the transfer of operations, whereas fiscal year 2025 reflects a full twelve months of concession revenue recognition. Accordingly, fiscal year 2025 reflects the full-year impact of the service concession arrangement on concession agreement revenue.

Operating expenses increased by 11% to approximately \$423.7 million during the fiscal year ended June 30, 2025, as compared to fiscal year 2024. The increase in operating expenses of approximately \$42 million during the current fiscal year was the aggregate effect of: 1) the absence of a \$41.1 million PRGERS Pay-Go recovery recognized in fiscal year 2024 and the recognition of approximately \$35.4 million in PRGERS Pay-Go expense during fiscal year 2025, 2) an increase in toll highways administration of approximately \$5.5 million partially offset by 3) a decrease in the train operating and maintenance expenses of approximately \$1 million; 4) a decrease in the integrated and transportation system expense of approximately \$1 million, 5) a decrease in repairs and maintenance expense by approximately \$12.5 million and 6) a decrease in legal and professional services of approximately \$16.6 million including Title III legal services.

Capital and operating grants from the Commonwealth decreased by approximately \$9.2 million when compared to the fiscal year ended June 30, 2024, as a result of a decrease in amounts granted by the Commonwealth.

Investment income increased by approximately \$9.6 million during the fiscal year ended June 30, 2025. This increase is primarily attributable to the full-year effect of interest earned on the surplus proceeds received from the \$2.85 billion Concession Fee at Closing in December 2023. Fiscal year 2024 reflected approximately six months of investment income on these balances, whereas fiscal year 2025 reflects a full twelve months of interest earnings on the invested cash and restricted balances.

In addition, interest expense on bonds decreased by approximately \$36.2 million during fiscal year 2025. This decrease primarily reflects the repayment of substantially all outstanding bond obligations with proceeds from the Concession Fee received at Closing under Act 29-2009, which significantly reduced the Authority's outstanding debt and corresponding interest costs.

The Authority transferred to the Puerto Rico Ports Authority (PRPA) approximately \$39.5 million during the fiscal year ended June 30, 2025. On December 11, 2024, the Oversight Board authorized this transfer to address the PRPA's outstanding PayGo obligations with the PRGERS. This transfer was sourced from the "Payment of Obligations and

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Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

Other Initiatives Related to the Government of Puerto Rico's Transportation Sector" line item within the Authority's Certified Revised Fiscal Year 2024 Budget. Refer to Note 15 for more details.

Other non-operating expenses remained in line with the prior fiscal year.

The Authority also received capital and operating grants from the U.S. federal government. Capital grants may only be used for construction, major improvements, and preservation of highways and bridges while operating grants are used to finance repair and maintenance for roads and bridges, and other operating expenses of other mass transportation systems. Such capital and operating grants amounted to approximately \$350.2 million and \$245.2 million during the fiscal year ended June 30, 2025, and 2024, respectively.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of June 30, 2025, the Authority had approximately \$7.9 billion in capital assets, net of accumulated depreciation, which represents an increase of \$62.5 million, when compared with the prior year. Capital assets consist of roads, bridges, mass transportation systems, transportation equipment, buildings, lands and construction in progress.

Since the end of fiscal year 2005, the Authority operates the mass rail transportation system for the San Juan metropolitan area known as "Urban Train". The Authority originally incurred approximately \$2.42 billion in costs in connection with the Urban Train, of which \$685.7 million was paid with federal funds. The Urban Train in San Juan consists of approximately seventeen kms of track running from San Juan to Bayamón. Maintenance services are partially funded with operating grants from the FTA. Total operating grants received from FTA used for maintenance services and other programs amounted to approximately \$80.2 million during the fiscal year ended June 30, 2025. Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years. The total annual operation and maintenance cost, for the fiscal year ended June 30, 2025, was approximately \$56.3 million.

The Authority is required to implement the comprehensive reorganization outlined in the certified December 2023 Authority's Fiscal Plan, including among others, the transfer of the Urban Train and feeder buses to Puerto Rico Integrated Transit Authority (PRITA). On December 23, 2024, FTA notified PRITA of the conclusion and approval of the Grantee package. PRITA and the Authority are currently collaborating to finalize the inventories necessary to facilitate the transfer. The asset and operational transfer are anticipated to be completed by the end of fiscal year 2026. During this transition period, budgetary allocations for transit units and intermodal systems will continue to be managed by the Authority until the Commonwealth of Puerto Rico adopts its next fiscal plan, which will formalize the transfer process.

On September 22, 2011, the Authority entered into a toll road service concession agreement (the Toll Road Service Concession Agreement) with Autopistas Metropolitanas de Puerto Rico LLC (Metropistas), in which the Authority granted Metropistas the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 7 to the basic financial statements. On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for ten additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways.

On December 14, 2023, the Authority executed a Toll Road Service Concession Agreement for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. Under the terms of the agreement, the Authority received a concession fee of \$2.85 billion at closing in exchange for granting the Concessionaire the right to operate and maintain these toll roads for the concession term.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

On December 20, 1992, the Authority and Autopistas de Puerto Rico (Autopistas) entered into a service concession agreement (as amended in 1992, 2004, and 2009, the Bridge Service Concession Agreement, and together with the Toll Road Service Concession Agreement, (the Service Concession Agreements) for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge that crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Teodoro Moscoso Bridge, which began operating on February 23, 1994, as more fully described in Note 7 to the basic financial statements. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

**Debt Administration**

From May 2017 through December 6, 2022, all of the Authority's debt obligations were subject to the automatic stay under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). During that period, the Teodoro Moscoso Bridge (TMB) bonds, which were the only debt obligations not in default at the time the stay became effective, continued to be serviced and remained current until approval of the Plan of Adjustment (the POA).

On the Closing Date in December 2023, the Authority executed the Toll Road Service Concession Agreement for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. The Authority received a concession fee of \$2.85 billion. The proceeds from this concession fee were used to fully repay the Authority's outstanding bonds and loan balances, except for the Teodoro Moscoso Bridge Bonds.

As of June 30, 2025, the Authority has no outstanding bond or loan debt obligations other than the Teodoro Moscoso Bridge bonds. The Authority continues to maintain normal trade payables, accounts payable to contractors, and other routine operating liabilities in the ordinary course of business; however, it does not have any other long-term bonded or funded debt outstanding.

**CURRENTLY KNOWN FACTS**

**Authority's Fiscal Plan and Plan of Adjustment**

The Authority receives ongoing support from the Commonwealth and the Federal Highway Administration (FHWA). The Authority received from FHWA \$184 million in fiscal year 2025 and expects \$187 million in fiscal year 2026, along with \$45 million annually from the Bridge Formula Program through fiscal year 2026. The Commonwealth has also budgeted average annual operating support of \$111 million and \$71 million in capital funding through fiscal year 2052, subject to legislative appropriations and Oversight Board certification.

**Proposed Transfer of Transit Operations**

As part of the Transportation Sector Reform, the Authority is expected to transfer the operation of Urban Train and its feeder bus system to PRITA. PRITA obtained FTA grantee status in December 2024, and the Authority and PRITA continue coordinating the operational, financial, and administrative aspects of the proposed transfer.

As of June 30, 2025, no assets or liabilities have been transferred, and the Urban Train operations remain under the Authority for financial reporting and budgetary purposes. The transfer is currently expected to be completed by the end of fiscal year 2026; however, the timing remains subject to governmental coordination and final implementation steps.

Management will continue evaluating the operational and financial implications of the proposed transfer in alignment with the certified Fiscal Plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the Fiscal Years Ended June 30, 2025 and 2024

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our bondholders, and other parties in interest, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2025

**Assets**

Current assets:

|                                   |                   |
|-----------------------------------|-------------------|
| Cash                              | \$ 20,805,649     |
| Accounts receivable, net          | 9,823,292         |
| Prepaid expenses and other assets | <u>6,049,800</u>  |
| Total current assets              | <u>36,678,741</u> |

Restricted assets:

|                                  |                      |
|----------------------------------|----------------------|
| Cash and cash equivalents        | 1,337,010,499        |
| Due from trustee, net            | 48,000,000           |
| Due from U.S. federal government | <u>89,205,779</u>    |
| Total restricted assets          | <u>1,474,216,278</u> |

Other non-current assets:

|                                                      |                       |
|------------------------------------------------------|-----------------------|
| Capital assets, net                                  | 7,945,660,998         |
| Highways and bridge under concession agreements, net | 566,504,578           |
| Lease receivable                                     | <u>2,074,810</u>      |
| Total other non-current assets                       | <u>8,514,240,386</u>  |
| Total assets                                         | <u>10,025,135,405</u> |

**Deferred outflows of resources:**

|                                       |                   |
|---------------------------------------|-------------------|
| Pension related                       | 34,580,790        |
| Other postemployment benefits related | <u>1,096,100</u>  |
| Total deferred outflows of resources  | <u>35,676,890</u> |

|                                                 |                          |
|-------------------------------------------------|--------------------------|
| Total assets and deferred outflows of resources | <u>\$ 10,060,812,295</u> |
|-------------------------------------------------|--------------------------|

Continued.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Continued)

June 30, 2025

**Liabilities**

Current liabilities:

|                                 |                    |
|---------------------------------|--------------------|
| Accounts payable                | \$ 94,037,279      |
| Accrued and other liabilities   | 42,229,858         |
| Accounts payable subcontractors | 158,592,672        |
| Unearned revenue                | 1,372,493          |
| Accrued legal claims            | 4,074,000          |
| Bonds payable                   | 18,530,001         |
| Total current liabilities       | <u>318,836,303</u> |

Non-current liabilities:

|                                  |                    |
|----------------------------------|--------------------|
| Bonds payable                    | 20,105,972         |
| Compensated absences             | 9,748,267          |
| Termination benefits             | 11,733,013         |
| Pension liability                | 431,263,032        |
| Other postemployment benefits    | 11,493,952         |
| Lease liability                  | 1,735,393          |
| Subscription liabilities         | 523,614            |
| General unsecured claims reserve | 48,000,000         |
| Accrued legal claims             | 38,592,367         |
| Total non-current liabilities    | <u>573,195,610</u> |

|                   |                    |
|-------------------|--------------------|
| Total liabilities | <u>892,031,913</u> |
|-------------------|--------------------|

**Deferred inflows of resources:**

|                                     |                      |
|-------------------------------------|----------------------|
| Service concession agreement        | 3,694,843,061        |
| Lease related                       | 2,576,808            |
| Total deferred inflows of resources | <u>3,697,419,869</u> |

**Net position**

|                                                                   |                          |
|-------------------------------------------------------------------|--------------------------|
| Net investment in capital assets                                  | 8,473,529,604            |
| Restricted for debt service                                       | -                        |
| Restricted for construction                                       | 1,417,732,303            |
| Unrestricted deficit                                              | <u>(4,419,901,394)</u>   |
| Total net position                                                | <u>5,471,360,513</u>     |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 10,060,812,295</u> |

The Notes to Financial Statements are an integral part of the Financial Statements.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position

for the Fiscal Year Ended June 30, 2025

|                                                                      |                        |
|----------------------------------------------------------------------|------------------------|
| Operating revenues:                                                  |                        |
| Toll fares                                                           | \$ 62,102,419          |
| Other operating income                                               | 8,486,085              |
| Concession agreements, amortization of deferred inflows of resources | <u>115,220,389</u>     |
| Total operating revenues                                             | <u>185,808,893</u>     |
| Operating expenses:                                                  |                        |
| Salaries and related benefits                                        | 19,457,153             |
| PayGo                                                                | 35,351,089             |
| Toll highways administration and maintenance                         | 96,941,809             |
| Train operating and maintenance costs                                | 56,308,961             |
| Integrated transportation system                                     | 11,316,257             |
| Repairs and maintenance of roads and bridges                         | 140,718,573            |
| Utilities                                                            | 11,026,037             |
| Insurance                                                            | 14,086,762             |
| Other                                                                | <u>38,539,328</u>      |
| Total operating expenses, net                                        | <u>423,745,969</u>     |
| Operating loss before depreciation and amortization                  | (237,937,076)          |
| Depreciation and amortization                                        | <u>280,602,682</u>     |
| Operating loss                                                       | <u>(518,539,758)</u>   |
| Non-operating revenues (expenses):                                   |                        |
| Operating grants from the Commonwealth of Puerto Rico                | 135,724,000            |
| Operating grants from U.S. federal government                        | 95,634,416             |
| Interest on bonds                                                    | (2,261,014)            |
| Investment income                                                    | 53,789,077             |
| Transfer to Puerto Rico Ports Authority                              | (39,490,156)           |
| Other                                                                | <u>76,300</u>          |
| Total non-operating revenues, net                                    | <u>243,472,623</u>     |
| Loss before capital grants                                           | <u>(275,067,135)</u>   |
| Capital Grants:                                                      |                        |
| U.S. federal government                                              | 254,527,846            |
| Commonwealth of Puerto Rico                                          | <u>85,930,072</u>      |
| Total capital grants                                                 | <u>340,457,918</u>     |
| Change in net position                                               | 65,390,783             |
| Net position at beginning of the year, as previously reported        | 5,410,674,825          |
| Prior period adjustment                                              | <u>(4,705,095)</u>     |
| Net position at end of the year                                      | <u>\$5,471,360,513</u> |

The Notes to Financial Statements are an integral part of the Financial Statements.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

for the Fiscal Year Ended June 30, 2025

OPERATING ACTIVITIES:

|                                                   |                      |
|---------------------------------------------------|----------------------|
| Receipts from tolls and train fares               | \$ 63,068,422        |
| Receipts from other sources                       | 1,801,918            |
| Payments to employees, PayGo and related benefits | (55,538,406)         |
| Payments to suppliers for goods and services      | <u>(363,561,303)</u> |
| Net cash used in operating activities             | <u>(354,229,369)</u> |

NONCAPITAL FINANCING ACTIVITIES:

|                                                        |                     |
|--------------------------------------------------------|---------------------|
| Operating grants received from U.S. federal government | 88,430,406          |
| Operating grants from the Commonwealth of Puerto Rico  | 135,724,000         |
| Transfer to Puerto Rico Ports Authority                | <u>(39,490,156)</u> |
| Net cash provided by noncapital financing activities   | <u>184,664,250</u>  |

CAPITAL AND RELATED FINANCING ACTIVITIES:

|                                                                     |                      |
|---------------------------------------------------------------------|----------------------|
| Capital grants received from U.S. federal government                | 314,804,173          |
| Acquisition and construction of capital assets                      | <u>(294,284,486)</u> |
| Net cash flows provided by capital and related financing activities | <u>20,519,687</u>    |

INVESTING ACTIVITIES:

|                                                      |                   |
|------------------------------------------------------|-------------------|
| Interest receipts from lease receivable              | 76,206            |
| Interest receipts from savings and other instruments | <u>53,789,077</u> |
| Net cash provided by investing activities            | <u>53,865,283</u> |

|                                           |              |
|-------------------------------------------|--------------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (95,180,149) |
|-------------------------------------------|--------------|

|                                                  |                      |
|--------------------------------------------------|----------------------|
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>1,452,996,297</u> |
|--------------------------------------------------|----------------------|

|                                            |                        |
|--------------------------------------------|------------------------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>\$1,357,816,148</u> |
|--------------------------------------------|------------------------|

Continued.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows (Continued)

for the Fiscal Year Ended June 30, 2025

RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED  
IN THE STATEMENT OF NET POSITION:

|                                        |                        |
|----------------------------------------|------------------------|
| Cash                                   | \$ 20,805,649          |
| Cash and cash equivalents - restricted | <u>1,337,010,499</u>   |
| Total                                  | <u>\$1,357,816,148</u> |

RECONCILIATION OF OPERATING LOSS TO NET CASH  
FLOW USED IN OPERATING ACTIVITIES:

|                                                                                            |                         |
|--------------------------------------------------------------------------------------------|-------------------------|
| Operating loss                                                                             | \$ (518,539,758)        |
| Adjustments to reconcile operating loss to net cash flows<br>used in operating activities: |                         |
| Depreciation and amortization                                                              | 280,602,682             |
| Revenues from concession agreements                                                        | (115,220,389)           |
| Net change in operating assets and liabilities:                                            |                         |
| Accounts receivable                                                                        | (5,680,527)             |
| Rent receivable under lease                                                                | (37,730)                |
| Prepaid expenses and other assets                                                          | (549,063)               |
| OPEB liability                                                                             | (1,017,654)             |
| Pension liability                                                                          | (16,638,100)            |
| Accounts payable                                                                           | 4,412,579               |
| Accrued liabilities                                                                        | (2,642,102)             |
| Accrued legal claims                                                                       | 393,311                 |
| Compensated absences                                                                       | 7,055,984               |
| Voluntary termination benefits                                                             | (2,934,386)             |
| Deferred revenue FEMA                                                                      | (1,750,966)             |
| Deferred outflows of resources pension related                                             | 18,856,030              |
| Lease and Subscription liabilities                                                         | 2,870,561               |
| Deferred inflows pension related                                                           | (3,453,335)             |
| Deferred inflows OPEB related                                                              | <u>43,494</u>           |
| Net cash flows used in operating activities                                                | <u>\$ (354,229,369)</u> |

SUPPLEMENTAL CASH FLOWS INFORMATION:

|                                                    |                      |
|----------------------------------------------------|----------------------|
| Non-cash transaction:                              |                      |
| Improvement to roads under concession arrangements | <u>\$ 12,363,394</u> |

The Notes to Financial Statements are an integral part of the Financial Statements.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements

Year Ended June 30, 2025

**1. ORGANIZATION**

The Authority is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 74 of June 23, 1965, as amended ("Act No. 74-1965"), to design, construct and administer toll roads, highways, and other facilities for the mobility of individuals, vehicles, and vessels, and for the planning, promotion, and feasibility of mass transportation systems. As a component unit, the Authority is included in the basic financial statements of the Commonwealth.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under PROMESA Title III in the United States District Court for the District of Puerto Rico. On October 12, 2022, the Authority's POA was confirmed by the Title III Court, and became effective on December 6, 2022, under which the Authority restructured its outstanding debt.

Certain corporate actions may also require approval by the Oversight Board. In addition, Act No. 2-2017, the *Puerto Rico Fiscal Agency and Financial Advisory Authority Act*, created the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity, including the Authority.

To fulfill its responsibilities as a highway authority, the Authority works closely with the Commonwealth and FHWA. The following is the support that the Commonwealth and the FHWA will provide to the Authority upon its reorganization:

- Funding for the Authority's capital program is provided under the Infrastructure Investment and Jobs Act (IIJA). The Authority received \$184 million in Fiscal Year 2025 and expects to receive \$187 million for Fiscal Year 2026 as per the annual FHWA allocation authorized by the IIJA. Separately, the Bridge Formula Program (BFP) provides \$45 million per year through Fiscal Year 2026. The Authority may also receive additional federal funds as opportunities or needs arise, including National Electric Vehicle Infrastructure (NEVI) program funding, discretionary grant awards, and Emergency Relief (ER) funds, among others.
- To address the Authority's projected cash shortfalls, the Commonwealth has budgeted annual operational financial support to the Authority as reported in the Authority's Certified Fiscal Plan. The average budgeted annual amount is \$111 million, plus \$71 million in CAPEX funds, through fiscal year 2052. Such support is subject to annual legislative appropriations and Oversight Board certification. The Federal-Aid Highway Program (FAHP) is currently the primary source of funding for the construction of Puerto Rico's highways, roads, bridges, and streets. The FAHP is funded from the transportation user-related revenues deposited in the Federal Highway Trust Fund, primarily federal excise taxes on motor fuels along with excise taxes on tires, trucks, trailers, and truck-use taxes. Furthermore, on March 31, 2014, FHWA approved \$756.4 million in toll credits that may be applied toward the non-federal matching share of transit projects.
- Under the December 2023 Concession Agreement, the Authority extinguished substantially all bond obligations and retained a cash surplus of approximately \$1 billion. This amount is restricted for use in roadway improvement projects and other activities established in the Concession Agreement. For more information, refer to Notes 2, 3 and 7.

The basic financial statements presented herein relate solely to the Authority's financial position and results of operations and are not intended to present the financial position of the Commonwealth, or the results of its operations or cash flows.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Measurement Focus and Basis of Accounting**

The accounting policies of the Authority conform to GAAP, as promulgated in GASB pronouncements.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Authority's operations are included in the statement of Net Position. Revenue is recognized in the period in which it was earned, and expenses are recognized in the period in which they were incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises. The intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these basic financial statements have been prepared on the basis that the Authority will continue as a going concern, as a legally separate governmental entity and component unit of the Commonwealth.

### **Cash, Cash Equivalents, and Cash Restricted for Capital Improvements**

The Authority considers cash and cash equivalents to include all highly liquid investments with original maturities within three months or less from the date of purchase.

As of June 30, 2025, the Authority held surplus receipts derived from the toll road concession agreement executed with Puerto Rico TollRoads, LLC for the operation and maintenance of certain toll roads. Under the terms of the concession agreement, the Authority received proceeds from the concession transaction, a portion of which remained available after the settlement of outstanding obligations and other required uses. These surplus receipts were deposited in an interest-bearing savings account earning a maximum interest rate of approximately 4.1%, based on the average monthly balance of the account. The funds are intended to be used to finance future capital improvement projects related to the construction, maintenance, and improvement of the road network in Puerto Rico.

Subsequent to fiscal year-end, on January 16, 2026, the Authority transferred \$500 million of these surplus receipts to a brokerage investment account and entered into an investment management agreement with an external investment advisor for the management of such funds. The transferred funds were invested primarily in U.S. Treasury securities and other highly liquid fixed-income instruments.

These funds are intended to serve as a designated funding source for future capital improvement projects. If the Authority is unable to achieve projected annual returns on these invested funds, additional reductions in capital and operating expenditures may be required to align with available revenue sources.

### **Receivables**

Accounts receivable consists of amounts due from Federal programs, local government agencies, public corporations, municipalities of the Commonwealth, and others. Amounts that are significantly overdue are included in the allowance for credit losses. Receivables are stated net of estimated allowances for credit losses, which are determined based upon past collection experience and current economic conditions, among other factors.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Credit Losses**

The allowance for credit losses 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 inherent in the existing accounts receivable and related allowance may change in the future.

**Right of Use Lease Assets**

In accordance with GASB Statement No. 87, *Leases* (GASB 87), a lessee is required to recognize a lease liability and an intangible right of use lease asset, and the lessor is required to recognize a lease receivable and a deferred inflow of resources. Right of use lease asset represents the Authority's right to an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

**Right of Use Subscription Asset**

The Authority recognizes a Right of Use Subscription Asset for subscription-based information technology arrangements (SBITA) over a year. The subscription asset is initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less incentives received from the SBITA vendor at or before the commencement of the subscription term, if any. Right of use assets are amortized over the term of the subscription agreement.

**Capital Assets Including Those Under Service Concession Agreements**

*Cost Basis* - Capital assets are recorded at historical cost or acquisition value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights of way, bridge substructures, highways, bridges, toll facilities, equipment, buildings, furniture, and other related costs (including software)). Highways and bridge substructures include road subbases, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees, and administrative and general expenses associated with the projects.

*Construction in progress* - Capitalization of construction costs normally begins when the Authority has obtained approval for the project, and it is more probable than not that the project will be realized. Any changes in plans are evaluated and if the realization probability threshold is not reached at a point in time, the related costs are charged to operations.

*Capitalization Policy* - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than \$500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated life of more than two years. Costs to acquire additional capital assets, which replace existing assets, extend their useful lives, and/or enhance the capital asset's service capacity are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's useful life are expensed as incurred.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Depreciation of Capital Assets* - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for new roads, highways, and road widenings, 50-59 years for new bridges and transportation systems (including transportation equipment and facilities), 20 years for bridge improvements, 15 years for road resurfacing of freeways, and 10 years for equipment, vehicles, and road resurfacing of non-freeways. Depreciation of assets under concession agreements, except for the Teodoro Moscoso Bridge, has been suspended, given that the agreements require the concessionaires to return the toll roads in their original or improved condition upon expiration of the concession period.

*Impairment of Capital Assets* - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others. The Authority evaluated its capital assets, including the Urban Train assets, as of June 30, 2025, and concluded that no impairment losses were required to be recognized. Refer to Note 6 for additional details.

**Lease Receivables**

Lease receivables are recorded by the Authority at the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received is discounted based on prevailing market rates as of June 30, 2025, for discounting cash flows based on a 100% cash allocation.

**Service Concession Agreements**

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and are amortized into concession revenue in a systematic and rational manner over the term of the agreements. Improvements performed by the concessionaires to the assets under concession (but excluding land) are capitalized by the Authority, as highways and the bridge under concession agreements. The assets are still owned by the Authority and, therefore, are reported in the Authority's basic financial statements. Refer to Note 7 to the basic financial statements, for additional information regarding the service concession agreements in effect as of June 30, 2025.

**Claims and Judgments**

The estimated amount of liability for claims and judgments is recorded on the accompanying statement of Net Position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. However, accruals from dates prior to the Authority's filing for relief under PROMESA, on May 21, 2017, have been adjusted by the maximum amount allowed by the Authority's POA, under PROMESA. Refer to Note 16 for additional information regarding the status of the Authority's pending legal claims as of the date of these basic financial statements.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

Compensated absences include paid time off available to employees in connection with vacation leave, sick leave, compensatory time, and other applicable leave benefits. The Authority accounts for compensated absences in accordance with Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, which superseded GASB Statement No. 16.

Under GASB 101, a liability for compensated absences is recognized for leave that is attributable to services already rendered and for which it is probable that the Authority will compensate employees through paid leave or cash settlement in the future. Liability is measured using the employee's applicable pay rate as of the financial statement date and includes salary-related payments that are directly and incrementally associated with leave payments.

On April 29, 2017, the Governor signed into law Act No. 26-2017 ("*Law for Compliance with the Fiscal Plan*"), which modified vacation and sick leave accrual formulas for public employees. Act No. 26-2017 was subsequently amended by Act No. 176-2019, which revised certain leave accrual provisions. Under the applicable statutory framework, vacation leave is accrued at one and one-fourth days per month of service, subject to statutory caps, and liquidation of sick leave upon resignation or separation was eliminated. These statutory limits and eligibility requirements are considered in determining the Authority's compensated absences liability.

**Lease Liability**

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

**Subscription-Based Information Technology Arrangements (SBITA)**

On July 1, 2022, the Authority adopted the provisions of Statement No. 96 of the Governmental Accounting Standards Board, *Subscription-Based Information Technology Arrangements* (GASB No. 96, SBITA). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for Subscription-Based Information Technology Arrangements by governments. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use (RTU) subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Refer to Note 13.

**Pension**

Since July 1, 2017, the pension obligation of the PRGERS was transformed into an unfunded pension trust, where pension obligations are funded on a pay-as-you-go basis. On that date, active employees stopped contributing to the PRGERS and the new employees will not become members either. The funding change resulted in the change in accounting principle from GASB 68 – *Accounting and Financial Reporting for Pensions* to GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order (each as defined and discussed below), a Pension Reserve Trust was created to fund future PRGERS' pension liabilities with an initial funding contribution from the Commonwealth of \$5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Effective Date of the POA, that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

For purposes of measuring the total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the total pension liability of the PRGERS, and changes in total pension liability have been determined on the same basis as they are reported by the PRGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when they are due and payable in accordance with the benefit terms. Refer to Note 11.

**Postemployment Benefits Other Than Pensions**

The Authority accounts for postemployment benefits other than pensions in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefits other than pensions (OPEB) expense is recognized and disclosed using the accrual basis of accounting. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change; recognition occurs in the period the OPEB expense, deferred inflows, or deferred outflows, as applicable, are incurred. Those changes in total OPEB liability that are recorded as deferred inflows or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense, beginning with the period in which they occurred. Refer to Note 12.

**Voluntary Termination Benefits**

The Authority accounts for voluntary termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category: (i) the difference between expected and actual experience, due to changes in assumptions and employer's contribution to the pension plan subsequent to the measurement date of the net pension liability, and (ii) the difference between actual and expected experience related to the OPEB obligation.

In addition to liabilities, the statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of Net Position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category: (i) the deferred amounts of service concession agreements, and (ii) the deferred amounts related to leases.

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, or changes in assumptions or other inputs. These amounts are deferred and included in pension expenses in a systematic and rational manner over a period equal to the average of the expected remaining service

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). Deferred inflows of resources related to the service concession agreement amounted to \$3.7 billion. These amounts are being amortized over their respective concession agreement terms. Deferred inflows of resources also include \$2.6 million of lease related amounts. Additionally, deferred outflows of resources include \$34.6 million and \$1.1 million related to pension and OPEB, respectively.

The Authority's deferred inflows of resources from lease receivables, as presented in the statement of Net Position, are related to lease agreements where the Authority is the lessor. These deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease.

**Net Position**

Net Position is classified as the following four components in the accompanying statement of Net Position:

**Net Investment in Capital Assets** - This component of Net Position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, notes, or other borrowings that are 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. If there are significant unspent related debt proceeds or deferred inflows of resources at fiscal year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same Net Position's component (restricted or unrestricted) as the unspent amount.

**Restricted for Debt Service** – This component of Net Position consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

**Restricted for Construction** - This component of Net Position consists of restricted assets for the specific purpose of financing construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

**Unrestricted Deficit** – This component of Net Position consists of a net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of Net Position.

**Operating and Non-Operating Revenue and Expense Recognition**

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with tolls and train fares are recorded as operating revenues when earned, based on activity reports provided by the toll and train operators, respectively.

Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues primarily comprise operating transfers from the Commonwealth and the federal government, which are allocated to the Authority to fund its operational and capital project activities and investment income.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital and Operating Grants**

Capital and operating grants are funds allocated by the Commonwealth and federal government, including the FHWA and the FTA, to the Authority for the construction of specific capital projects or infrastructure repairs and maintenance. These are reported as capital and operating grants as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the financial statements and (iii) the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Risk Financing**

The Authority carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. The Authority did not settle any claims for more than its insurance coverage during the fiscal year ending June 30, 2025, or as of the date the basic financial statements were issued.

**New Accounting Pronouncements**

The Government Accounting Standards Board (GASB) is a private non-governmental organization that creates accounting reporting standards, or GAAP, for state and local governments in the United States. The mission of GASB, among other things, is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to understand and implement those standards most effectively.

GASB has issued the following Statements:

*Recently Implemented*

- 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.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

This Statement requires that liability for certain types of compensated absences, including parental, military, and jury duty leave—not be recognized until the leave commences. This Statement also requires that 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 non-cash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurements 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. The requirements of this Statement were effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier applications are encouraged. The Authority applied this pronouncement on the basic financial statements of the current fiscal year.

- GASB Statement Number 102, *Certain Risk Disclosures*: This Statement defines concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event is associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement were effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier applications are encouraged. The Authority applied this pronouncement on the basic financial statements of the current fiscal year with no significant effect.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Not Yet Adopted*

- GASB Statement Number 103, *Financial Reporting Model Improvements*: This Statement establishes new accounting and financial reporting requirements – or modifies existing requirements – related to the following:
  - Management discussion and analysis (MD&A).
    - Requires that the information presented in MD&A be limited to the related topics discussed in five specific sections:
      - Overview of the Financial Statements,
      - Financial Summary,
      - Detailed Analyses,
      - Significant Capital Asset and Long-Term Financing Activity,
      - Currently Known Facts, Decisions, or Conditions.
    - Stresses detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed.
    - Removes the requirement for discussion of significant variations between original and final budget amounts and between final budget amounts and actual results.
  - Unusual or infrequent items.
  - Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position.
    - Requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses and clarifies the definition of operating and nonoperating revenues and expenses.
    - Requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses and defines subsidies.
  - Information about major component units in basic financial statements should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements should be presented after the fund financial statements.
  - Budgetary comparison information should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances required to be presented in the notes to the required supplementary information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier applications are encouraged. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2025-2026 fiscal year.

- GASB Statement Number 104, *Disclosure of Certain Capital Assets*: This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* should be disclosed separately by major class of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2025-2026 fiscal year.
- GASB Statement Number 105, *Subsequent Events*: This Statement provides guidance for identifying, recognizing, and disclosing events that occur after the balance sheet date but before the financial statements

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

are available to be issued. Defines subsequent events as transactions or events occurring after the reporting period but before the financial statements are considered available for issuance.

Establishes two categories:

- Recognized subsequent events: Events that provide additional evidence about conditions existing at the balance sheet date and require adjustment to the financial statements.
- Nonrecognized subsequent events: Events that relate to conditions arising after the balance sheet date and require disclosure of nature and estimated financial effect (or a statement that such an estimate cannot be made).

Clarifies that financial statements are "available to be issued" when they are complete in GAAP form and all approvals for issuance have been obtained.

Effective for fiscal years beginning after June 15, 2026. Early application is encouraged but not required. Management will evaluate the potential impact of GASB 105 on future financial reporting and disclosures. At this time, the effect of adoption cannot be reasonably estimated.

**3. CASH**

Cash on June 30, 2025, consisted of:

|                              |                         |
|------------------------------|-------------------------|
| Unrestricted cash            | \$ 20,805,649           |
| Restricted cash:             |                         |
| Cash CAPEX and federal funds | 207,411,849             |
| Capital improvement fund     | <u>1,129,598,650</u>    |
| Total restricted cash        | <u>1,337,010,499</u>    |
| Total cash                   | <u>\$ 1,357,816,148</u> |

Under the Concession Agreement, after the repayment of debt and the establishment of required reserves, the Authority retained surplus proceeds from the Concession Fee to be used for future capital improvements to the road network in Puerto Rico. As of June 30, 2025, approximately \$1.1 billion of these surplus proceeds was maintained in an interest-bearing savings account earning a maximum interest rate of approximately 4.1%, based on the average monthly balance of the account. These funds are restricted for capital improvement purposes.

Subsequent to fiscal year-end, on January 16, 2026, the Authority transferred \$500 million of these funds to a brokerage investment account and entered into an investment management agreement with an external investment advisor for the management of such funds. The transferred funds were invested primarily in U.S. Treasury securities and government money market funds. The funds continue to be designated to support the construction, maintenance, and improvement of the road network in Puerto Rico.

If the Authority is unable to achieve projected returns on these investments, additional reductions in the Authority's capital and operating expenditures may be required to align with available revenue sources.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**4. CUSTODIAL CREDIT RISK**

Legally, the Authority is required to deposit funds solely in financial institutions authorized by the Puerto Rico Department of the Treasury (DOT). Such deposits must be maintained in accounts held in the name of the Authority.

**Custodial Credit Risk – Deposits**

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be recoverable. Under Commonwealth law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

All monies deposited with depository institutions in excess of the amounts guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposits, as collateral security, Government Obligations or other marketable securities. As of June 30, 2025, the Authority's deposits maintained in commercial banks are as follows:

|                  | Unrestricted  |               | Restricted       |                  |
|------------------|---------------|---------------|------------------|------------------|
|                  | Book Balance  | Bank Balance  | Book Balance     | Bank Balance     |
| Commercial banks | \$ 20,805,649 | \$ 18,890,230 | \$ 1,337,010,499 | \$ 1,336,946,144 |

**5. ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2025, consisted of:

|                                                            |                     |
|------------------------------------------------------------|---------------------|
| Government, agencies and other, excluding the Commonwealth | \$ 60,113,221       |
| Rent receivables                                           | 5,486,326           |
| Toll escrow agent                                          | 2,245,652           |
| Other                                                      | <u>13,842,753</u>   |
| Total                                                      | 81,687,952          |
| Less allowance for credit losses                           | <u>(71,864,660)</u> |
| Accounts receivable, net                                   | <u>\$ 9,823,292</u> |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**6. CAPITAL ASSETS**

The following summarizes the capital assets, on a net-basis, held by the Authority as of June 30, 2025:

|                                                     | Balance at<br>June 30, 2024 | Increases             | Transfers<br>/Decreases | Balance at<br>June 30, 2025 |
|-----------------------------------------------------|-----------------------------|-----------------------|-------------------------|-----------------------------|
| Assets not being depreciated                        |                             |                       |                         |                             |
| Land                                                | \$ 1,963,037,930            | \$ 232,934            | \$ (3,248,054)          | \$ 1,960,022,810            |
| Construction in progress                            | 569,506,244                 | 352,540,563           | (206,716,358)           | 715,330,449                 |
| Total assets not being depreciated                  | <u>2,532,544,174</u>        | <u>352,773,497</u>    | <u>(209,964,412)</u>    | <u>2,675,353,259</u>        |
| Assets being depreciated                            |                             |                       |                         |                             |
| Transportation system                               | 2,418,129,482               | -                     | (1,099,241)             | 2,417,030,241               |
| Roads                                               | 13,010,511,303              | 132,080,202           | -                       | 13,142,591,505              |
| Bridges                                             | 3,694,638,320               | 57,374,566            | -                       | 3,752,012,886               |
| Equipment, vehicles, and other                      | 138,213,581                 | 2,428,289             | (4,324,048)             | 136,317,822                 |
| Right to use equipment                              | 2,591,227                   | 2,917,539             | -                       | 5,508,766                   |
| SBITA                                               | 4,284,068                   | 439,964               | -                       | 4,724,032                   |
| Total assets being depreciated                      | <u>19,268,367,981</u>       | <u>195,240,560</u>    | <u>(5,423,289)</u>      | <u>19,458,185,252</u>       |
| Less accumulated depreciation<br>/amortization for: |                             |                       |                         |                             |
| Transportation system                               | (916,336,135)               | (48,387,516)          | -                       | (964,723,651)               |
| Roads                                               | (10,007,734,079)            | (149,056,163)         | -                       | (10,156,790,242)            |
| Bridges                                             | (2,855,448,256)             | (72,419,927)          | -                       | (2,927,868,183)             |
| Equipment, vehicles, and other                      | (129,820,817)               | (6,911,370)           | 4,253,036               | (132,479,151)               |
| Right to use equipment                              | (1,522,179)                 | (1,023,290)           | -                       | (2,545,469)                 |
| SBITA                                               | (2,153,745)                 | (1,317,072)           | -                       | (3,470,817)                 |
| Total accumulated depreciation<br>/amortization     | <u>(13,913,015,211)</u>     | <u>(279,115,338)</u>  | <u>4,253,036</u>        | <u>(14,187,877,513)</u>     |
| Net Book Value of Assets                            |                             |                       |                         |                             |
| Being Depreciated                                   | <u>5,355,352,770</u>        | <u>(83,874,778)</u>   | <u>(1,170,253)</u>      | <u>5,270,307,739</u>        |
| Capital assets, net                                 | <u>\$ 7,887,896,944</u>     | <u>\$ 268,898,719</u> | <u>\$ (211,134,665)</u> | <u>\$ 7,945,660,998</u>     |

**Events Affecting Urban Train**

During the fiscal year ended June 30, 2025, the Authority experienced two fire incidents affecting traction power infrastructure of the Urban Train system. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, impairment losses for capital assets that remain in service and have incurred physical damage are measured using the restoration cost approach when there has been a significant and unexpected decline in service utility.

Following the incidents, service was restored in an orderly and timely manner, and management determined that the overall service capacity and utility of the Urban Train system were not significantly affected. Accordingly, the Authority concluded that no significant decline in service utility occurred.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**6. CAPITAL ASSETS (Continued)**

As of the date of issuance of these financial statements, the Authority does not have sufficient information to reliably estimate restoration costs associated with either event. Based on management's evaluation under GASB 42, no impairment loss has been recognized in the accompanying financial statements.

The Authority will continue to monitor developments and will recognize impairment losses and any related insurance recoveries if and when reliable measures become available, in accordance with GASB 42.

**7. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS**

Highways and bridge under Service Concession Agreements as of June 30, 2025, are summarized as follows:

|                                         | Balance on<br>June 30, 2024 | Increase             | Decrease    | Balance on<br>June 30, 2025 |
|-----------------------------------------|-----------------------------|----------------------|-------------|-----------------------------|
| Toll roads (PR-5 and PR-22)             | \$ 310,362,533              | \$ -                 | \$ -        | \$ 310,362,533              |
| Toll roads (PR-20, PR-52, PR-53, PR-66) | 927,736,764                 | -                    | -           | 927,736,764                 |
| Toll roads concession improvements      | 62,194,627                  | 12,363,394           | -           | 74,558,021                  |
| Teodoro Moscoso bridge                  | 109,500,000                 | -                    | -           | 109,500,000                 |
| Total                                   | 1,409,793,924               | 12,363,394           | -           | 1,422,157,318               |
| Less accumulated depreciation           | (853,987,175)               | (1,665,565)          | -           | (855,652,740)               |
| Total                                   | <u>\$ 555,806,749</u>       | <u>\$ 10,697,829</u> | <u>\$ -</u> | <u>\$ 566,504,578</u>       |

**Toll Road Service Concession Agreement (PR-5 and PR-22)**

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Metropistas, in which the Authority granted the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of \$1,136 million, of which approximately \$873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

The Authority recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of \$1,136 million that is being amortized using the straight-line method and recognized as revenue over the 40-year term of the agreement. Amortization for the year ended June 30, 2025, amounted to \$24.7 million. The Toll Roads (capital assets) will continue to be reported in the statement of Net Position as a separate item as highways and bridge under service concession agreements. As of June 30, 2025, the total aggregate amount of the Toll Roads capital assets was approximately \$152.9 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011, until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to the Authority in their original or enhanced condition.

On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for ten additional years and to create five bidirectional tolling points on the Toll Roads. The Authority received an upfront concession fee payment of \$100 million, which was used to pay \$18.2 million of the Authority's current debt and \$79.8 million was transferred to the Commonwealth in fiscal year 2016. Also, in June 2017, the Authority received an additional \$15 million payment concurrently with the commencement of the bidirectional system described above.

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**7. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)**

**Toll Road Service Concession Agreement (PR-52, PR-53, PR-20, and PR-66)**

On December 14, 2023, the Authority entered into an Agreement with the Concessionaire, pursuant to which the Authority granted to the Concessionaire a concession for the operation and administration of the toll roads designated as PR-52, PR-53, PR-20, and PR-66, for a concession period of 40 years. The toll roads transferred under this arrangement remain recorded in the Authority's financial statements as capital assets.

Under the Agreement, the Authority granted to the Concessionaire the exclusive right to operate, maintain, and collect toll revenues on the concessioned toll roads. In return, the Authority received a concession fee of \$2.85 billion. This amount was recorded as deferred inflows of resources and is being amortized and recognized as revenue over the term of the Agreement. The concession fee was used for (i) the redemption of the New Authority Bonds, (ii) repayment of the Subordinated Indebtedness, (iii) certain closing and transaction costs, (iv) funds for escrow and reserve accounts for potential Concession Compensation Events (as defined in the Agreement), and (v) the creation of a capital improvement fund. For the fiscal year ended June 30, 2025, amortization revenue recognized was approximately \$71.2 million.

The Authority retains certain rights under the Agreement, including oversight of operational performance, access for public safety purposes, and the ability to reassume control in the event of termination (including for default by the Concessionaire).

Furthermore, the Authority may be required to compensate the Concessionaire for specific events defined under the Agreement as "Adverse Actions", which generally include government actions, the effects of which would be principally borne by the Concessionaire, private operators of toll roads in the Commonwealth or contractors under public-private partnership agreements and which would have a material adverse effect on the fair market value of the Concessionaire's interest. Under certain circumstances, the Concessionaire has the right to terminate the Agreement if an Adverse Action occurs and is not remedied by the Authority. In such cases, the Authority may be required to compensate the Concessionaire for termination damages, which could include the toll road concession value and related expenses. As of June 30, 2025, management considers the likelihood of such events occurring to be remote.

In addition, the Authority capitalized and considered as deferred inflows of resources \$12.4 million during the fiscal year ended June 30, 2025, for improvements made by the Concessionaire.

**Bridge Service Concession Agreement**

On December 20, 1992, the Authority and Autopistas entered into the Bridge Service Concession Agreement for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (TMB), a toll bridge, which crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Teodoro Moscoso Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

Upon the implementation of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, on June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge at fair value, equivalent to what the Authority might have paid to have the Teodoro Moscoso Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be \$109.5 million depreciated over an estimated useful life of 59 years. The asset balance related to the Teodoro Moscoso Bridge was adjusted to recognize the first 17 years of operations and the remaining amortization balance would be amortized over 42 years. The Teodoro Moscoso Bridge is being depreciated because, in the opinion of management, the Bridge Service Concession

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**7. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)**

Agreement does not require Autopistas to return the Teodoro Moscoso Bridge to its original condition. As of June 30, 2025, the net book value of the Teodoro Moscoso Bridge was \$47.6 million.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027, through the end of the agreement. During the fiscal year ended June 30, 2025, Autopistas paid the Authority approximately \$3.4 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately \$153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund, in advance, the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

The activity of the TMB bonds during the fiscal year ended June 30, 2025, as recorded in the accompanying financial statements is as follows:

|                            | Balance on<br>June 30, 2024 | Increases /<br>Accretions | Payments /<br>Amortization | Balance on<br>June 30, 2025 |
|----------------------------|-----------------------------|---------------------------|----------------------------|-----------------------------|
| Term bonds                 | \$ 30,375,001               | \$ -                      | \$ (8,245,000)             | \$ 22,130,001               |
| Capital appreciation bonds | <u>23,604,565</u>           | <u>966,407</u>            | <u>(8,065,000)</u>         | <u>16,505,972</u>           |
| Total                      | <u>\$ 53,979,566</u>        | <u>\$ 966,407</u>         | <u>\$ (16,310,000)</u>     | <u>38,635,973</u>           |
| Less: Current portion      |                             |                           |                            | <u>(18,530,001)</u>         |
| Long term portion          |                             |                           |                            | <u>\$ 20,105,972</u>        |

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the bonds unless the agreement is terminated as specified in the Bridge Service Concession Agreement. Because the bonds are being paid by Autopistas, the Authority records concession revenue for principal and interest paid by Autopistas annually until settlement. Therefore, the Authority recorded concession revenue in the total aggregate amount of \$17.6 million during the fiscal year ended June 30, 2025, which represents the principal and interest payments on bonds made by Autopistas.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority would then be obligated to assume all of Autopistas' obligations to pay the principal of, and interest on the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Teodoro Moscoso Bridge. Although Autopistas currently has the ability to terminate the Bridge Service Concession Agreement and have the Authority assume its obligations, the Authority has not received such notice and does not currently expect the Bridge Service Concession Agreement to terminate.

**Summary**

As of June 30, 2025, the total deferred inflows of resources, amounting to approximately \$3.7 billion were associated with the Toll Roads Concession Agreements. The deferred inflows related to these agreements significantly reduced the unrestricted net position by \$3.7 billion, as of June 30, 2025.

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Year Ended June 30, 2025

**8. ACCOUNTS PAYABLE, CURRENT**

Accounts payable as of June 30, 2025, consisted of:

|                                      |                      |
|--------------------------------------|----------------------|
| Due to Government and other agencies | \$ 23,248,909        |
| Other suppliers                      | 70,788,370           |
| Total accounts payable               | <u>\$ 94,037,279</u> |

**9. ACCRUED AND OTHER LIABILITIES, CURRENT**

Accrued and other liabilities as of June 30, 2025, consisted of:

|                                     |                      |
|-------------------------------------|----------------------|
| Compensated absences                | \$ 3,770,212         |
| Voluntary termination benefits      | 2,848,508            |
| Pension liability                   | 32,000,000           |
| Other postemployment benefits       | 1,200,000            |
| Short term lease payable            | 1,249,316            |
| Short term SBITA                    | 763,189              |
| Others                              | 398,633              |
| Total accrued and other liabilities | <u>\$ 42,229,858</u> |

**10. LONG TERM LIABILITIES**

Long-term debt activity for the fiscal year ended June 30, 2025, was as follows:

|                                    | Balance at<br>June 30, 2024 | Increases /<br>Accretions | Payments /<br>Amortization | Balance at<br>June 30, 2025 | Due within One<br>Year |
|------------------------------------|-----------------------------|---------------------------|----------------------------|-----------------------------|------------------------|
| <b>Term bonds</b>                  |                             |                           |                            |                             |                        |
| Teodoro Moscoso                    | \$ 30,375,001               | \$ -                      | \$ (8,245,000)             | \$ 22,130,001               | \$ 10,335,001          |
| Total                              | <u>30,375,001</u>           | <u>-</u>                  | <u>(8,245,000)</u>         | <u>22,130,001</u>           | <u>10,335,001</u>      |
| <b>Capital appreciation bonds</b>  |                             |                           |                            |                             |                        |
| Teodoro Moscoso                    | 23,604,565                  | 966,407                   | (8,065,000)                | 16,505,972                  | 8,195,000              |
| Total                              | <u>23,604,565</u>           | <u>966,407</u>            | <u>(8,065,000)</u>         | <u>16,505,972</u>           | <u>8,195,000</u>       |
| Total bonds outstanding            | <u>\$ 53,979,566</u>        | <u>\$ 966,407</u>         | <u>\$ (16,310,000)</u>     | <u>\$ 38,635,973</u>        | <u>\$ 18,530,001</u>   |
| <b>Other long term liabilities</b> |                             |                           |                            |                             |                        |
| Compensated absences               | \$ 6,462,496                | \$ 7,507,160              | \$ (451,177)               | \$ 13,518,479               | \$ 3,770,212           |
| Termination benefits               | 17,515,906                  | 16,023,036                | (18,957,421)               | 14,581,521                  | 2,848,508              |
| Subscription liabilities           | 2,180,488                   | 5,420,458                 | (6,314,143)                | 1,286,803                   | 1,249,316              |
| Lease liability                    | 1,098,354                   | 2,970,565                 | (1,084,210)                | 2,984,709                   | 763,189                |
| General unsecured claims reserve   | 48,000,000                  | -                         | -                          | 48,000,000                  | -                      |
| Accrued legal claims               | 41,827,445                  | 838,922                   | -                          | 42,666,367                  | 4,074,000              |
| Total other long term liabilities  | <u>\$ 117,084,689</u>       | <u>\$ 32,760,141</u>      | <u>\$ (26,806,951)</u>     | <u>\$ 123,037,879</u>       | <u>\$ 12,705,225</u>   |

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Year Ended June 30, 2025

**10. LONG TERM LIABILITIES (Continued)**

As of June 30, 2025, the only bonds outstanding were those related to the Teodoro Moscoso Bridge and were comprised as follows:

|                                                                                                         |                      |
|---------------------------------------------------------------------------------------------------------|----------------------|
| Term bonds, maturing through fiscal year 2028 with interest ranging from 5.55% to 5.85%                 | \$ 22,130,001        |
| Capital appreciation bonds, maturing through fiscal year 2027 with interest ranging from 5.90% to 6.15% | <u>16,505,972</u>    |
| Total Teodoro Moscoso bonds                                                                             | <u>\$ 38,635,973</u> |

**Teodoro Moscoso Debt Maturities**

The following schedule has been presented in accordance with the original terms of the bonds payable. The outstanding bonds as of June 30, 2025, require future payments of principal and interest as follows:

| <u>Fiscal years ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-------------------------------------|---------------------|---------------------|---------------------|
| 2026                                | \$18,530,000        | \$ 690,008          | \$19,220,008        |
| 2027                                | 13,080,973          | 410,964             | 13,491,937          |
| 2028                                | <u>7,025,000</u>    | <u>-</u>            | <u>7,025,000</u>    |
| Total                               | <u>\$38,635,973</u> | <u>\$ 1,100,972</u> | <u>\$39,736,945</u> |

Autopistas is currently paying the scheduled interest and principal payments for these bonds in accordance with the service concession agreement. Refer to Note 7.

**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under PROMESA Title III for ERS in the United States District Court for the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases. On January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment, which includes the restructuring of ERS' outstanding debts and other financial obligations. The Commonwealth Plan of Adjustment became effective on March 15, 2022.

Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of \$5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevents the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

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**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

***PayGo Pension Reform***

On June 27, 2017, the DOT issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system, in which ERS and the Commonwealth’s other retirement systems stopped receiving contributions from employers or plan participants and are no longer managing contributions on behalf of participants. Since fiscal year 2018, employers’ contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated.

On August 23, 2017, the Governor signed into law the Act No. 106 of 2017, known as the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable participating employers, including the Authority. The Commonwealth allocation percentages are based on the ratio of each participating entity’s actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date. Approximately \$2 billion was allocated for these purposes in each of the Commonwealth’s budgets starting in fiscal year 2022. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at the ERS.

Act 106-2017, among other things, amended Act No. 447 with respect to the ERS’ governance, funding, and benefits for active members of the actual program and newly hired members. Under Act 106-2017, the ERS’ Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created a new defined contribution plan (PRGERS) for existing active members and new employees hired on or after July 1, 2017. This plan, similar to a 401(k) plan, is managed by a private entity, but where no contributions are received from the employer. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the PRGERS. Act 106-2017 also ordered a suspension of the ERS’ loan programs and ordered a merger of the administrative structures of the Commonwealth’s retirement systems. At the Retirement Board’s discretion, the administration of benefits under the new Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

***Plan Description Prior to July 1, 2017***

This summary of ERS’ pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January 1, 1952, for members hired up to March 31, 1990.

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Notes to Financial Statements (Continued)

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**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999.
- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employer defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013 (Act No. 3), effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other changes were also made to the plan. Upon the enactment of the Act No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act No. 106-2017.

**Service Retirement Eligibility Requirements**

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

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

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

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

Act No. 80-2020 is a retirement incentive program that was passed on August 3, 2020, but was not permitted to be fully implemented. In September 2023, an interim stipulation between the Commonwealth and the Oversight Board was approved that provided a roadmap for partial implementation of Act No. 80-2020.

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**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Eligible employees were Act No. 447 members in PRGERS who had at least 20 years of service as of June 30, 2017, and Act No. 1 members in PRGERS who had at least 15 years of service as of June 30, 2017. The stipulation provided that eligible employees must be working in non-essential positions, and such positions would be eliminated after the member retired.

Under the partial implementation of Act No. 80-2020, 49 of the Authority's employees in nonessential positions elected to retire early and, on April 1, 2024, they began receiving an annual pension equal to 50% of the employee's highest annual salary in the three years prior to electing the Act 80-2020 retirement incentive. See Note 14 for more details.

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

After the approval of Act No. 106-2017, the PRGERS assets were liquidated and 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* (GASB No. 73) is now implemented in substitution of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* (GASB No. 68). The Authority's Total Pension Liability was measured as of June 30, 2024 (measurement date) for the reporting period June 30, 2025 (reporting date) based on an actuarial valuation date December 13, 2024. Under the guidance of GASB No. 73, the Commonwealth and its component units are considered to be one employer.

**Total Pension Liability**

As of June 30, 2025, the Authority's proportional share of the PRGERS' Total Pension Liability used was as follows:

|                                             |                  |
|---------------------------------------------|------------------|
| Proportion - June 30, 2025 (reporting date) | 2.332600%        |
| Proportion - June 30, 2024 (reporting date) | <u>2.310460%</u> |
| Change - Increase                           | <u>0.022140%</u> |

As of June 30, 2025, the Authority reported \$463.3 million as Total Pension Liability for its proportionate share of the Total Pension Liability of PRGERS.

**Pension Expense**

During the fiscal year ended June 30, 2025, the Authority's pension expense under the PayGo system amounted to \$33.3 million, which represents 100% of the contributions required under the law.

**Changes in Pension Liability**

During the fiscal year ended June 30, 2025, the Authority reported a decrease in the pension liability of \$16.6 million, related principally from: interest expense of \$13.1 million, service cost of \$300,862, an inverse actuarial assumptions and economic changes of \$10.1 million, and inverse benefit payments of \$23.9 million.

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**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

**Deferred Outflows/Inflows of Resources**

As of June 30, 2025 (reporting date), the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

|                                                    | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|----------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between actual and expected experience | \$ -                                      | \$ -                                     |
| Changes in assumptions                             | -                                         | -                                        |
| Changes in proportion                              | -                                         | -                                        |
|                                                    | -                                         | -                                        |
| Benefits payments made after measurement date      | 34,580,790                                | -                                        |
| Total outflows/inflows                             | <u>\$ 34,580,790</u>                      | <u>\$ -</u>                              |

In the current fiscal year, the Authority did not make any contributions to the pension plan, resulting in no net inflows. Conversely, outflows totaled \$34.6 million, which is lower than in previous years. This decrease is primarily attributable to demographic losses and changes in actuarial assumptions that reduced pension liabilities.

As of June 30, 2025 (reporting date), the Authority has no deferred outflows or inflows of resources related to pensions pending future recognition. All previously deferred amounts have been fully recognized in accordance with GASB No. 73.

**Actuarial Methods and Assumptions**

*Changes in Actuarial Methods since the Prior Evaluation*

The GASB No. 73 discount rate increased from 3.65% as of June 30, 2023, to 3.93% as of June 30, 2024 (measurement dates).

The Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act 127-1958 high risk death and disability benefits for System 2000, Act 3, and Act 106 members in high risk positions, eliminated future cost of living adjustments, including those on the Act 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act 3 members who were not in payment status as of March 15, 2022. These modifications decreased the pension liability by \$2 billion, at the Commonwealth level.

*Actuarial Cost Method*

In accordance with GASB No. 73, the plan's actuarial cost method is the entry age normal method. Because of Act No. 106-2017, no future benefits will be earned by PRGERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all projected benefits.

*Liability Determination*

The results as of June 30, 2024 (measurement date) are based on projecting the System obligations determined as of the census data collection date of July 1, 2022, for one year using roll-forward methods, assuming no liability, gains or losses. There have been no changes in actuarial methods since the prior valuation.

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**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Due to Act No. 106-2017, all benefits are considered fully accrued.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2024 (measurement date) is provided below, including any assumptions that differ from those used on June 30, 2023 (measurement date), follows:

*GASB No. 73 Discount Rate:* 3.93% per annum. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

*Compensation Increases:* 3.0% per year. No compensation increases were assumed until July 1, 2021, as result of Act No. 3-2017, four-year extension of Act No. 66-2014, salary freeze and the current general economy.

*Defined Contribution Hybrid Contribution Account:* No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to PayGo funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2017.

*Basis for Demographic Assumptions:* The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007. Certain demographic assumptions (e.g., termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with PRGERS staff for reasonableness and are documented in this Section.

*Pre-retirement Mortality:* PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis.

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

*Post-retirement Disabled Mortality:* Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

*Form of Payment:* For members retiring after June 30, 2013, upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as June 30, 2013, commencing at retirement eligibility; otherwise, a modified cash refund.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**11. PUERTO RICO GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Marital status was provided as of July 1, 2016, but was not provided as of July 1, 2017, for retired and disabled members who retired prior to July 1, 2013. For those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed, with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No. 211-1958 and those not married were assumed to have a modified cash refund. The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

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

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

|                         | <b>1%<br/>Decrease<br/>2.93%</b> | <b>Current<br/>Discount Rate<br/>3.93%</b> | <b>1%<br/>Increase<br/>4.93%</b> |
|-------------------------|----------------------------------|--------------------------------------------|----------------------------------|
| Total Pension Liability | \$ 513,749,322                   | \$ 463,263,032                             | \$ 420,829,054                   |

**Pension Plan Fiduciary Information**

Additional information on the Puerto Rico Government Employees Retirement System for the fiscal year ended June 30, 2024, can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan PR 00940-2003.

**12. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

The Authority participates in the OPEB plan of the Commonwealth for retired participants of the Employees Retirement System Medical Insurance Plan Contribution Benefit (ERS MIPC). The Plan is administered on a pay-as-you-go basis.

The ERS MIPC plan is an unfunded cost sharing, multiple employers defined benefit OPEB plan (other than pension) sponsored by the Commonwealth. This ERS MIPC was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth. For ERS MIPC, Commonwealth and Authority employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The ERS MIPC 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 ERS MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements 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. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of healthcare insurance premium not covered by the Commonwealth contribution.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**12. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Actuarial methods and assumptions**

The total ERS MIPC OPEB liability as of June 30, 2025 (reporting date), was determined by an actuarial measurement date as of June 30, 2024, which was rolled forward to June 30, 2025 (reporting date). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Inflation</b>            | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Municipal bond index</b> | 3.93% as per Bond Buyer General Obligation 20-Bond Municipal Bond Index                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Mortality</b>            | <i>Post-retirement Healthy Mortality:</i><br><br>Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.<br><br><i>Post-retirement Disabled Mortality:</i><br><br>Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. |

Most other demographic assumptions used in the June 30, 2025 (reporting date) valuation was based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2024 (measurement date), and June 30, 2023 (measurement date) was 3.93% and 3.65%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including, for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**12. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

Actuarial assumptions are revised periodically to reflect more closely actual, as well as anticipated, future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

**The Authority's Proportion of Total OPEB Liability of the ERS MIPC**

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2024 (measurement date), was approximately \$12.7 million and 2.13147%, respectively. As the ERS MIPC is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Commonwealth of Puerto Rico and its component units are considered to be one employer. Other employers also participate in the ERS MIPC. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such a proportionate share should be consistent with the manner in which the amounts that are paid as benefits come due are determined. The proportionate share of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year end on the measurement date.

**Sensitivity of total ERS MIPC OPEB liability to changes in the discount rate**

The following table presents the Authority's proportionate share of the ERS MIPC OPEB liability on June 30, 2025 (reporting date), for ERS calculated using the discount rate of 3.93%, as well as what the Authority's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.93%) or one percentage point higher (4.93%) than the current rate:

|                      | 1% Decrease<br>(2.93%) | Current<br>Assumption<br>(3.93%) | 1% Increase<br>(4.93%) |
|----------------------|------------------------|----------------------------------|------------------------|
| Total OPEB liability | \$ 13,723,853          | \$ 12,693,953                    | \$ 11,799,938          |

**Deferred outflows of resources and deferred inflows of resources**

OPEB expenses recognized by the Authority for the year ended June 30, 2025 (reporting date), related to the ERS MIPC amounted to approximately \$1.2 million. Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of benefit payments made by the Authority subsequent to the measurement date. Additional information on the ERS MIPC OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2024 and 2023 (measurement dates), a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**13. LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)**

The Authority defines a lease as a contractual agreement that conveys control of the right to use another entity's non-financial assets, for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction.

**Lessor Activity**

The Authority is a lessor in various executed non-cancellable lease agreements related to several buildings and land parcels through fiscal year 2046. The Authority has outstanding lease receivable balances and unamortized deferred inflows of resources amounting to \$2.1 million and \$2.6 million, respectively as of June 30, 2025.

Lease revenue and interest revenue recognized on these leases were \$661,508 and \$76,206, respectively for the year ended June 30, 2025. The discount rate on these leases is 2.5%

As of June 30, 2025, the Authority's minimum principal and interest lease receivable payments related to its lessor activities are as follows:

| <b>Fiscal Years Ending June 30,</b> | <b>Principal</b>    | <b>Interest</b>   | <b>Total</b>        |
|-------------------------------------|---------------------|-------------------|---------------------|
| 2026                                | \$ 623,778          | \$ 60,301         | \$ 684,079          |
| 2027                                | 583,182             | 44,960            | 628,142             |
| 2028                                | 506,997             | 31,398            | 538,395             |
| 2029                                | 237,618             | 20,431            | 258,049             |
| 2030-2046                           | 747,013             | 140,194           | 887,207             |
|                                     | <u>\$ 2,698,588</u> | <u>\$ 297,284</u> | <u>\$ 2,995,872</u> |

**Lessee Activity**

The Authority leases office equipment, and other assets under long-term, non-cancellable lease agreements recorded in accordance with GASB 87.

Right of use assets as of June 30, 2025, amounts to \$5.5 million and has an accumulated amortization of \$2.5 million for a net amount of \$3 million.

Amortization expense and interest expense recognized on these leases were \$901,825 and \$33,097, respectively, for the year ended June 30, 2025. The discount rate on these leases is 2.5%

Lease liability as of June 30, 2025, amounts to \$3 million. Principal and interest requirements to maturity as of June 30, 2025, are as follows:

| <b>Fiscal Years Ending June 30,</b> | <b>Principal</b>    | <b>Interest</b>   | <b>Total</b>        |
|-------------------------------------|---------------------|-------------------|---------------------|
| 2026                                | \$ 1,249,316        | \$ 60,263         | \$ 1,309,579        |
| 2027                                | 981,320             | 32,191            | 1,013,511           |
| 2028                                | 752,787             | 7,727             | 760,514             |
| 2029                                | 1,286               | 10                | 1,296               |
| Total                               | <u>\$ 2,984,709</u> | <u>\$ 100,191</u> | <u>\$ 3,084,900</u> |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**13. LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)  
(Continued)**

**Subscription-Based Information Technology Arrangements (SBITA)**

The Authority has entered into subscription arrangements for many different types of software. These subscription agreements have been recorded at the present value of the future minimum subscription payments. The initial value of the RTU assets recognized is \$4.7 million. As of June 30, 2025, accumulated amortization for these RTU assets amounted to \$3.5 million. As of June 30, 2025, the net RTU assets and corresponding subscription obligations associated with future subscription payments reported on the statement of Net Position amount to \$1.3 million and \$1.3 million, respectively.

Amortization expense and interest expense were \$1.3 million and \$40,574, respectively, for the year ended June 30, 2025. The discount rate on these leases is 2.5%.

The principal and interest expenses for the next five years and beyond are presented in the following table:

| <b>Fiscal Years Ending June 30,</b> | <b>Principal</b>    | <b>Interest</b>  | <b>Total</b>        |
|-------------------------------------|---------------------|------------------|---------------------|
| 2026                                | \$ 763,189          | \$ 23,161        | \$ 786,350          |
| 2027                                | 480,326             | 5,779            | 486,105             |
| 2028                                | 43,288              | 437              | 43,725              |
| Total                               | <u>\$ 1,286,803</u> | <u>\$ 29,377</u> | <u>\$ 1,316,180</u> |

**14. VOLUNTARY TERMINATION BENEFITS**

*Act No. 70-2010*

On July 2, 2010, the Commonwealth enacted Act No. 70, established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The program was available to eligible employees that have completed between 15 to 29 years of creditable services and provided monthly benefits ranging from 37.5% to 50% of each employee's monthly salary until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. The PRGERS is responsible for benefit payments. The employees had until December 31, 2012, to elect to participate in this program. As of June 30, 2025, the Authority's total outstanding liability under this program was approximately \$12.8 million, discounted at 3.1%.

*Act. No. 211-2015*

On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allowed eligible active employees to participate in a voluntary retirement program if they were hired before April 1990 and have accrued a minimum of twenty years of service. The voluntary program, which was initially adopted during the fiscal year ended June 30, 2017, provided eligible participants with 60% of their average compensation, determined as of December 31, 2015, until the employee attains age sixty-one. As of June 30, 2025, the outstanding balance under Act No. 211 amounted to \$1.7 million. The liability under this program was discounted at 3.2%.

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Notes to Financial Statements (Continued)

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**14. VOLUNTARY TERMINATION BENEFITS (Continued)**

*Act No. 80-2020*

In October 2020, the Commonwealth enacted Act No. 80-2020, which established a program that provides benefits for early retirement for voluntary employment termination to eligible employees, as defined. In September 2023, an interim stipulation between the Commonwealth and the Oversight Board was approved that provided a roadmap for partial implementation of Act 80-2020.

Eligible employees were Act 447 members in PRGERS who had at least 20 years of service as of June 30, 2017, and Act No. 1-1990 members in PRGERS who had at least 15 years of service as of June 30, 2017. The stipulation provided that eligible employees must be working in non-essential positions, and such positions would be eliminated after the member retired. The benefits of electing members which impact PRGERS are as follows:

- Beginning April 1, 2024, a lifetime pension equal to 50% of the employee's highest annual salary in the three years prior to electing the Act 80-2020 retirement incentive. See Note 11, for more details.
- Beginning April 1, 2024, a payment of \$100 per month until age 62 to the eligible medical insurance plan selected by the retiree. See Note 12, for more details.

*Summary*

The aggregate adjustment for changes in discount rate under Act No. 70 and Act No. 211 during the fiscal year ended June 30, 2025, resulted in an expense of \$772,340.

**15. RELATED PARTY TRANSACTIONS**

During the fiscal year ended June 30, 2025, the Authority incurred rental charges from the Public Buildings Authority (PBA), a component unit of the Commonwealth, totaling approximately \$2.2 million for building occupancy. The lease agreements with PBA are renewed on a year-to-year basis and therefore do not meet the definition of a lease liability under GASB 87. Additionally, the Authority has an outstanding debt payable to PBA from past-due rents amounting to approximately \$10.1 million. During the year ending June 30, 2025, the Authority made monthly rent payments as required under the current lease terms.

In addition, the Authority's cost for electricity purchased from LUMA, the private operator of the Puerto Rico Electric Power Authority (PREPA), which is a component unit of the Commonwealth, was \$11.1 million during the fiscal year ended June 30, 2025.

In addition, the Authority paid workman compensation, to cover its employees to the Puerto Rico State Insurance Fund Corporation (CFSE for its acronym in Spanish), a component unit of the Commonwealth for approximately \$1.4 million. Furthermore, the Authority has outstanding debt payable to CFSE from past due insurance amounting to approximately \$1.1 million.

As of June 30, 2025, the Authority owes approximately \$5.5 million to the Puerto Rico Port Authority (PRPA). This balance reflects the net amount remaining after offsetting a lease obligation previously owed by the Authority to PRPA against amounts owed by PRPA to the Authority related to a road construction project. Additionally, on December 11, 2024, the Oversight Board authorized a transfer of \$39.5 million to the PRPA to address the PRPA's outstanding PayGo obligations with the PRGERS. This transfer is sourced from the "Payment of Obligations and Other Initiatives Related to the Government of Puerto Rico's Transportation Sector" line item within the Authority's Certified Revised Fiscal Year 2024 Budget.

During the year ended June 30, 2025, the Authority expended \$85.9 million for repairs, maintenance, and resurfacing of certain roads and bridges, funded with Commonwealth capital grants.

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Year Ended June 30, 2025

**16. COMMITMENTS AND CONTINGENT LIABILITIES**

**Construction Commitments**

As of June 30, 2025, the Authority had commitments of approximately \$607.4 million related to construction contracts. The funding sources for these projects consist of \$512.5 million in federal funds and \$94.9 million in state funds.

**Short-Term Lease Commitments**

The Authority has entered into various lease arrangements that qualify as short-term leases under GASB Statement No. 87, Leases, as the maximum possible lease terms are twelve months or less. Accordingly, these leases are not recognized as right-to-use assets or lease liabilities, and lease payments are recognized as expense based on the terms of the respective agreements.

The most significant of these short-term leases is the office space lease agreement with the PBA, which expired on June 30, 2025, and was subsequently renewed. During the fiscal year ended June 30, 2025, the total rental expense recognized under the PBA agreement was approximately \$2.2 million.

**Construction Claims**

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects. Furthermore, those claims pertaining to periods prior to the petition date are considered *General Unsecured Claims*, as more fully disclosed below. Based on the advice of legal counsel, no accrual for losses, if any, has been provided in the financial statements.

**Summary of Pending Legal Claims**

Under Title III claims process, approximately \$83.1 billion in claims were filed. As of the date these financial statements were issued, some claims had been withdrawn, resolved, or expunged by an omnibus objection. The validity of the remaining claims has not yet been determined, and such claims remain subject to the claim reconciliations process. However, most of these claims fall into the General Unsecured Claims class, for which \$48 million has been apportioned in the Authority's POA for the full settlement of this class of claims. As of June 30, 2025, all funds required to settle this obligation were held in a trust account at the DOT.

Based on legal advice, as of June 30, 2025, the Authority has recorded a liability of approximately \$63.7 million for probable losses on those claims not fully covered by insurance. Some of these claims against the Authority have been filed in different local and federal courts of law. Outstanding legal liability is composed of \$18.3 million in legal cases related to construction projects, included under general unsecured claims, and other operating matters and \$45.4 million related to expropriation and related costs. Most of the amounts accrued relate to prepetition claims, which were classified under the following claim classes in the Authority's POA:

- ***General Unsecured Claims (GUC)***: Will be settled with a \$48 million allocation provided within the Authority's POA.
- ***Allowed Eminent Domain / Inverse Condemnation Claims***: Allowed claims shall be entitled to receive one hundred percent of such unpaid balance, with certain limitations. Claims not allowed will be included with other GUC claims.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**16. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

- **Federal Claims:** These are defined under the Authority's POA as those held by the United States of America, its agencies, departments, or agents, including, but not limited to, the U.S. Department of Housing and Urban Development, the U.S. Department of Homeland Security, and the U.S. Department of Labor. The Authority shall, on the later of (a) the HTA Effective Date or (b) the date a Federal Claim becomes an Allowed Claim, either satisfy and discharge the claim on mutually agreed terms with the claimant or, at its sole discretion, take one of the following actions in full satisfaction, release, and exchange of such claim: (1) Pay each holder of an Allowed Federal Claim the full amount in cash, (2) satisfy and discharge the claim in accordance with the terms of the relevant documents, or (3) pay the full amount in forty (40) equal annual installments, beginning on the third anniversary of the HTA Effective Date.

The Authority believes that the amount provided for these claims is sufficient to settle the possible final settlement, including prepetition liabilities that will be settled in accordance with the POA. However, this estimate may change in the near term.

**Contingent Liabilities due to COVID-19 Shutdown**

The Authority is also a defendant in several other lawsuits filed by different contractors for alleged breach of contract. These Authority's contractors' claims, among other things, for extended overhead resulting from the executive orders of the Governor of Puerto Rico that decreed a government shutdown from March to May 2020. The contractors have sent notices for claims for contractual damage, particularly extended overhead. Based on the advice of counsel, the Authority believes that those claims are completely without merit and will vigorously defend its position. Accordingly, no accrual losses, if any, have been recorded in the basic financial statements.

**Federal Assistance Programs**

The Authority participates in several 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 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and compliance audits by grantor agencies.

On January 11, 2023, the Authority entered into an agreement with the Puerto Rico Department of Housing (PRDH) as a subgrantee of Community Development Block Grant- Mitigation Program (CDBG-MIT) to provide financial assistance in areas affected by recent disasters. The funds sub-awarded to the Authority constitute a Subaward of the PRDH's Federal Award, the use of which must be comply with requirements imposed by federal statutes, regulations, and the terms and conditions of the PRDH's Federal Award. The total appropriated funds amounted to approximately \$907.3 million (\$691.3 million on PR Highway 10 and \$216 million on other projects).

As of the issuance date of the financial statements, none of the funds for this agreement have been disbursed.

**Toll Fines**

In December 2022, toll fines were discontinued after a cyber-attack and have not been restarted as of the date these financial statements were issued. The Authority is currently implementing a new electronic toll collection system (ETC) in collaboration with the toll road concessionaires.

**Contingent Income**

The Authority is currently evaluating, together with a third party hired to monitor toll revenue reported by the Auto Expreso operator, certain discrepancies in the reporting of toll road revenues. The amount of these

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**16. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

discrepancies has not been determined. Any amount determined to be collectible from this analysis will be recognized upon collection.

**17. RISK DISCLOSURES RELATED TO CERTAIN CONCENTRATIONS AND CONSTRAINTS**

In accordance with GASB Statement No. 102, *Certain Risk Disclosures*, the Authority evaluated whether certain concentrations or constraints exist that could make the Authority vulnerable to the risk of a substantial impact on its financial condition.

**Concentrations**

The Authority is subject to certain concentrations related to significant inflows of resources:

*Federal Funding Concentration*

The Authority relies significantly on federal funding, primarily from FHWA and FTA, to finance capital projects, infrastructure rehabilitation, and certain operating activities. Federal operating and capital grants represent a substantial portion of the Authority's total inflows of resources and are subject to federal laws, regulations, appropriations, and compliance requirements.

*Commonwealth Support*

The Authority receives recurring operating transfers and other financial support from the Commonwealth of Puerto Rico in accordance with the Authority's Certified Fiscal Plan approved by the Oversight Board. The availability of such support is dependent on the Commonwealth's fiscal capacity, budgetary appropriations, and continued compliance with applicable fiscal plans.

*Service Concession Agreement Revenues*

A significant portion of the Authority's operating revenues is derived from the amortization of deferred inflows of resources related to long-term service concession agreements for certain toll roads. These revenues are dependent on the continued effectiveness of the concession agreements and the contractual performance of the concessionaires over the terms of the agreements.

**Constraints**

The Authority is also subject to certain constraints that limit its ability to acquire resources or control spending:

*Legal and Regulatory Constraints*

The Authority operates within the framework of PROMESA and is subject to oversight by the Oversight Board. Certain actions, including budget approvals, fiscal plan certifications, and specific transactions, require Oversight Board approval, which constrains the Authority's financial and operational flexibility.

*Contractual Constraints*

The Authority is subject to contractual constraints under its service concession agreements, including provisions governing tolling authority, operational standards, compensation for defined adverse actions, and termination rights.

*Restricted Resources*

Certain cash and investment balances are legally restricted for specific uses, such as capital improvement projects, escrow accounts, and reserve requirements established under contractual and statutory provisions, limiting the Authority's discretion over those resources.

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Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**17. RISK DISCLOSURES RELATED TO CERTAIN CONCENTRATIONS AND CONSTRAINTS**  
**(Continued)**

**Assessment of Vulnerability and Events**

Management evaluated whether the identified concentrations and constraints make the Authority vulnerable to the risk of a substantial impact and whether any related events have occurred, have begun to occur, or are more likely than not to occur within twelve months of the date the financial statements are issued.

Based on this evaluation, management determined that, as of the date of issuance of the financial statements, no events related to these concentrations or constraints have occurred or are more likely than not to occur within the next twelve months that would result in a substantial impact on the Authority's financial condition. Accordingly, while the Authority remains subject to the concentrations and constraints described above, management does not believe that these conditions currently expose the Authority to a vulnerability that would require additional disclosure beyond the information provided herein.

**18. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS**

Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog to operate and maintain the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years.

The total annual operation and maintenance cost, for the fiscal year ended June 30, 2025, was approximately \$56.3 million, including the base fee under the contract. The Authority is committed to the payment of the base fees throughout the remaining life of the contract.

The Authority contracted also First Transit of Puerto Rico, Inc. (First Transit) to operate a fixed route bus service of three bus systems known as Metrobus, Metro Urbano and Urban Train Connection (UTC) with a total bus fleet of 54 vehicles that feed the Urban Train transportation system.

All buses utilized for these services are owned exclusively by the Authority and are assigned to the contractor for operation and maintenance. The Authority retains ownership of the fleet, while First Transit is responsible for daily operations, maintenance, safety, and performance in accordance with the standards and requirements outlined in the contract.

The Metrobus program consists of two routes that provide frequent, high-demand service between the Sagrado Corazón Station and the Old San Juan area. Metro Urbano offers two express commuter routes connecting outlying municipalities to the Urban Train. The E20 route connects the Campanillas-Toa Baja Park-and-Ride facility to the Bayamón Station, while the E30 route operates between the Cupey Station and the Caguas Municipal Transit Terminal. TU Conexión consists of four routes—C22, C35, C36, and E40—that provide connectivity between the Urban Train and key areas within the San Juan metropolitan region. Routes C22, C35, and C36 operate between Sagrado Corazón Station with several northern corridors in the San Juan municipality, and route E40 provides direct service from the Piñero Station to the Luis Muñoz Marín International Airport, with intermediate access to the Mall of San Juan.

The service is provided seven days a week using 24 buses owned by the Authority. The total aggregate expense amount under this contract was \$11.3 million for the fiscal year ended June 30, 2025. Effectively on October 1, 2023, the Authority entered a new contract with First Transit to extend the fixed route bus services. The contract expires on June 30, 2028, with an option to extend the term for an additional period of 5-year period.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**18. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS (Continued)**

As part of the Transportation Sector Reform, the Authority is expected to transfer the operation of the Urban Train and its feeder bus system to PRITA. PRITA obtained FTA grantee status in December 2024, and the Authority and PRITA continue coordinating the operational, financial, and administrative aspects of the proposed transfer.

As of June 30, 2025, no assets or liabilities have been transferred and the Urban Train operations remain under the Authority for financial reporting and budgetary purposes. The transfer is currently expected to be completed by the end of fiscal year 2026; however, the timing remains subject to governmental coordination and final implementation steps.

Management will continue evaluating the operational and financial implications of the proposed transfer in alignment with the certified Fiscal Plan.

**19. OTHER OPERATING INCOME**

For the year ending June 30, 2025, other operating income includes:

|                                          |                     |
|------------------------------------------|---------------------|
| Teodoro Moscoso revenues                 | \$ 3,439,862        |
| Rental income                            | 1,158,698           |
| Electronic toll revenues and label sales | 443,950             |
| Impact fee                               | 744,520             |
| Insurance reimbursement                  | 25,329              |
| Other                                    | <u>2,673,726</u>    |
| Total                                    | <u>\$ 8,486,085</u> |

**20. NET POSITION AND RESTATEMENT OF PRIOR YEAR BALANCES**

**Composition of Unrestricted Net Deficit as of June 30, 2025**

Unrestricted net deficit is composed of:

|                                                                        |                           |
|------------------------------------------------------------------------|---------------------------|
| Long-term amortizing, service concession agreements                    | \$ (3,694,843,061)        |
| Pension liability                                                      | (396,682,242)             |
| Readily available for operations                                       | <u>(328,376,091)</u>      |
| Unrestricted net deficit as presented in the statement of Net Position | <u>\$ (4,419,901,394)</u> |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (Continued)

Year Ended June 30, 2025

**20. NET POSITION AND RESTATEMENT OF PRIOR YEAR BALANCES (Continued)**

**Restatement of net position as of July 1, 2024**

Error correction:

The beginning balance of net position has been restated during the fiscal year 2025, for contractor invoices from fiscal year 2024, inadvertently recorded in 2025, as follows:

|                                                                   |                         |
|-------------------------------------------------------------------|-------------------------|
| Net position, at beginning of fiscal year, as previously reported | \$ 5,410,674,825        |
| Error correction                                                  | <u>(4,705,095)</u>      |
| Net position, at beginning of fiscal year, as restated            | <u>\$ 5,405,969,730</u> |

**21. SUBSEQUENT EVENTS**

The Authority evaluated its subsequent events until March 27, 2026, the date on which the financial statements were ready for issuance. The Authority's management understands that no other material events occurred after June 30, 2025, that require them to be disclosed in the financial statements except as disclosed in Notes 2 and 3.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in Commonwealth Total Pension Liability and Related Ratios  
for Multiple-Employer Pension Plans (Unaudited)

June 30, 2025

The Schedule of Changes in the Total Pension Liability for Multiple-Employer Pension Plans presents the changes in the Authority's share of the total pension liability of the PRGERS for the period ended June 30, 2025 (Reporting Date).

|                                              | June 30,             |                      |                      |                      |                      |                      |                      |
|----------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                              | 2025                 | 2024                 | 2023                 | 2022                 | 2021                 | 2020                 | 2019                 |
|                                              | (Reporting Date)     |                      |                      |                      |                      |                      |                      |
| Proportion                                   | <u>2.33260%</u>      | <u>2.31046%</u>      | <u>2.38929%</u>      | <u>2.49547%</u>      | <u>2.46841%</u>      | <u>2.47743%</u>      | <u>2.45204%</u>      |
| Service cost                                 | \$ 300,862           | \$ 631,296           | \$ 2,427,831         | \$ 1,290,044         | \$ 1,697,274         | \$ 2,499,105         | \$ 1,280,690         |
| Interest                                     | 13,106,824           | 27,679,114           | 16,552,233           | 10,117,187           | 20,188,238           | 36,591,715           | 8,731,365            |
| Effect of plan changes                       | 3,286,379            | -                    | (51,409,855)         | -                    | (2,370,756)          | -                    | (27,118,892)         |
| Effect of economic/demographic gain (losses) | 708,671              | (1,440,970)          | 11,931,586           | (8,319,608)          | 2,380,342            | (11,662,171)         | 6,293,957            |
| Effect of assumptions changes inputs         | (10,120,669)         | (27,250,363)         | (90,241,299)         | 4,230,974            | 86,875,433           | 39,885,365           | (47,602,626)         |
| Benefit payments                             | <u>(23,920,168)</u>  | <u>(49,004,057)</u>  | <u>(38,352,126)</u>  | <u>(21,818,930)</u>  | <u>(31,543,883)</u>  | <u>(52,605,325)</u>  | <u>(20,230,891)</u>  |
| Net Change in total pension liability        | (16,638,101)         | (49,384,980)         | (149,091,630)        | (14,500,333)         | 77,226,648           | 14,708,689           | (78,646,398)         |
| Total pension liability - beginning          | <u>479,901,133</u>   | <u>529,286,113</u>   | <u>678,377,743</u>   | <u>692,878,076</u>   | <u>615,651,428</u>   | <u>600,942,739</u>   | <u>679,589,137</u>   |
| Total pension liability - ending             | <u>\$463,263,032</u> | <u>\$479,901,133</u> | <u>\$529,286,113</u> | <u>\$678,377,743</u> | <u>\$692,878,076</u> | <u>\$615,651,428</u> | <u>\$600,942,739</u> |

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported. There are no assets accumulated in a trust that meets the criteria in GASB 73, paragraph 4 to pay related benefits. The Commonwealth's total pension liability as of June 30, 2025, was measured on June 30, 2024 (measurement date), by an actuarial valuation dated December 22, 2025, for the reporting period June 30, 2025.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Commonwealth's Total Postemployment  
Benefits other than Pensions (ERS MIPC OPEB Plan) Liability and Related Ratios (Unaudited)

June 30, 2025

| Total OPEB liability (Reporting Date)                            | 2025                 | 2024                 | 2023                 | 2022                 | 2021                 | 2020                 | 2019                 | 2018                 |
|------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Proportional Share                                               | <u>2.13147%</u>      | <u>2.12069%</u>      | <u>2.10964%</u>      | <u>1.93333%</u>      | <u>1.90838%</u>      | <u>1.91496%</u>      | <u>1.90903%</u>      | <u>1.83511%</u>      |
| Service Cost at end of year                                      | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Interest                                                         | 437,656              | 455,190              | 117,209              | 321,482              | 519,064              | 432,988              | 100,701              | 546,940              |
| Changes of benefit terms                                         | 53,105               | -                    | -                    | -                    | -                    | -                    | -                    | -                    |
| Effect of economic/demographic gains or (losses)                 | (86,747)             | (82,277)             | 202,652              | (553,508)            | (110,788)            | 72,723               | (36,760)             | (199,653)            |
| Effect of assumption changes or inputs                           | (248,969)            | (109,185)            | (610,894)            | 112,625              | 1,620,155            | 314,932              | (639,259)            | (3,472,025)          |
| Benefit payments                                                 | (1,172,698)          | (1,226,825)          | (464,544)            | (1,141,580)          | (1,274,031)          | (960,695)            | (240,298)            | (1,305,139)          |
| <b>Net change in total OPEB liability</b>                        | <b>(1,017,653)</b>   | <b>(963,097)</b>     | <b>(755,577)</b>     | <b>(1,260,981)</b>   | <b>754,400</b>       | <b>(140,052)</b>     | <b>(815,616)</b>     | <b>(4,429,877)</b>   |
| <b>Total OPEB liability - beginning</b>                          | <b>13,711,606</b>    | <b>14,674,703</b>    | <b>15,430,280</b>    | <b>16,691,261</b>    | <b>15,936,861</b>    | <b>16,076,913</b>    | <b>16,892,529</b>    | <b>21,322,406</b>    |
| <b>Total OPEB liability - ending</b>                             | <b>\$ 12,693,953</b> | <b>\$ 13,711,606</b> | <b>\$ 14,674,703</b> | <b>\$ 15,430,280</b> | <b>\$ 16,691,261</b> | <b>\$ 15,936,861</b> | <b>\$ 16,076,913</b> | <b>\$ 16,892,529</b> |
| Covered-employee payroll                                         | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  |
| Total OPEB Liability as a percentage of covered employee payroll | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  | N/A                  |

**Note to schedule:**

The Commonwealth's total OPEB liability as of June 30, 2025, was measured on June 30, 2024 (measurement date), by an actuarial valuation dated December 22, 2025, for the reporting period June 30, 2025.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

To the Board of Directors of the  
Puerto Rico Highways and Transportation Authority  
(a Component Unit of the Commonwealth of Puerto Rico)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico)**, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 27, 2026.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item **2025-01** that we consider to be a material weakness.

**Report on Compliance and Other Matters**

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

## The Authority's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of This Report

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

Crowe PR PSC  
Lic. 16 Expires December 1, 2027  
Guaynabo, PR  
March 27, 2026

Crowe PR PSC



DPSC16-1038

Puerto Rico Highways and Transportation  
Authority

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of the  
Puerto Rico Highways and Transportation Authority  
(a Component Unit of the Commonwealth of Puerto Rico)

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the **Puerto Rico Highways and Transportation Authority's (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico)** compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2025. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered

material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2025-02**, **2025-03**, **2025-04**, **2025-05**, and **2025-06**. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2025-02** to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2025-03**, **2025-04**, **2025-05**, and **2025-06** to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe PR PSC  
Lic. 16 Expires December 1, 2027  
Guaynabo, PR  
March 27, 2026

*Crowe PR PSC*



DPSC16-1039

Puerto Rico Highways and Transportation  
Authority

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2025

| <b>Assistance<br/>Listing<br/>Number</b>                                            | <b>Program or cluster title/Federal grantor</b>                                           | <b>Total Federal<br/>Expenditures</b> | <b>Provided to<br/>Sub-<br/>Recipients</b> |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|---------------------------------------|--------------------------------------------|
| <b><u>U.S. Department of Transportation</u></b>                                     |                                                                                           |                                       |                                            |
| <b>Federal Transit Cluster</b>                                                      |                                                                                           |                                       |                                            |
| 20.500                                                                              | Federal Transit - Capital Investment Grants                                               | \$ 2,645,536                          | \$ -                                       |
| 20.507                                                                              | Federal Transit - Formula Grants                                                          | 46,143,677                            | 5,899,289                                  |
| 20.507                                                                              | COVID-19 Federal Transit - Formula Grants                                                 | 6,965,219                             | -                                          |
| 20.525                                                                              | State of Good Repair Grants Program                                                       | 2,500,976                             | 252,088                                    |
| 20.526                                                                              | Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs           | 572,409                               | 572,409                                    |
| <b>Total Federal Transit Cluster</b>                                                |                                                                                           | <u>58,827,817</u>                     | <u>6,723,786</u>                           |
| <b>Transit Services Programs Cluster</b>                                            |                                                                                           |                                       |                                            |
| 20.513                                                                              | Enhanced Mobility of Seniors and Individuals with Disabilities                            | 4,010,491                             | 3,994,680                                  |
| 20.516                                                                              | Job Access and Reverse Commute Program                                                    | 191,691                               | 191,691                                    |
| <b>Total Transit Services Programs Cluster</b>                                      |                                                                                           | <u>4,202,182</u>                      | <u>4,186,371</u>                           |
| <b>Other Programs:</b>                                                              |                                                                                           |                                       |                                            |
| 20.205                                                                              | Highway Planning and Construction (Federal-Aid Highway Program)                           | 253,580,953                           | -                                          |
| 20.505                                                                              | Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research | 965,434                               | 848,740                                    |
| 20.509                                                                              | Formula Grants for Rural Areas and Tribal Transit Program                                 | 8,207,680                             | 8,166,423                                  |
| 20.527                                                                              | Public Transportation Emergency Relief Program                                            | 7,183,044                             | 438,618                                    |
| 20.527                                                                              | COVID-19 Public Transportation Emergency Relief Program                                   | 813,678                               | -                                          |
| <b>Total Other Programs</b>                                                         |                                                                                           | <u>270,750,789</u>                    | <u>9,453,781</u>                           |
| <b><u>Total U.S. Department of Transportation</u></b>                               |                                                                                           | <u>333,780,788</u>                    | <u>20,363,938</u>                          |
| <b><u>U.S. Department of Homeland Security</u></b>                                  |                                                                                           |                                       |                                            |
| 97.036                                                                              | Disaster Grants - Public Assistance (Presidentially Declared Disasters)                   | 1,416,169                             | -                                          |
| <b><u>Total U.S. Department of Homeland Security</u></b>                            |                                                                                           | <u>1,416,169</u>                      | <u>-</u>                                   |
| <b><u>U.S. Department of the Treasury</u></b>                                       |                                                                                           |                                       |                                            |
| <b>(Pass-Through - Puerto Rico Fiscal Agency and Financial Advisory Authority):</b> |                                                                                           |                                       |                                            |
| 21.027                                                                              | COVID-19 Coronavirus State and Local Fiscal Recovery Funds                                | 24,097,990                            | -                                          |
| <b><u>Total U.S. Department of the Treasury</u></b>                                 |                                                                                           | <u>24,097,990</u>                     | <u>-</u>                                   |
| <b>Total Expenditures of Federal Awards</b>                                         |                                                                                           | <u>\$ 359,294,947</u>                 | <u>\$ 20,363,938</u>                       |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2025

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award expenditures of the Puerto Rico Highways and Transportation Authority (the "Authority") for the year ended June 30, 2025. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). The Schedule presents only a selected portion of the financial activities of the Authority. Therefore, it is not intended to, and does not present the net position, changes in net position, or cash flows of the Authority.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported using the accrual basis of accounting. The financial transactions are recorded by the Authority in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. FEDERAL ASSISTANCE LISTING NUMBERS**

The Assistance Listing Numbers included in the Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance. Pass-through entity identifying numbers are presented where available and applicable.

**4. RELATIONSHIP TO THE FINANCIAL STATEMENTS**

Federal awards revenues and expenses are reported in the Authority's statement of revenues, expenses, and changes in net position in accordance with standards issued by the Government Accounting Standards Board ("GASB") No. 34. Because the Schedule presents only federal activities of the Authority, it is not intended to and does not present the financial position, assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows of the Authority, as a whole.

**5. CLUSTER PROGRAMS**

The Uniform Guidance defines a cluster of programs as a group of closely related programs that share common compliance requirements. According to this definition, the Federal Transit Cluster and the Transit Services Programs Cluster were deemed to be cluster programs.

**6. INDIRECT COSTS**

The Authority has elected not to use the ten percent de minimis indirect cost rate allowed by the Uniform Guidance.

**7. PASS-THROUGH IDENTIFYING NUMBERS**

For Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) received by the Authority as a subrecipient, the pass-through entity did not assign a pass-through identifying number. Therefore, no identifying number is presented for this award in the Schedule of Expenditures of Federal Awards.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended June 30, 2025

**8. CONTINGENCIES**

*Federal Award Programs*

The Authority receives funds under various federal awards and such awards are to be expended in accordance with the provisions of each award. Compliance with the awards is subject to audit by various government agencies, which may impose sanctions in the event of non-compliance.

*Memorandum of Understanding – Federal Highway Administration*

On February 25, 2016, the Authority signed a Memorandum of Understanding (MOU) with the US Department of Transportation and FHWA for the Puerto Rico highway project and program delivery improvement. The purpose of the MOU is to facilitate improvements to the Authority's Federal-aid billing procedures, to facilitate and enable the Authority's ability to be suitably equipped and organized to meet federal requirements by reinvigorating its organizational capacity, and to expedite project delivery in Puerto Rico.

The MOU establishes procedures, systems, and project delivery objectives for the Puerto Rico Highway Program. It identifies the roles, responsibilities, and actions for the Authority and FHWA to accelerate the funding, planning, design, and construction of various highway and bridge and surface transportation improvement projects. The Authority needs to adhere to certain provisions detailed as follows in the MOU: 1) Federal-aid Billing Procedures, 2) Toll Credits, 3) Organizational Capacity Development, 4) Expediting Project Delivery, and others. The Authority's compliance with the MOU provisions is subject to periodic performance reviews by FHWA throughout the term of the MOU.

Management believes that the Authority has complied with all aspects of the MOU and federal award provisions for the year ended June 30, 2025, except as disclosed in finding No. 2025-06 in the Schedule of Finding and Questioned Costs.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2025

**Financial Statements**

- |                                                                                             |                     |
|---------------------------------------------------------------------------------------------|---------------------|
| 1. Type of auditors' report issued.                                                         | Unqualified Opinion |
| 2. The independent auditors' report on internal control over financial reporting described: |                     |
| a. Material weakness (es) identified?                                                       | Yes                 |
| b. Significant deficiency(es) identified?                                                   | No                  |
| c. Noncompliance material to financial statements noted?                                    | No                  |

**Federal Awards**

- |                                                                                                       |                          |
|-------------------------------------------------------------------------------------------------------|--------------------------|
| 3. Internal control over major federal programs:                                                      |                          |
| a. Material weakness(es) identified?                                                                  | Yes                      |
| b. Significant deficiency(es) identified?                                                             | Yes                      |
| 4. Type of audit report issued on compliance with requirements applicable to major Federal awards.    | Unmodified Opinion       |
| 5. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes                      |
| 6. Identification of major programs:                                                                  | ALN No.                  |
| a. Transit Services Programs Cluster                                                                  | 20.513 / 20.516 / 20.521 |
| b. Coronavirus State and Local Fiscal Recovery Funds                                                  | 21.027                   |
| c. Highway Planning and Construction (Federal-Aid Highway Program)                                    | 20.205                   |
| 7. Dollar threshold used to distinguish between Type A and Type B programs:                           | \$3,000,000              |
| 8. Auditee qualified as low-risk auditee?                                                             | No                       |

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year Ended June 30, 2025

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

**Finding Reference 2025-01**

**Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition**

The auditors identified the following deficiencies in the Authority's internal controls over financial reporting, which include:

- *Financial Statement Adjustments:* Several misstatements were identified during the audit that required four (4) audit adjustments to correct errors in the financial statements. These adjustments were accepted to be posted by the Authority's Management. Within the adjustments, one of the adjustments is a prior period adjustment. From a sample of fifty-six (56) disbursement transactions related to roads and highway maintenance expenses, the auditors identified transactions amounting to \$4,705,095, which were erroneously expensed in the wrong accounting period. The work was incurred during fiscal year 2024. Therefore, a prior period adjustment was recommended and accepted by Management. A similar condition was reported in the prior fiscal year's audit within finding No. 2024-01.
- *Outdated manuals:* the audit team requested management several operational manuals and policies related to federal funds and accounting closing procedures. We found that these manuals were outdated as follows:
  - *Procedimiento Numero 09-09-38 "Cierre de Ciclos de Contabilidad en el Sistema Financiero Mecanizado y Preparación de Estados Financieros"* – This manual was approved on June 8, 2015, and had not been updated as of June 30, 2025. Management has initiated an update of the manual during Fiscal Year 2026.
  - *Preparation of Reports for the Office of Federal Coordination as to Projects under Sections 5303, 5307, 5310, 5311, 5316, and 5317 FTA* - This manual was approved on May 14, 2015 and has not been updated since that date.
  - *Procedure for Processing Certifications with Federal Participation in Change Orders and Extra Work Orders* - This manual was approved on October 6, 2009 and has not been updated since that date.
  - *Closing of Projects, Modifications and Preparation of Final Voucher for Projects with Federal Funding* - This manual was approved on October 6, 2009 and has not been updated since that date.
  - *Analysis, Verification, and Registration of Information for Billing Federal Contributions* - This manual was approved on October 6, 2009 and has not been updated since that date.

A similar condition was reported in the prior fiscal year's audit within finding No. 2024-01.

**Criteria**

Management is responsible for establishing and maintaining effective internal control over financial reporting to provide reasonable assurance that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

Specifically:

- Government Auditing Standards (GAGAS) require management to design and implement internal controls sufficient to prevent, or detect and correct, material misstatements in a timely manner.
- U.S. GAAP (including GASB standards) requires transactions and events to be recorded in the proper accounting period in accordance with the accrual basis of accounting.
- Sound internal control practices require that policies and procedures be current and reflect applicable federal regulations and GASB requirements.

**Cause**

The deficiencies are primarily attributable to insufficient review and monitoring controls over the year-end closing and financial reporting process, particularly with respect to ensuring that expenditures are recorded in the proper accounting period in accordance with the accrual basis of accounting. Furthermore, procedures to ensure timely updates of operational manuals and policies to reflect current federal regulations and GASB requirements have not been adequately established or enforced.

**Effect**

None. Although audit adjustments, including a prior period adjustment, were required to correct the financial statements, the underlying expenditures were determined to be allowable and properly supported. The issue relates to the timing and accuracy of financial reporting and does not represent noncompliance with federal statutes, regulations, or the terms and conditions of federal awards; therefore, no questioned costs are reported.

**Questioned Costs**

None. Although audit adjustments, including a prior period adjustment, were required to correct the financial statements, the underlying expenditures were determined to be allowable and properly supported. The issue relates to the timing and accuracy of financial reporting and does not represent noncompliance with federal statutes, regulations, or the terms and conditions of federal awards; therefore, no questioned costs are reported.

**Recommendation**

We recommend that management complete and formalize the corrective actions initiated in response to prior year finding No. 2024-01, as finding No. 2025-01 reflects a similar condition, to ensure that internal control deficiencies are fully remediated and operating effectively. Specifically, management should finalize and formally adopt the updated financial policies and procedures currently under review, including those related to year-end closing, period cut-off, and financial reporting.

In addition, management should implement a documented supervisory review process over significant accounts and accrual entries to ensure transactions are recorded in the proper accounting period prior to issuance of the financial statements. While training and external consultation have been undertaken, management should assess whether these measures have effectively reduced the risk of recurring misstatements and implement additional control enhancements, as necessary. Finally, management should establish measurable milestones and monitoring procedures to ensure timely completion of outstanding policy updates and sustained compliance with U.S. GAAP and federal reporting requirements.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

**SECTION III - FEDERAL AWARDS FINDINGS**

|                                  |                                                          |
|----------------------------------|----------------------------------------------------------|
| <b>Finding Reference</b>         | 2025-02                                                  |
| <b>Assistance Listing Number</b> | 21.027 Coronavirus State and Local Fiscal Recovery Funds |
| <b>Name of Federal Agency</b>    | Department of Treasury                                   |
| <b>Type of Finding</b>           | Material Weakness on Internal Control and Noncompliance  |

**Condition**

During the audit, management initially provided a Schedule of Expenditures of Federal Awards (SEFA) that required revision because the total federal expenditures reported for Program 21.027, Coronavirus State and Local Fiscal Recovery Funds, were incomplete. Specifically, expenditures totaling \$1,084,942 that had already been reported to the pass-through entity were omitted from the SEFA, resulting in an understatement of total federal awards expended under the program.

A similar condition was reported in the prior year's single audit as finding No. 2024-05.

**Criteria**

In accordance with 2 CFR § 200.510(b) (Financial Statements and SEFA Requirements), the auditee must:

1. Prepare an accurate SEFA that includes the total federal awards expended for the period under audit.
2. Ensure the SEFA is complete, accurate, and properly classified by fiscal year.
3. Provide sufficient information to allow auditors to test compliance with federal requirements.

**Cause**

The errors in the preparation of the SEFA indicate deficiencies in internal controls over the financial reporting process related to federal awards. Specifically, management did not implement sufficient oversight and reconciliation procedures to ensure that all federal expenditures were accurately identified, classified, and reported within the appropriate fiscal year. In addition, the review process over the SEFA prior to submission to the auditors was not adequately designed or executed to detect and correct reporting omissions and misstatements.

**Effect**

As a result of the deficiencies in internal controls over SEFA preparation, the Schedule of Expenditures of Federal Awards was initially misstated and required revision to properly reflect total federal awards expended under Assistance Listing No. 21.027. The omission of expenditures increased the risk of material misstatement in the SEFA and could have resulted in an inaccurate representation of federal funding expended by the Authority. Additionally, the failure to initially prepare a complete and accurate SEFA resulted in noncompliance with 2 CFR § 200.510(b), which requires the auditee to provide a full and accurate accounting of federal expenditures for the period under audit.

**Questioned Costs**

No questioned costs were identified, as the issue relates to the misclassification and misstatement of expenditures, rather than the allowability of costs.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

**Recommendation**

To ensure compliance with 2 CFR § 200.510(b) and improve internal controls over SEFA preparation, we recommend that the Authority:

1. Implement a formal review and reconciliation process to ensure federal expenditures are accurately reported in the correct fiscal year.
2. Enhance communication between finance and grant administration personnel to improve accuracy in expenditure classification.
3. Provide additional training to staff responsible for SEFA preparation on Uniform Guidance requirements for federal reporting.
4. Require a final, documented supervisory review of the SEFA before submission for audit to prevent reporting inaccuracies.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

|                                  |                                                              |
|----------------------------------|--------------------------------------------------------------|
| <b>Finding Reference</b>         | 2025-03                                                      |
| <b>Assistance Listing Number</b> | 21.027 Coronavirus State and Local Fiscal Recovery Funds     |
| <b>Name of Federal Agency</b>    | Department of Treasury                                       |
| <b>Compliance Requirement</b>    | Reporting                                                    |
| <b>Type of Finding</b>           | Significant Deficiency on Internal Control and Noncompliance |

**Condition**

From a sample of eight (8) expenditure reports examined, the auditors noted that five (5) reports were submitted after the due dates established by the pass-through entity.

A similar finding was reported during the prior year's single audit as finding No. 2024-04.

**Criteria**

In compliance with the reporting requirements set by the pass-through entity, the Authority must submit expenditure reports on the first and third Friday of each month to disclose expenditures under ALN 21.027.

The Uniform Guidance section 200.303 regarding internal controls requires subrecipients to establish, document, and maintain effective internal control over Federal awards that provide reasonable assurance that the management of Federal awards is in compliance with Federal statutes, regulations, and terms and conditions of the Federal awards. This includes accurate financial reporting and proper segregation of duties to prevent any individual from both preparing and reviewing the same transaction or report.

**Cause**

The Authority lacks sufficient personnel assigned to oversee, review and make sure the reports are timely issued to the passthrough entity. This process is conducted by an employee without any formal oversight or review, prior to the submission to the passthrough entity.

**Effect**

The lack of management review, oversight, and late submission of the expenditure reports increases the risk of non-compliance with federal requirements and inaccuracies in reporting over federal funds.

**Questioned Costs**

None.

**Recommendation**

To resolve these issues, the Authority should consider the following actions:

- *Strengthen Internal Controls:* Implement stronger internal control procedures to ensure accurate financial reporting and supervision. This should include establishing clear protocols for the timely preparation and review of financial reports, with distinct roles assigned to different individuals to maintain segregation of duties.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

- *Staffing Issues:* Take steps to address the employee shortage, either by hiring additional staff or by training existing staff to take on multiple roles, ensuring that duties can be adequately segregated even with limited personnel.
- *Regular Training and Awareness:* Conduct regular training sessions for all relevant staff on compliance with Federal program requirements and the importance of internal controls, including the need for segregation of duties in financial reporting.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

|                                  |                                                                                                                                                                                        |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Finding Reference</b>         | 2025-04                                                                                                                                                                                |
| <b>Assistance Listing Number</b> | Transit Services Programs Cluster<br>20.513Enhanced Mobility of Seniors and Individuals with Disabilities<br>20.516Job Access and Reverse Commute Program<br>20.521New Freedom Program |
| <b>Name of Federal Agency</b>    | Department of Transportation                                                                                                                                                           |
| <b>Compliance Requirement</b>    | Subrecipient Monitoring                                                                                                                                                                |
| <b>Type of Finding</b>           | Significant Deficiency on Internal Control and Noncompliance                                                                                                                           |

**Condition**

From a sample of nine (9) subrecipients, the auditors identified that for one (1) subrecipient, the Authority, did not perform subrecipient monitoring within the required three (3)-year cycle established in its State Management Plan, as of the audit period ended June 30, 2025. Although monitoring activities were scheduled for a subsequent period (2026), such actions occurred after the audit period and do not address the absence of compliance as of June 30, 2025.

**Criteria**

- 2 CFR 200.332(d) requires pass-through entities to monitor the activities of subrecipients to ensure compliance with Federal statutes, regulations, and the terms and conditions of the subaward.
- 2 CFR 200.303 requires non-federal entities to establish and maintain effective internal control over Federal awards.
- FTA Circular 5010.1E (Chapter 5) states that federal oversight activities (e.g., inspections or reviews) do not relieve the recipient of its responsibility to manage and oversee federally funded projects.
- The Authority's State Management Plan establishes a risk-based monitoring approach, including a three (3)-year monitoring cycle for subrecipients.

**Cause**

The Authority did not ensure that subrecipient monitoring procedures were performed and documented within the required three-year cycle for all subrecipients. Additionally, management relied on the FTA Triennial Review process as evidence of monitoring, which reflects a misinterpretation of federal requirements regarding the Authority's responsibilities as a pass-through entity.

**Effect**

The failure to perform and document subrecipient monitoring within the established cycle increases the risk that noncompliance with federal requirements by subrecipients may not be identified in a timely manner. In addition, federal funds may not be used in accordance with applicable laws, regulations, and grant requirements. The Authority may be exposed to questioned costs, repayment obligations, or increased federal oversight.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

**Questioned Costs**

None.

**Recommendation**

We recommend that the Authority:

- Ensure that subrecipient monitoring is performed and documented in accordance with its State Management Plan and within the established three-year cycle.
- Reinforce internal controls and training to clarify that federal reviews (e.g., FTA Triennial Review) do not replace the Authority's monitoring responsibilities under 2 CFR 200.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

|                                  |                                                                        |
|----------------------------------|------------------------------------------------------------------------|
| <b>Finding Reference</b>         | 2025-05                                                                |
| <b>Assistance Listing Number</b> | 20.205 Highway Planning and Construction (Federal-Aid Highway Program) |
| <b>Name of Federal Agency</b>    | Department of Transportation                                           |
| <b>Compliance Requirement</b>    | Special Tests and Provisions – Wage Rate Requirements                  |
| <b>Type of Finding</b>           | Significant Deficiency on Internal Control and Noncompliance           |

**Condition**

From a sample of forty (40) payroll transactions of construction projects, the following exceptions were identified:

- Seven (7) instances where certified payrolls were submitted more than seven (7) days after the payroll period, indicating they were not certified on a weekly basis.
- Four (4) instances where no supporting documentation was provided to ensure compliance with the wage rate requirements.
- Two (2) instances where certified payrolls were signed by the contractor but did not include a certification date, preventing verification that certification occurred within the required seven (7)-day timeframe.

A similar condition was reported in the prior year's single audit as finding No. 2024-03.

**Criteria**

2 CFR 200 for the Highway Planning and Construction requires recipients and subrecipients to comply with Davis-Bacon and related wage rate requirements, including:

- Contractors and subcontractors must submit certified payrolls on a weekly basis.
- Certified payrolls must be complete, accurate, and properly certified, including the date of certification.
- The recipient must maintain adequate supporting documentation and internal controls to ensure compliance with wage rate requirements.

**Cause**

The Authority has not established or consistently implemented effective monitoring controls over contractors responsible for submitting certified payrolls in accordance with Davis-Bacon requirements.

Although contractors are responsible for preparing and submitting certified payrolls through the Authority, the Authority did not implement sufficient oversight procedures to:

- Ensure certified payrolls were submitted timely on a weekly basis in accordance with federal requirements;
- Perform and document a formal review of payroll submissions for completeness and accuracy, including verification of certification dates; and
- Follow up on late, incomplete, or missing payroll documentation.

This condition indicates that the Authority's control framework does not clearly define and enforce its oversight responsibility as the recipient to ensure contractor compliance with wage rate requirements. As a result, monitoring activities over contractors were not performed consistently or documented adequately.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

**Effect**

The Authority was not in compliance with federal wage rate requirements which causes an increased risk that laborers and mechanics may not have been paid in accordance with applicable prevailing wage rates. Lack of documentation impairs the Authority's ability to demonstrate compliance and increases the risk of undetected errors or noncompliance.

**Questioned Costs**

None.

**Recommendation**

We recommend the Authority:

1. Strengthen internal controls over wage rate compliance by implementing procedures to:
  - Ensure certified payrolls are submitted and reviewed weekly;
  - Verify that all payrolls include complete certification, including dates; and
  - Maintain adequate supporting documentation for all payroll reviews.
2. Enhance monitoring procedures over contractors and subcontractors, including:
  - Documented review checklists;
  - Timeliness tracking of payroll submissions; and
  - Follow-up on missing or incomplete documentation.
3. Provide training to personnel and contractors on federal wage rate requirements and documentation expectations.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended June 30, 2025

|                                  |                                                                        |
|----------------------------------|------------------------------------------------------------------------|
| <b>Finding Reference</b>         | 2025-06                                                                |
| <b>Assistance Listing Number</b> | 20.205 Highway Planning and Construction (Federal-Aid Highway Program) |
| <b>Name of Federal Agency</b>    | Department of Transportation                                           |
| <b>Compliance Requirement</b>    | Cash Management - Memorandum of Understanding (MOU)                    |
| <b>Type of Finding</b>           | Significant Deficiency on Internal Control and Noncompliance           |

**Condition**

Based on a sample of fifty-seven (57) disbursements tested, the auditors identified nine (9) instances in which payments to contractors were not made within the forty (40)-day timeframe established in the Memorandum of Understanding (MOU).

**Criteria**

The Memorandum of Understanding (MOU) between the Authority and the Federal Highway Administration (FHWA) requires the Authority to remit payments to contractors within forty (40) days of receipt of a proper invoice.

**Cause**

Management indicated that delays in payments were attributable to the implementation of new procedures associated with the Stewardship and Oversight Agreement and the related transition of responsibilities to the Authority. As part of this transition, the Authority assumed additional operational and oversight responsibilities, which increased administrative workload and processing demands, contributing to delays in the review, approval, and disbursement of contractor payments.

**Effect**

Failure to meet the payment requirements results in noncompliance with federal regulations and the MOU. Additionally, delayed payments may adversely affect project execution, contractor performance, and overall program efficiency.

**Questioned Costs**

None.

**Recommendation**

The Authority should strengthen internal controls over the accounts payable process to ensure timely processing and payment of contractor invoices. This may include implementing monitoring mechanisms to track invoice receipt and payment deadlines, establishing clear accountability for timely approvals, and conducting periodic reviews to ensure compliance with the MOU requirements.

**Views of Responsible Officials**

Refer to Management's unaudited corrective action plan.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

Year Ended June 30, 2025

**Finding 2024-01 Financial Statement Finding**

**Condition**

The auditors identified multiple deficiencies in the Authority's internal controls over financial reporting, which include:

- *Financial Statement Adjustments:* Several misstatements were identified during the audit that required 13 audit adjustments to correct errors in the financial statements. These adjustments were accepted by the Authority's management. Some significant examples follow:
  - *Federal Revenue Cut-Off Issues:* During the testing of federal revenues, the auditors noted that federal revenues were improperly recorded in FY 2024 instead of FY 2025. Additionally, some revenues related to FY 2024 were incorrectly excluded from the financial statements because they were misclassified as FY 2025 revenues. These misclassifications caused errors in the Schedule of Expenditures of Federal Awards (SEFA), impacting the accuracy of reported federal expenditures. Refer to Finding No. 2024-05 for related details on the SEFA.
  - *Prior Period Adjustment:* From a sample of fifty disbursement transactions related to roads and highway maintenance expenses, the auditors identified project transactions amounting to \$2,795,126, which were erroneously expensed in the wrong accounting period. The work was incurred during fiscal year 2023, and based on the auditors' projections, a prior period adjustment of \$5,898,431 was recommended and accepted. A similar condition was reported in the prior fiscal year's audit within finding No. 2023-01.
- *Outdated manuals:* the audit team requested management several operational manuals and policies related to federal funds. We found that these manuals were outdated as follows:
  - *Preparation of Reports for the Office of Federal Coordination as to Projects under Sections 5303, 5307, 5310, 5311, 5316, and 5317 FTA* - This manual was approved on May 14, 2015, and has not been updated since that date.
  - *Procedure for Processing Certifications with Federal Participation in Change Orders and Extra Work Orders* - This manual was approved on October 6, 2009, and has not been updated since that date.
  - *Closing of Projects, Modifications and Preparation of Final Voucher for Projects with Federal Funding* - This manual was approved on October 6, 2009, and has not been updated since that date.
  - *Analysis, Verification, and Registration of Information for Billing Federal Contributions* - This manual was approved on October 6, 2009, and has not been updated since that date.

**Status**

Not corrected. A similar finding was reported as finding No. 2025-01.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)**

Year Ended June 30, 2025

**Finding 2024-02 Compliance Finding**

**Condition**

From a sample of sixty federal construction projects examined, we noticed the following compliance deficiencies:

1. For two projects, the toll credit usage reported in the Authority's Toll Credits Report differed from the amounts reported in the Federal-Aid Project Agreements as approved by the Federal Highway Administration (FHWA).
2. For one project, the Authority was unable to provide sufficient evidence for the auditors to validate the toll credit usage amount during the fiscal year.

A similar finding was reported during the prior year's single audit as finding number 2023-04.

**Status**

Corrected.

**Finding 2024-03 Compliance Finding**

**Condition**

From a sample of twenty-five payroll periods of construction projects examined, we noticed the following:

- 1) For one construction project, the contractor's payroll for the week of July 3, 2023, through July 9, 2023, was certified on July 27, 2023, exceeding the weekly certification requirement outlined in the Uniform Guidance.
- 2) For one construction project, the subcontractor's payroll for the week of July 3, 2023, through July 9, 2023, was certified on August 4, 2023, exceeding the weekly certification requirement outlined in the Uniform Guidance.
- 3) For one construction project, the contractor's payroll for the week of November 13, 2023, through November 19, 2023, was certified on November 27, 2023, exceeding the weekly certification requirement outlined in the Uniform Guidance.
- 4) For one construction project, the contractor's payroll for the week of June 24, 2024, through June 30, 2025, was certified on July 17, 2024, exceeding the weekly certification requirement outlined in the Uniform Guidance.

This is a repeat finding from prior year 2023. Although this finding was originally not reported in the 2023 Single Audit Report, during the current audit, we became aware that this issue also involved 2023. Therefore, the 2023 Single Audit Report is in the process of being reissued. In the reissued 2023 Single Audit Report, the finding will be identified as No. 2023-05.

**Status**

Not corrected. Refer to Finding No. 2025-05.

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)**

Year Ended June 30, 2025

**Finding 2024-04 Compliance Finding**

**Condition**

From a sample of eight expenditure reports examined, the auditors noted that five reports were submitted after the due dates established by the pass-through entity.

A similar finding was reported during the prior year's single audit as finding number 2023-03.

**Status**

Not corrected. Refer to finding No. 2025-03.

**Finding 2024-05 Compliance Finding**

**Condition**

During the audit, management repeatedly provided inaccurate versions of the Schedule of Expenditures of Federal Awards (SEFA) to the auditors, requiring multiple revisions to correct errors in the total federal awards expended for programs 20.205 Highway Planning and Construction (Federal-Aid Highway Program) and 21.027 Coronavirus State and Local Fiscal Recovery Funds.

**Status**

Not corrected. A similar finding was reported as finding No. 2025-02.

**Finding 2024-06 Compliance Finding**

**Condition**

As part of the audit procedures for Procurement, Suspension, and Debarment, the auditors tested a sample of two procurements. One of the procurements tested involved a federally funded rehabilitation project in the Municipality of Fajardo. However, when the auditors requested procurement documentation, management provided bidding records for a different project located in the Municipality of Toa Alta.

Upon reviewing the bid, contract, and supporting documentation, the auditors found no reference to the Fajardo project. Instead, the work was certified and billed to the Authority using an "extra work order" under the project number assigned to the Toa Alta project. Since the Fajardo project was not competitively procured and was improperly included under an unrelated procurement process, the Authority failed to comply with federal procurement regulations.

**Status**

Corrected.

**Finding 2023-01 Financial Statements Finding**

**Condition**

From a sample of twenty-six disbursement transactions related to roads and highway maintenance expenses, the auditors identified project transactions which were inadvertently expensed in the wrong accounting period. Total project costs amounting to \$1,727,145 should have remained capitalized within the Construction in Progress account

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)**

Year Ended June 30, 2025

during the current fiscal year. According to the evidence examined, the work performed for this project was incurred during fiscal year 2022.

**Status**

Not corrected. Refer to finding No. 2025-01.

**Finding 2023-03 Compliance Finding**

**Condition:**

The Authority lacks qualified personnel to oversee and review the reporting process, resulting in a lack of appropriate internal controls.

**Status**

Not corrected. Refer to finding No. 2025-03.



PUERTORICO HIGHWAY AND  
TRANSPORTATION AUTHORITY

ACT

GOVERNMENT OF PUERTO RICO

March 26, 2026

Department of Transportation  
Federal Highway Administration  
350 Chardon Ave. Suite 210  
San Juan, PR 00918-2161

Ladies and Gentlemen:

The Puerto Rico Highways and Transportation Authority (the Authority) respectfully submits the following corrective action plan for the fiscal year ended on June 30, 2025.

**Name and address of independent public accounting firm:**

Crowe PR PSC  
100 Carr. 165 Ste. 410  
Centro Internacional De Mercadeo  
Guaynabo PR 00968-8051

**Audit Period: Fiscal Year Ended on June 30, 2025**

**Finding Reference 2025-01**

**Corrective Action Plan:**

The Authority will implement the final phase of the reporting and accrual procedures to strengthen internal controls over the accounting closing process, as follows:

- After the closing of the accounts payable module, which occurs before the 10<sup>th</sup> day of the following month, an accrual entry will be recorded to recognize the construction certifications and the pre-construction and suppliers' invoices.
- Monthly accounting entries will use the "Facturas Pagadas a Suplidores" report from the accounting system to accrue the above payments, using the "Work Performed Up To" column.
- A monthly journal entry will be prepared by invoice type (Construction, Pre Construction and Suppliers) that will include the following periods: July 1 to July 31, August 1 to August 31, and September 1 to September 30.
- The entries will be accrued as of June 30 and reversed in the period in which the invoices were paid during the months of July, August and September.

- An allowance will be created to recognize the construction payments with subsequent dates after the financial audit. The allowance will include historical information of the payments for the last three years.
- The Procedure 09-09-38 has been revised to include the above process.

**Responsible:**

Mr. Angel M. Félix Cruz, Acting Director, Confidential Finance Office

**Planned Implementation Date:** In process. Expected to be completed on or before September 30, 2026.

**Finding Reference 2025-02**

**Corrective Action Plan:**

The Designated Office responsible for processing federal funds received through state agencies will deliver to the Finance Office a transaction list and a reconciliation of the disbursements made during the fiscal year. The Finance Office will review all transactions recorded during the current fiscal year and will prepare an accrual entry. These transactions will be reconciled against the transactions recorded during the subsequent fiscal year to confirm that funds were recorded in the appropriate fiscal period. The review and recording of these transactions will be completed during the final phase of the accounting closing process and prior to delivery of the Trial Balance to the external auditors.

**Responsible:**

Ms. María Del R. Ramos Ocasio, Accounting and Finance Manager

**Planned Implementation Date:** In process. Expected to be completed on or before September 30, 2026.

**Finding Reference 2025-03**

**Corrective Action Plan:**

The Authority has assigned an Analyst and a Supervisor the responsibility of monitoring compliance with all federal requirements related to the reporting process of these funds. In addition, an adequate training will be provided to the personnel involved in the administration of this program. The Authority has also implemented the following procedure to ensure accurate financial reporting and supervision:

- The Analyst will prepare the reports in accordance with the work plan and submit them to the Supervisor for review and approval.
- The Supervisor will review the reports and will send an email confirming the approval.
- Once approved, the Analyst will send the reports to the pass through entity.

**Responsible:**

Mrs. Johanna Pérez Falcón, Acting Director of the Office of Budget

**Planned Implementation Date:** Completed.

## **Finding Reference 2025-04**

### **Corrective Action Plan:**

The Authority will implement the following plan to perform this subrecipient monitoring within the required three-year cycle established in its State Management Plan:

#### **1. Scheduled On-site Monitoring Visit**

- Scheduled for June 10, 2026
- The visit will include programmatic, financial, and compliance reviews in accordance with FTA requirements and 2 CFR 200

#### **2. Pre-visit Desk Review**

- A comprehensive desk review will be conducted prior to the visit, including financial reports, subrecipient agreements, audit reports, and prior monitoring documentation

#### **3. Standardized Monitoring Procedures**

- The Authority will use an Oversight Review Checklist to ensure consistency, compliance, and proper documentation.

#### **4. Monitoring Report Issuance**

- A monitoring letter will be issued within 30 days of the visit, detailing findings, concerns, and required corrective actions, if applicable.

#### **5. Follow-up and Resolution**

- The Subrecipient will be required to submit a CAP, if findings are identified.
- The Authority will conduct follow-up procedures until full resolution is achieved.

### **Preventive Measures**

The Authority will implement the following measures to prevent recurrence of this finding:

- Establish and maintain a risk-based Oversight Visit Schedule
- Ensure inclusion of:
  - Subrecipients receiving reimbursement-based funding
  - Subrecipients identified as high-risk based on financial, operational, or compliance factors
- Strengthen internal controls to ensure adherence to monitoring cycles
- Maintain centralized and complete documentation of all monitoring activities

### **Responsible:**

Dra. Norma L. García Lebrón, Management Officer, Federal Coordination Office

Luis F. Colón Morales, Director, Federal Coordination Office

**Planned Implementation Date:** In process. Expected to be completed on or before July 31, 2026.

#### **Finding Reference 2025-05**

##### **Corrective Action Plan:**

The Authority implemented the following actions in March 2026 to ensure compliance with the Davis-Bacon Act and strengthen payroll certification process:

- On March 11, 2026, all personnel of the Construction Office receive adequate training on Davis-Bacon Act requirements and payroll certification processes.
- On March 20, 2026, the Authority prepared a formal communication to reinforce the compliance with the Davis Bacon Act and to provide updated forms and instructions for completing certification payroll process.
- On March 3, 2026, the Authority contracted external consultants to enhance monitoring procedures over contractors and subcontractors, including timeliness tracking of properly certified payroll on a weekly basis and follow-up on missing or incomplete documentation

**Responsible:** Mr. Emilio Garay, PE, Construction Office Director

**Planned Implementation Date:** In process. Expected to be completed on or before June 30, 2026.

#### **Finding Reference 2025-06**

##### **Corrective Action Plan:**

To strengthen internal controls, improve monitoring, and reduce delays in the certification and payment process, the Authority will implement the following operational improvements:

- The Authority is using the Finance Office Dashboard to track the status of certifications and invoices in real time, identify bottlenecks in the approval process, and support proactive management of pending payments.
- A standardized Construction Certification Compliance Checklist will be used to validate all required federal compliance documentation before certifications are submitted to the Finance Office. This measure is expected to reduce the number of returned submissions and prevent delays during the billing review process.
- The Authority will develop a Help Desk platform for certification and invoice inquiries to formally manage, document, and track inquiries or claims related to Construction Certifications and Pre- Construction invoices, improving transparency and response times.
- The Authority will launch the ICMM Payment Tracking Table to consolidate and monitor the payment status of certifications and invoices.

Additionally, the Authority is establishing intermediate milestones to progressively reduce the payment processing cycle, with the objective of moving from the current 40-day average toward the 30-day target. As part of this initiative, the Authority is expanding the use of the Project Management Information System (PMIS) to standardize and streamline the processing of construction certifications and payment documentation.

**Responsible:** Mr. Angel M. Felix Cruz, Acting Director, Confidential Finance Office

**Planned Implementation Date:** In process. The first operational improvement has been implemented. The remaining three measures are pending implementation. Expected to be completed on or before June 30, 2026.

If you require additional information, please contact us at your earliest convenience.

Cordially,



Mr. Enrique J. Rosa Torres

Executive Director of Administration and Finance