

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report)

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

Administrative Board of Directors of
Autoridad del Puerto de Ponce
Ponce, Puerto Rico

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Autoridad del Puerto de Ponce** (“the **Authority**”), a component unit of the Commonwealth of Puerto Rico, which comprise the statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of June 30, 2022 and 2021, and the changes in its net position, statement of functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Port, 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.

Responsibility 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 Port’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter

Auditors' Responsibility 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 GAAS 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 GAAS 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 the 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.

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As stated on Note 1 to these financial statements, as of June 30, 2022 and 2021, and as of the date of the auditors' report, the Authority has pending to receive through transfer, all the assets, but not the liabilities, owned by Autoridad de Ponce (formerly known as Port of the Americas Authority) as required by Act 240 of December 2011.

As discussed in Note 9 to the financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A") on pages 4 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

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

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 basic financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2023, 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

A handwritten signature in blue ink that reads "RRC CPA Group, PSC".
RRC CPA GROUP, PSC
License No. PSC- 196

Ponce, Puerto Rico
August 16, 2023

Stamp number E539462 was
affixed to the original report.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended June 30, 2022 and 2021

INTRODUCTION

On December 12, 2011, by virtue of Act No. 240, it was approved the creation of the Autoridad del Puerto de Ponce (the "Authority"), a component unit of the Commonwealth of Puerto Rico. The Authority was created to continue the development of the container terminal formerly undertaken by Port of the Americas Authority (PAA) and handle such facilities future operations; therefore, all of the assets, rights and duties of PAA (with the exception of its existing debt) would be transferred to the Authority. As of June 30, 2017, the assets of Autoridad de Ponce (previously known as Port of the Americas Authority¹) have not been transferred to the Authority.

On December 19, 2013, Act No. 156 was approved amending Act No. 240 by, among other things, authorizing the Authority to request a line of credit of up to \$60 million from the Government Development Bank (GDB) to start funding the operations for which it was created and to establish that effective fiscal year 2015 debt service be satisfied with annual Commonwealth's legislative appropriations. On August 24, 2017, Act 109 of 2017 "Government Development Bank of Puerto Rico Debt Restructuring Act" (Act No. 109) was signed into law with the purpose of establishing a legislative framework for GDB's restructuring process. Act No. 109 creates the Government Development Bank Debt Recovery Authority (GDBRA). As provided by Act No. 109, the Authority's line of credit payable to GDB, was transferred to GDBRA.

On January 18, 2018, the Governor signed Act No. 4 of 2018 to amend various articles from law No. 240 of 2011 in order to restructure the governing body of the Authority and establish the new composition of its Board of Directors.

The following Discussion and Analysis ("MD&A") of **the Authority's** activities and financial performance introduces the financial statements of the Authority for the fiscal year ended June 30, 2022. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report presents certain required supplementary information regarding operations, capital assets and long-term debt activity during the fiscal year, including outstanding commitments made for construction and development.

¹ On August 12, 2016, the Governor signed Act No. 176 of 2016, known as "Law of the Ponce Authority", amend various articles from law No. 171 of 2002 in order to: re-name the Port of the Americas Authority (PAA) to "Autoridad de Ponce", restructure the governing body of the PAA; establish the new composition of its Board and expand its purposes, faculties and powers to create a Coordinated Infrastructure Master Plan for the City of Ponce.

AUTORIDAD DEL PUERTO DE PONCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2022 and 2021

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under regulations of the Government Accounting Standards Board ("GASB"). The Authority's financial transactions and financial statements are presented according to GASB Statement No. 34 reporting model, as mandated by GASB. The purpose of GASB 34 reporting model is to consolidate two basic forms of governmental accounting (governmental and proprietary) into statements that give the reader a clearer picture of the financial position of the Authority as a whole. The Authority reports its financial position and results of operations as a Proprietary Fund.

The financial statements are prepared on the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method.

FINANCIAL POSITION SUMMARY

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year. The statement identifies the "net position" as the residual of the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. A summarized comparison of **the Authority's** net position at June 30, 2022 and 2021 is as follows:

	2022	2021	Variance
Assets:			
Current and other assets	\$ 2,171,773	\$ 1,712,020	\$ 459,753
Due from Autoridad de Ponce	4,022,265	4,022,265	-
Capital assets, net	28,657,080	28,643,000	14,080
Total assets	<u>\$ 34,851,118</u>	<u>\$ 34,377,285</u>	<u>\$ 473,833</u>
Liabilities:			
Line of credit	\$ 20,762,577	\$ 20,762,577	\$ -
Accounts payable	835,444	411,297	424,147
Accrued expenses and payroll withholdings	25,567	15,186	10,381
Other liabilities	233,338	-	233,338
Due to Autoridad de Ponce from Federal funds advances	62,984	62,984	-
Accrued interest payable	11,331,146	9,840,393	1,490,753
Total liabilities	<u>33,251,056</u>	<u>31,092,437</u>	<u>2,158,619</u>

AUTORIDAD DEL PUERTO DE PONCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Net position:			
Net investment in capital assets	3,577,310	4,937,967	(1,360,657)
Unrestricted	(1,977,248)	(1,661,688)	(315,560)
Total net position	<u>1,600,062</u>	<u>3,276,279</u>	<u>(1,676,217)</u>
Total liabilities and net position	<u>\$ 34,851,118</u>	<u>\$ 34,377,285</u>	<u>\$ 473,833</u>

The highlights for the Statement of Net Position are as follow:

- As of June 30, 2022, the Authority presents a Net Position of approximately \$1.6 million, a decrease of approximately \$1.6 million from 2021. This net position decrease is mainly due to the interest expenses.
- Cash for the year ended on June 30, 2022 and 2021 are presented at approximately 2.01 and \$1.1 million, respectively. Increase mainly due to collection of 2021 contribution funds of \$817 along with federal funds FEMA of \$994 associated to Hurricane Maria damages and current year tenant collection. The funds are deposited in a Commercial Bank.
- The amount of approximately \$4 million is due from the Autoridad de Ponce (formerly Port of the Americas Authority) for the year ended June 30, 2022.
- Line of credit balance as of June 30, 2022 and 2021, is approximately \$20.8 million. Credit provided through the Authority's line of credit, through the GDBRA, are to be satisfied by future Commonwealth's legislative appropriations and/or Authority revenues. During the year ended June 30, 2022, the accrued interest payable amounted to approximately \$11.3 million, an increase of approximately \$1.5 million from 2021. During the year 2022, no principal or interest were paid.
- Accounts payable for the year ended June 30, 2022 amounted approximately \$835 thousand, an increase of approximately \$424 thousand when compared to 2021 mainly due to FEMA related repairs contracts.
- Other liabilities represent accrued court judgment in the amount of \$233,338 recorded in 2022.

A summary of the Authority's significant accounting policies is presented in Note 2 in the accompanying financial statements. The financial statements along with the MD&A are designed to provide readers with a comprehensive understanding of the Authority's finances.

The financial section of this annual report consists of three parts: the MD&A, the Authority basic financial statements, and the notes to the financial statements. The report includes the following three statements: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2022 and 2021

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is an indicator of the overall fiscal condition of the Authority. A summarized comparison of the Authority's Statements of Revenues, Expenses and Changes in Net Position for the fiscal year ended June 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Operating revenues	\$ 741,916	\$ 985,341	\$ (243,425)
Operating expenses	<u>1,533,722</u>	<u>334,011</u>	<u>1,199,711</u>
Operating (loss) income before non-operating revenues and expenses	<u>(791,806)</u>	<u>651,330</u>	<u>(1,443,136)</u>
Non-operating revenues and expenses			
Other income	115,000	-	115,000
Federal grants	1,002,680	-	1,002,680
Interest expense on capital assets	(1,162,657)	(1,162,657)	-
Interest expense on operating activities	(328,096)	(328,096)	-
Court judgment expense	(233,338)	-	(233,338)
Contribution to Port of Ponce	<u>(278,000)</u>	<u>(268,000)</u>	<u>(10,000)</u>
Total non-operating revenues and (expenses)	<u>(884,411)</u>	<u>(1,758,753)</u>	<u>874,342</u>
Changes in net position	(1,676,217)	(1,107,423)	(568,794)
Net position, beginning of year	<u>3,276,279</u>	<u>4,383,702</u>	<u>(1,107,423)</u>
Net position, end of year	<u>\$ 1,600,062</u>	<u>\$ 3,276,279</u>	<u>\$ (1,676,217)</u>

AUTORIDAD DEL PUERTO DE PONCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2022 and 2021

The highlights for the Statement of Revenues, Expenses and Changes in Net Position are as follow:

- For the year ended on June 30, 2022, the Authority presented as changes in net position, an excess of expenses over revenues in the amount of approximately \$1.7 million. This represents a negative variance of approximately \$569 thousand, when compared with 2021. This change is related, primarily to contributions from the Commonwealth of Puerto Rico net of increase in utilities expense and interest on line of credit, court judgment expenses of \$233 thousand and credit for PayGo. For the year ended June 30, 2022, the Authority generated an operating loss of approximately \$792 thousand, while, during the year ended June 30, 2021, generated an operating income of approximately \$651 thousand.

CAPITAL ASSETS

The Authority's capital assets consist mainly on the acquisition of land for future developments. At the end of fiscal year 2022, the Authority's net capital assets amount to approximately \$28.7 million with a related net investment in capital assets of approximately \$4.7 million. During the year ended June 30, 2022 approximately \$14 thousand additions were realized.

DEBT ADMINISTRATION

As of June 30, 2022, the principal and interests balance outstanding on the Authority's credit facilities amounted to approximately \$29.1 million.

ECONOMIC OUTLOOK AND CURRENTLY KNOWN FACTS

Authority's ability to continue as a going concern

The Commonwealth has not included appropriations for the payment of debt service in its General Fund budget since fiscal year 2017, as the payment of such obligations has been suspended pursuant to the Moratorium Act and Act No. 5. In addition, the Authority has been unable to raise through operations the funds required for debt service. Management's plans for the future operations rely on the final transfer of the assets from Autoridad de Ponce, in accordance with Law No. 240 of 2011, as amended.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Mr. Héctor Agosto Rivera, Executive Director, Autoridad del Puerto de Ponce, P.O. Box 362350, San Juan, Puerto Rico 00936-2350.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF NET POSITION
June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets		
Cash with commercial bank	\$ 2,011,153	\$ 1,120,254
Accounts receivables	33,907	4,981
Federal grants receivable	8,250	-
Contributions receivable from the Department of Economic Development and Commerce	118,463	586,785
Due from Autoridad de Ponce (note 4)	4,022,265	4,022,265
Total current assets	<u>6,194,038</u>	<u>5,734,285</u>
Capital assets (notes 4, 5 and 7)	<u>28,657,080</u>	<u>28,643,000</u>
Total assets	<u><u>\$ 34,851,118</u></u>	<u><u>\$ 34,377,285</u></u>

LIABILITIES

Line of credit (note 6)	20,762,577	20,762,577
Accounts payable	835,444	411,297
Accrued expenses and payroll withholdings	25,567	23,755
Other current liabilities	233,338	-
Due to Autoridad de Ponce from Federal funds advances	62,984	62,984
Accrued interest payable (note 6)	11,331,146	9,840,393
Total liabilities	<u>33,251,056</u>	<u>31,101,006</u>

NET POSITION

Net investment in capital assets (note 7)	3,577,310	4,739,967
Unrestricted	<u>(1,977,248)</u>	<u>(1,463,688)</u>
Total net position	<u>1,600,062</u>	<u>3,276,279</u>
Total liabilities and net position	<u><u>\$ 34,851,118</u></u>	<u><u>\$ 34,377,285</u></u>

The accompanying notes are an integral part of the financial statements.

AUTORIDAD DEL PUERTO DE PONCE
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the fiscal years ended June 30, 2022 and 2021

	2022	2021
Operating revenues:		
Concessions revenues	\$ 69,620	\$ 34,341
Port operating fees and charges	45,702	-
Total operating revenues	115,322	34,341
Operating expenses:		
Salaries and fringe benefits	118,697	113,258
Professional services and counseling	53,826	15,191
Utilities	180,822	197,424
Repair services expenses	1,175,584	-
Other operating expense	4,739	8,138
Total operating expenses	1,533,668	334,011
Operating loss before depreciation and amortization	(1,418,346)	(299,670)
Depreciation and amortization	53	-
Operating loss	(1,418,399)	(299,670)
Non-operating revenues and (expenses):		
Contributions from the Commonwealth of Puerto Rico	626,593	951,000
Noncapital grants revenues	1,002,680	-
Other nonoperating revenues	115,000	-
Interest expense (note 6)	(1,490,753)	(1,490,753)
Court judgment expenses	(233,338)	-
Contribution to Port of Ponce (note 8)	(278,000)	(268,000)
Total non-operating revenues and (expenses)	(257,818)	(807,753)
Decrease in net position	(1,676,217)	(1,107,423)
Net position, beginning of year	3,276,279	4,383,702
Net position, end of year	\$ 1,600,062	\$ 3,276,279

The accompanying notes are an integral part of the financial statements.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS
For the Fiscal years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Concessions and port services collected	\$ 87,393	\$ 37,929
Payments for goods and services	(990,825)	(48,979)
Payments for employees and payroll expenses	<u>(117,881)</u>	<u>(98,073)</u>
Net cash used in operating activities and net decrease in cash	<u>(1,021,313)</u>	<u>(109,123)</u>
Cash flows from noncapital and related financing activities:		
Proceeds from contribution from government	816,916	1,050,215
Proceeds from noncapital grants	994,429	-
Proceeds from other nonoperating activities	<u>115,000</u>	<u>-</u>
Net cash provided by noncapital and related financing	<u>1,926,345</u>	<u>1,050,215</u>
Cash flows used in capital and related financing activities:		
Aquisition of capital assets	<u>(14,133)</u>	<u>-</u>
Net increase in cash	890,899	941,092
Cash, beginning of year	<u>1,120,254</u>	<u>179,162</u>
Cash, end of year	<u><u>\$ 2,011,153</u></u>	<u><u>\$ 1,120,254</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	<u>\$ (1,418,399)</u>	<u>\$ (299,670)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	53	-
Changes in assets and liabilities:		
Increase in accounts receivable	(28,926)	(4,981)
Increase in accounts payable	424,147	171,774
Increase in accrued expenses	<u>1,812</u>	<u>23,754</u>
Total adjustments	<u>397,086</u>	<u>190,547</u>
Net cash used in operating activities	<u><u>\$ (1,021,313)</u></u>	<u><u>\$ (109,123)</u></u>

The accompanying notes are an integral part of the financial statements.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. NATURE OF THE AUTHORITY

On December 12, 2011, by virtue of Act No. 240, as amended, it was approved the creation of the Autoridad del Puerto de Ponce (the "Authority"), a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Commonwealth provides financial support to the Authority through legislative appropriations and its current existing debt is payable from the legislative appropriations. The Authority's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund. The Authority was created to continue the development of the container terminal formerly undertaken by Port of the Americas Authority (PAA) and handle such facilities future operations; therefore, all of the assets, rights and duties of PAA (with the exception of its existing debt) would be transferred to the Authority. As of June 30, 2022, the assets of Autoridad de Ponce (previously known as Port of the Americas Authority²) have not been transferred to the Authority.

On December 19, 2013, Act No. 156 was approved amending Act No. 240 by, among other things, authorizing the Authority to request a line of credit of up to \$60 million from the Government Development Bank (GDB) to start funding the operations for which it was created and to establish that effective fiscal year 2015 debt service be satisfied with annual Commonwealth's legislative appropriations. As provided by Act No. 109, the Authority's line of credit payable to GDB, was transferred to GDBRA.

On January 18, 2018, the Governor signed Act No. 4 of 2018 to amend various articles from law No. 240 of 2011 in order to restructure the governing body of the Authority and establish the new composition of its Board of Directors.

On January 10, 2022, the Authority entered into a Memorandum of Understanding ("MOU") where Ponce Authority, notwithstanding being the owner of part of the real properties or equipment located or installed within the port premises, hereby designated the Authority to act on its behalf and be the only and exclusive party with legal authority to request, pursue and obtain federal assistance funds administered by FEMA's Public Assistance Alternatives Procedures Program for Permanent Work (Section 428), in relation to DR4339PR, for the construction or reconstruction of all the Ponce Authority's properties or equipment that forms a part or are operated by the Authority.

The accompanying basic financial statements are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

² On August 12, 2016, the Governor signed Act No. 176 of 2016, known as "Law of the Ponce Authority", to amend various articles from law No. 171 of 2002 in order to: re-name the Port of the Americas Authority (PAA) to "Autoridad de Ponce", restructure the governing body of the PAA; establish the new composition of its Board and expand its purposes, faculties and powers to create a Coordinated Infrastructure Master Plan for the City of Ponce.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Authority has established its financial activities as business type. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises on which the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The business-type activities account for resources devoted to finance the general services that the Authority provides. Contributions from the Legislature of Puerto Rico, and other sources of revenues, used to finance the operations of the Authority, are also included.

Fund structure – The operations of the Authority are recorded in a single proprietary fund. Proprietary funds distinguish operating revenues and expenses from non-operating revenue and expenses. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operation. The principal operating revenues for the Authority's proprietary fund are charges to customers for sales and services. Operating expenses include direct expenses of providing the goods or services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The Authority utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. The difference between assets and liabilities is classified as net assets of the business-type activities.

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash collections. Grants and similar resources are recognized as revenue as soon as all eligibility requirements have been met.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Enterprises that Use Proprietary Fund Accounting*, as amended by GASB No. 34, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Accounting Pronouncements Issued but Not Yet Effective:

GASB Statement No. 91, "Conduit Debt Obligations." Issued in May 2019, this statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements." Issued in June 2020, the statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments by (1) defining a SBITA, (2) establishing that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability, (3) providing the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) requiring note disclosures regarding a SBITA. The statement will be effective beginning fiscal year 2023.

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. The requirements of this statement are effective for fiscal years 2024. Earlier application is encouraged.

Concentration of Credit Risk - The Authority maintains accounts at a financial institution in Puerto Rico. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. However, funds are fully collateralized. The Commonwealth requires that public funds deposited in private banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, bank checking account and other instruments with original maturities of three months or less.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts receivables and Allowance for Doubtful Accounts – Accounts receivable includes include rental receivable of facilities owned by the PAA and harbor dues. Management considers all accounts to be fully collectible; however, the Authority has established an allowance for doubtful accounts based upon collections experience. Unbilled receivables are recorded when revenues are recognized upon service delivery and invoicing occurs at a later date. Receivables outstanding beyond 90 days are put into the collection process. An allowance for doubtful accounts is set up as a reserve based on specific identification of troubled accounts and delinquent receivables. As of June 30, 2022 and 2021, no allowance for doubtful accounts were needed.

Leases – The Authority implemented GASB Statement 87, Leases in fiscal year 2022. The implementation of GASB Statement 87 did not have a material impact in the accompanying financial statements

Capital Assets - Capital assets are stated at cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets, are expensed as incurred. Assets whose cost or estimated fair value is stated over \$750, are capitalized when purchased or received as a donation. Upon retirement or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts. Gains or losses on sale or retirement of properties are reflected in earnings.

The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project.

Impairment of Long-lived Assets - The policy of the Authority is to evaluate for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. However, Law No. 240 of 2011, as amended, has ordered the Authority to receive, through transfer, all the assets from the Autoridad de Ponce. Accordingly, the impairment analysis on the subject assets should be a matter for the consideration of the Authority, including the evaluation of the future activities expected with them, when transfer occurs. As of June 30, 2022 and 2021, the transfer of the subject assets is pending, as a result no impairment was identified.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences - The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and an accumulated maximum of 90 days. Prior to enactment of Act 26-2017, upon retirement, an employee received compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick leave if the employee was employed by the Commonwealth for at least 10 years. Act 26-2017 was enacted to modify the existent legal and judiciary framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act 26-2017 also altered the liquidation terms. After the enactment of Act 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination.

Net Position - Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components net investment in capital assets; restricted; and unrestricted as defined below:

The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, 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 the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues and Expenses - Operating revenues and expenses for business-type activities are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities. Non-exchange revenues, including contributions received for purposes other than capital assets acquisitions, are reported as non-operating revenues.

Governmental Contributions - Governmental contributions are recorded in the year in which funds are available to the Authority. When their use is restricted for the acquisition of or construction of capital assets and related activities, they are recorded as capital contributions. Funds not used at the end of the year are reported as restricted net assets and restricted cash, when applicable.

Risk Management - The Authority is exposed to various risks of loss from torts, theft, damages, destruction of assets, employee injuries and illnesses, natural disasters, and other losses, which may arise during the normal course of business. For the year ended June 30, 2016, insurance coverage was maintained to protect the Authority from claims arising if such matters occur. During the year 2017, the insurance coverage was not obtained pending repairs of dock cranes and related equipment as results of Hurricane Maria. During the year ended June 30, 2022, the Authority commenced the mayor repairs to the dock cranes with a grant from FEMA. The Authority expect to compete the repairment work and complete the renewal of insurance coverage by the end of fiscal yar 2024.

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2021 to conform to the fiscal year 2022 presentation. Such reclassification had no impact on the change in net position previously reported.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits might not be recovered. The Authority maintains cash deposits in a commercial bank in Puerto Rico. The Commonwealth of Puerto Rico requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

The carrying amounts of deposits of the Authority at June 30, 2022 and 2021 consist of the following:

	Carrying Amount		
2022	Unrestricted	Restricted	Total
Commercial banks	\$ 1,529,912	481,241	\$ 2,011,153
2021	Unrestricted	Restricted	Total
Commercial banks	\$ 1,057,270	62,984	\$ 1,120,254

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

4. DUE FROM/DUE TO AUTORIDAD DE PONCE

The Autoridad del Puerto de Ponce was created, among other, to receive the assets, but not the liabilities of the Autoridad de Ponce (formerly known as Port of the Americas Authority). Since its creation there have been some overlapping between the functions of both Authorities and, for some of the disbursements required from Autoridad de Ponce, the Autoridad del Puerto de Ponce agreed to provide the required funds from its available credit facility.

The amounts advanced from Autoridad del Puerto de Ponce have been used to finance certain operating expenses and capitalized items. The portion applied to capitalized items in the amount of \$3,948,487 should be recover when the assets of Autoridad de Ponce be transferred to the Autoridad del Puerto de Ponce.

During the fiscal year 2019, the Authority of the Puerto de Ponce received advances of \$62,984 from the Federal Energy Management Administration (FEMA) on behalf of Autoridad de Ponce. The subject advances are shown as Due to Autoridad de Ponce in the accompanying financial statements. They are part of a grant award to Autoridad de Ponce in the amount of \$2,049,659 to perform works related with the damages caused by Huracan María.

5. CAPITAL ASSETS

The Authority's net capital assets activity for the year ended June 30, 2022 is as follows:

	<u>June 30,</u> <u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2022</u>
Depreciable assets:				
Furniture and equipment	\$ -	14,133	-	\$ 14,133
Less: Accumulated depreciation	-	(53)	-	(53)
Net depreciable assets	<u>\$ -</u>	<u>\$ 14,080</u>	<u>\$ -</u>	<u>\$ 14,080</u>
Non depreciable asset:				
Land	<u>\$ 28,643,000</u>	<u>-</u>	<u>-</u>	<u>\$ 28,643,000</u>

The Authority is developing a deep draft port (the "Project") in the southern coast of Puerto Rico (Municipality of Ponce) with a terminal at Ponce Harbor. The Authority's capital assets consist on the acquisition of land for future developments. The development was started by Port of the Americas Authority (since August 12, 2016 known as Autoridad de Ponce). As stated, pursuant to Act No. 240, the Autoridad del Puerto de Ponce has pending to receive, by transfer, all the assets, but no the liabilities of Autoridad de Ponce.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. LINE OF CREDIT

On August 29, 2014, the Authority entered into an \$60 million line of credit agreement with GDB (now owed to GDB Debt Recovery Authority or GDBRA) to cover the operational, maintenance, equipment acquisition and permanent improvement costs of the Ports of the Americas Rafael Cordero Santiago, pursuant to the provisions of Act No. 240 of 2011, which created the Authority (assets are owned by the Authority as of June 30, 2017). Borrowings under this line of credit agreement bear interest based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest may never be less than 7% nor greater than 12%. Interest during fiscal year 2015 was 7.78%. The line of credit has a maturity of June 30, 2044, and its principal and interests are payable through annual legislative appropriations. As of June 30, 2022 and 2021, the outstanding principal balance were approximately \$20.8 million and the accumulated interest were approximately \$9.8 and \$8.4 million, respectively, which are payable from future Commonwealth's legislative appropriations and/or Authority's revenues. Additional details are disclosed in Note 9.

As of June 30, 2022 and 2021, the capital assets restricted and unrestricted component of net position related to the line of credit outstanding principal balance and accumulated interest balance are as follows:

	2022		
	Operating Activities	Investment in Capital Asset	Total
Line of credit, principal balance	\$ 4,569,577	\$ 16,193,000	\$ 20,762,577
Line of credit, accumulated interest	2,458,456	8,872,690	11,331,146
	\$ 7,028,033	\$ 25,065,690	\$ 32,093,723
	2021		
	Operating Activities	Investment in Capital Asset	Total
Line of credit, principal balance	\$ 4,569,577	\$ 16,193,000	\$ 20,762,577
Line of credit, accumulated interest	2,130,360	7,710,033	9,840,393
	\$ 6,699,937	\$ 23,903,033	\$ 30,602,970

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. LINE OF CREDIT, Continued

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification the principal balance of the line of credit was reduced by the \$100,272 of a bank balance held at GDB.

7. NET INVESTMENT IN CAPITAL ASSETS

At June 30, 2022 and 2021, the Authority's net investment in capital assets - restricted, is as follows:

	2022	2021
Capital assets - land	\$ 28,643,000	\$ 28,643,000
Line of credit balance attributable to capital assets	(16,193,000)	(16,193,000)
Interest on line of credit	<u>(8,872,690)</u>	<u>(7,710,033)</u>
Net investment in capital assets	<u>\$ 3,577,310</u>	<u>\$ 4,739,967</u>

8. DEFINED CONTRIBUTION PENSION PLAN

The Authority participates in a defined contribution plan as established by Act 106-2017 covering full-time employees.

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. 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 is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS.

The individual contributions of the Participants will be directed to a New Defined Contribution Plan, in which a Defined Contribution Account (DCA) will be established and maintained, in trust, separate from the general assets and Government accounts, individual for each Participant, which will be credited and debited in accordance with Chapter 3 of the Act 106-2017.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

8. DEFINED CONTRIBUTION PENSION PLAN, Continued

As of the effective date of Act 106-2017, all participants in the PRGERS will have to contribute a minimum of eight-point five percent (8.5%) of their monthly salary to their DAC, up to the limit established by the Puerto Rico Internal Revenue Code (the Code). In addition, participant may voluntarily contribute additional amounts, as permitted by the Code. Upon the entry into force of Act 106-2017, the participants of the New Defined Contribution Plan will have the right to adjust their current contribution to the PRGERS to the minimum authorized. The participants of the New Defined Contribution Plan may vary the percentage they wish to contribute to said Plan from time to time, but it may never be less than the minimum percentage required by Act 106-2017.

No matching contribution has been determined, however, the AAFAF is authorized, after making a determination that the Government's fiscal situation has stabilized and that the state of the Treasury allows it, to recommend to the Governor, in coordination with the Retirement Board, that he include in the budget an amount to match the contributions of the Participants to the Defined Contribution Accounts. This determination must be made in accordance with the certified Fiscal Plan and the provisions of PROMESA.

The income and earnings accrued in each DAC will be exempt from all kinds of contributions, taxes, excises or charges while they are kept in the DAC. Distributions from DAC will be subject to tax for the participant or beneficiary in accordance with the provisions of Section 1081.01(b) of the Code as a distribution from an exempt trust under the provisions of Section 1081.01(a) of the Code and said distributions will be subject to the exceptions of taxation, tax withholdings and filing of informative returns provided in said Section 1081.01(b) of the Code.

In the event that the participant separates from public service, his or her DAC may remain in the New Defined Contribution Plan, may be transferred to a qualified defined contribution plan exempt under Section 1081.01(a) of the Code, or the participant may request the disbursement of the balance, subject to payment of applicable taxes, according to the Code, payable at the time of disbursement of funds and the regulations established by the Retirement Board for these purposes.

For the years ended June 30, 2022 and 2021, the employees' contribution of approximately \$1,262 and \$0, respectively. As of June 30, 2022, accumulated contribution withheld amounted to \$1,262 and is presented as accrued expenses in the accompanying statement of net position.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

9. COMMITMENTS AND CONTINGENCIES

Legal procedures

As of June 30, 2022, the Authority is defendant in various lawsuit that amounted \$4,450,000 in aggregate. The Authority received a court judgment for one of the cases and ordered the payment of \$233,338 plus interests. Original amount claimed was \$450,000. The Authority has recorded the court judgment in the accompanying financial statements to accrued for the \$233,338. The legal counsel for the Authority has advised that at this stage in the proceedings of the other cases, he cannot offer an opinion as to the probable outcome.

Contribution to Port of Ponce

For the fiscal year 2022 and 2021, as part of the joint resolution of the general fund budget for fiscal years 2022 and 2021, the Senate included in the Authority's budget an item amounted to \$278,000 and \$268,000, respectively known as "PayGo" to cover for the employees' pension funds of the Puerto de Ponce, a component unit of the Autonomous Municipality of Ponce. The Authority approved this allocation and the transaction was accounted for as interagency transfer expenses in the accompanying statements of revenues, expenses and changes in net position.

Federal award

The Authority participates in federal financial assistance programs funded by the Federal Government. Although the Authority's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2022, expenditures financed by these programs are subject to financial and compliance audits by appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantors for such expenditures. Nevertheless, the Authority management expects the expenditures amount, which may be disallowed by the granting agencies from such audits, if any, to be immaterial.

10. GOING CONCERN

Both the Autoridad del Puerto de Ponce and the Autoridad de Ponce (formerly known as Port of the Americas Authority) have been involved in the development of the physical facilities and the acquisition of related land and infrastructure. The Authority Management Plan is currently focused in the transfer of all the assets of the Autoridad de Ponce in accordance with Law No. 240 of 2011, as amended. Since inception, the Authority has been involved in organizing its affairs, making investments on infrastructure, and identifying different scenarios for the conduct of its operations. Because of multiple surrounding challenges and limitations, including the unique nature of the project, financing needs, availability or not of legislative appropriations and legal aspects, the Authority has evolved through an extended stage of development. The project objectives, are still on the interest of the local government, both at the State and at the Municipality levels. This condition raises substantial doubt about the Authority's ability to continue as a going concern.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2022 and 2021

10. GOING CONCERN, Continued

The Authority depends on the future development of the project, including final determinations about the transfer of assets from the Autoridad de Ponce, and under the sponsor of which level of government it will operate.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 16, 2023, the date on which the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2022 financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Authority. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mention based on their relevance and materiality as a whole.

Hurricane Fiona

On September 18, 2022, Puerto Rico was directly impacted by Hurricane Fiona causing a level of widespread destruction in many areas of the island including infrastructure, housing, environment, and public and private property. The hurricane caused property damages which could not be currently determined. As a result of the massive impact of the hurricane, a series of actions and events have been taken by the Federal Government.

A major disaster declaration, FEMA-4671-DR-PR, was signed by the President of the United States on September 21, 2022. Under this declaration, all 78 Municipalities of the Commonwealth of Puerto Rico have been designated adversely affected by the disaster and eligible for Public Assistance (PA), Hazard Mitigation Grant (HMGP) and Individual Assistance (IA) programs, implemented under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Supplementary Information

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor Program or Cluster Title	Federal Assistance Listing Number	Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Homeland Security-Federal</u>			
<u>Emergency Management Agency (FEMA):</u>			
<u>Pass-through programs from:</u>			
<u>P.R. Central Office for Recovery, Reconstruction and Resiliency (COR3)</u>			
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4339:113-UYSPO-00	1,002,680
Total expenditures of federal awards			\$ 1,002,680

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Authority under programs of the federal government for the year ended September 30, 2022. The information in this 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). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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. INDIRECT COST RATE

The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Authority provided no federal awards to sub-recipients

5. FEDERAL LOAN PROGRAMS

The Authority did not have any federal loan programs during the year ended June 30, 2022.

6. PERSONAL PROTECTIVE EQUIPMENT

During the year ended June 30, 2022, the Authority did not receive any donated personal protective equipment.

INDEPENDENT AUDITORS' 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 Governing Board of
Autoridad del Puerto de Ponce.

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 **Autoridad del Puerto de Ponce (the Authority)**, a component unit of the Commonwealth of Puerto Rico, which comprise the statement of net position as of June 30, 2022, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 16, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Authority's** internal control over financial reporting (internal control) as a basis for designing the 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 **Authority's** internal control. Accordingly, we do not express an opinion on the effectiveness of **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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **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*.

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 **Authority's** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Authority's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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License No. PSC- 196

Ponce, Puerto Rico
August 16, 2023

Stamp number E539463 was
affixed to the original report.

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

To the Governing Board of
Autoridad del Puerto de Ponce.

Report on Compliance for Each Major Federal Program

We have audited **Autoridad del Puerto de Ponce (the Authority)** compliance with the types of compliance requirements described 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, 2022. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the **Authority's** major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Authority's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Authority's** compliance.

Opinion on Each Major Federal Program

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, 2022.

Report on Internal Control Over Compliance

Management of the **Authority** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Authority's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Authority's** internal control over compliance.

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 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. 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.

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

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.



RRC CPA GROUP, PSC
License No. PSC- 196

Ponce, Puerto Rico
August 16, 2023

Stamp number E539464 was
affixed to the original report.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

I. Summary of audit results:

Part I - Financial Statements

1. Type of auditors' report issued: Unmodified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Internal control over financial reporting:
- a) Material weakness(es) identified? Yes No
b) Significant deficiency(ies) identified? Yes None reported
3. Noncompliance material to financial statements noted? Yes No

Part II - Federal Awards

1. Internal control over major federal programs:
- a) Material weakness(es) identified? Yes No
b) Significant deficiency(ies) identified? Yes None reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
3. Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? Yes No
4. Identification of major federal programs:
- | | CFDA Number(s) | Name of Federal Program or Cluster |
|--|----------------|---|
| | 97.036 | Disaster Grant - Public Assistance (Presidentially Declared Disasters)) |
5. Dollar threshold used to distinguish Type A and Type B programs: \$750,000
6. Low-risk auditee Yes No

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

II. Findings related to financial statements reported in accordance with GAGAS:

None reported.

III. Findings and Questioned Costs for Federal Awards:

None reported.

AUTORIDAD DEL PUERTO DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

Fiscal year Ended	Finding No.	Condition	Status
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No prior year audit findings to follow-up.