

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements
and Required Supplementary Information

June 30, 2023

(With Independent Auditors' Report Thereon)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2023



Commonwealth of Puerto Rico

***Honorable Jenniffer González Colón
Governor***

Prepared by:

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Independent Auditors' Report

The Honorable Governor, the Legislature, and the Secretary
of the Treasury of the Commonwealth of Puerto Rico:

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the general fund, the debt service fund, the COFINA special revenue fund, the COFINA debt service fund, the Unemployment Insurance fund, the Puerto Rico Health Insurance Administration fund, the Puerto Rico Medical Services Administration fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental activities	Unmodified
Business-type activities	Qualified
Aggregate discretely presented component units	Unmodified
General fund	Unmodified
Debt service fund	Unmodified
COFINA special revenue fund	Unmodified
COFINA debt service fund	Unmodified
Unemployment Insurance fund	Qualified
Puerto Rico Health Insurance Administration fund	Unmodified
Puerto Rico Medical Service Administration fund	Unmodified
Aggregate remaining fund information	Unmodified

Qualified Opinions on Business-type Activities and Unemployment Insurance Fund

In our opinion, based on the reports of other auditors, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the Unemployment Insurance fund of the Commonwealth, as of June 30, 2023, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Unmodified Opinions on Governmental Activities, Aggregate Discretely Presented Component Units, General Fund, Debt Service Fund, COFINA Special Revenue Fund, COFINA Debt Service fund, Puerto Rico Health Insurance Administration Fund, Puerto Rico Medical Service Administration Fund, and Aggregate Remaining Fund Information

In our opinion, based on our audit and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, the general fund, the debt service fund, the COFINA special revenue fund, the COFINA debt service fund, the Puerto Rico Health Insurance Administration fund, the Puerto Rico Medical Service Administration fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the following entities and funds:

- Governmental Activities
 - Agricultural Enterprises Development Administration, Puerto Rico Department of Economic Development and Commerce, Department of Housing – Sales and Acquisition fund, Puerto Rico Public Housing Administration, House of Representatives of the Commonwealth of Puerto Rico, Office of Legislative Services of the Legislative Assembly, Public Service Regulatory Board Puerto Rico Energy Bureau, Senate of the Commonwealth of Puerto Rico, Superintendence of the Capitol Building and Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons, which collectively represent 7.92% and 2.79% of the total assets and revenue, respectively, of the general fund.
 - Ponce Authority, Public Buildings Authority special revenue and capital projects fund, Puerto Rico Fiscal Agency and Financial Advisory Authority, Puerto Rico Infrastructure Financing Authority special revenue and debt service fund, Puerto Rico Public Private Partnership Authority, Puerto Rico Maritime Shipping Authority, Retirement System of the Judiciary of the Commonwealth of Puerto Rico, Special Communities Perpetual Trust, the Children’s Trust special revenue and debt service fund, University of Puerto Rico Comprehensive Cancer Center, which are non-major governmental funds that represent 28.79% and 50.09% of the total assets and revenues, including non-operating revenue, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 28.24% and 10.28% of the total assets and revenues, respectively, of the governmental activities.

- Business-type Activities
 - Unemployment Insurance fund, Puerto Rico Health Insurance Administration fund and Puerto Rico Medical Services Administration fund, which are major enterprise funds.
 - The Additional Lottery System, the Puerto Rico Water Pollution Control Revolving Fund, Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Bureau of Emergency Services 9-1-1, Disability Insurance, Drivers’ Insurance, and Ponce Ports Authority, which are non-major enterprise funds that collectively represent 32.94% and 17.05% of the total assets and revenues, including non-operating revenue, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 97.52% and 93.40% of the total assets and revenues, including non-operating revenue, respectively, of the business-type activities.



- **Aggregate Discretely Presented Component Units**

The discretely presented component units listed in note 1(c) of the basic financial statements. These entities collectively represent 69.40% and 51.14% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the entities and funds indicated above, are based solely on the reports of the other auditors.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commonwealth 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 qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on the Business-type Activities and Unemployment Insurance Fund

The financial statements of the Unemployment Insurance fund as of and for the year ended June 30, 2023 were audited by other auditors, whose report thereon, dated June 14, 2024, included a Qualified Opinion stating that the Unemployment Insurance fund was unable to provide complete and accurate information associated with their determination of potential non-fraud and fraudulent overpayments within the CARES Act Unemployment Insurance Program. The Unemployment Insurance fund's records did not permit the auditor, nor was it practical to extend other audit procedures in order to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the Unemployment Insurance fund were free of material misstatements. As a result of this matter, the other auditors were unable to determine whether any audit adjustments may have been necessary.

Emphasis of Matter

Uncertainty about Ability to Continue as a Going Concern – Major Business-type Activities Fund

The accompanying basic financial statements have been prepared assuming that the major business-type activities funds of the Commonwealth will continue as a going concern. As discussed in note 2(a) to the basic financial statements, the Commonwealth has stated that substantial doubt exists for the Puerto Rico Medical Services Administration (PRMeSA) fund's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are described in note 2(a) to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions on the basic financial statements are not modified with respect to these matters.

The financial statements of PRMeSa of June 30, 2023, and for the year then ended were audited by other auditors, whose report thereon, dated March 12, 2024, included an emphasis of matter paragraph related to PRMeSA's ability to continue as a going concern. As stated in PRMeSA's independent auditors' report, PRMeSa has suffered recurring losses from operations and has a net position deficiency, among other financial and operational factors that raise substantial doubt about PRMeSA's ability to continue as a going concern.

Uncertainty about Ability to Continue as a Going Concern – Major Discretely Component Units

The accompanying basic financial statements have been prepared assuming that the major discretely presented component units of the Commonwealth will continue as a going concern. As discussed in note 2(b) to the basic financial statements, the Commonwealth has stated that substantial doubt exists for the following



major discretely presented component units to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are described in note 2(b) to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions on the basic financial statements are not modified with respect to these matters.

- Government Development Bank for Puerto Rico (GDB)

The financial statements of GDB as of June 30, 2023, and for the year then ended were audited by other auditors, whose report thereon, dated July 30, 2024, included an emphasis of matter paragraph related to GDB's ability to continue as a going concern. As stated in GDB's independent auditors' report, GDB continues the process of efficiently winding down its operations and on November 29, 2018 (the Closing Date), executed the Qualifying Modification which resulted in a comprehensive financial restructuring and legal discharge of substantially all of its debts and the ensuing transfer of almost all its revenue earning assets to two newly created separate entities. With the execution of this transaction, the GDB Operating Fund will not emerge as a going concern.

- Puerto Rico Electric Power Authority (PREPA)

PREPA has an accumulated deficit of approximately \$10.1 billion as of June 30, 2023, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on various debt obligations. Also, on July 2, 2017, the Financial Oversight and Management Board, at the request of the Governor, filed a petition on behalf of PREPA for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States district Court for the District of Puerto Rico.

- University of Puerto Rico (UPR)

The financial statements of UPR as of June 30, 2023, and for the year then ended were audited by other auditors, whose report thereon, dated March 26, 2024, included an emphasis of matter paragraph related to UPR's ability to continue as a going concern. As stated in UPR's independent auditors' report, the UPR is highly dependent of the Commonwealth's appropriations to finance its operations, has net capital deficiency, its debt is under a standstill agreement, and has stated that substantial doubt exists about the UPR's ability to continue as a going concern.

Adoption of New Accounting Standard

As discussed in Note 1(bb) to the basic financial statements, the Commonwealth adopted Government Accounting Standards Board (GASB) Statement No. 91, Conduit Debt Obligations, and GASB Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, 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 Commonwealth's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' 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 auditors' report that includes our opinions. 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 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, 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 Commonwealth'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 Commonwealth'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

U.S. generally accepted accounting principles require that the management's discussion and analysis; schedules of changes in the total pension liability and related ratios for single-employer pension plans; the schedule of changes in total other postemployment benefits liability and related ratios for single-employer pension plans; and the schedule of revenue and expenditures - budget and actual budgetary basis - general fund be presented to supplement the basic 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are 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 applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

San Juan, Puerto Rico
July 3, 2026

KPMG LLP

License Number LLP-21
Expires December 1, 2028



DLLP21-541
Commonwealth of Puerto Rico

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2023

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth) for the fiscal year ended June 30, 2023. The MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Commonwealth's financial activities, (c) present an overview of results for the General Fund on a budgetary basis, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Commonwealth's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-type Activities, reported, in the government-wide financial statements, a net deficit of approximately \$42.8 billion as of June 30, 2023, which was comprised of approximately \$31.2 billion in total assets and approximately \$5.3 billion in deferred outflows of resources, less approximately \$75 billion in total liabilities and approximately \$4.3 billion in deferred inflows of resources.
- The net deficit of the Commonwealth's Primary Government decreased by approximately \$8.3 billion during fiscal year 2023. The net deficit for Governmental Activities decreased by approximately \$7.7 billion and the net position for Business-type Activities increased by approximately \$592 million during the fiscal year 2023.
- The Commonwealth's Governmental Activities had total revenue of approximately \$31.4 billion for fiscal year 2023, which was greater than total expenses of approximately \$23.7 billion. The Commonwealth's Business-type Activities had total revenue of approximately \$5.2 billion for fiscal year 2023, which represented a decrease of approximately \$503.1 million when compared to fiscal year 2022 (as restated).
- The Commonwealth's Primary Government had total expenses of approximately \$29 billion in fiscal year 2023, which included expenses of approximately \$5.3 billion incurred by Business-type Activities, which represented a decrease of approximately \$4.3 billion when compared to total expenses incurred during fiscal year 2022 (as restated).
- For fiscal year 2023, the total deficiency of revenue under expenditures in the General Fund (budgetary basis) was approximately \$40.1 million. It consisted of the difference between total actual revenue of approximately \$12.8 billion (excluding other financing sources), less total actual expenditures of approximately \$12.9 billion. The variance between the U.S. generally accepted accounting principles (U.S. GAAP) and budgetary basis deficits results from differences of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements.

As of June 30, 2023, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern as of the date of these basic financial statements. For additional information regarding going concern, uncertainties, and liquidity risk, refer to Note 2 and Note 3.

Reporting the Commonwealth as a Whole

The Commonwealth consists of all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. As noted above, the Commonwealth's basic financial statements consist of three

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Management's Discussion and Analysis (Unaudited)
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components: (i) government-wide financial statements, which includes the Commonwealth's discretely presented component units, (ii) fund financial statements, and (iii) notes to the basic financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this MD&A. The notes to the basic financial statements provide explanations and/or additional detail for all of the above types of financial statements and are considered an integral part of the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide readers a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- **Statement of Net Position** – This statement presents all the Commonwealth government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as an indicator of whether the financial position of the Commonwealth is improving or deteriorating.
- **Statement of Activities** – This statement presents information showing how the Primary Government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commonwealth.

The Commonwealth's net position is one way to measure whether the Commonwealth's financial health is improving or deteriorating, but other nonfinancial factors, such as changes in the Commonwealth's tax structure, population, employment, debt levels, fiscal conditions, economic factors, access to external markets and the condition of its roads, bridges, and buildings, must also be considered in order to assess the overall health of the Commonwealth.

In the statement of net position and the statement of activities, the operations of the Commonwealth are divided into the following activities:

- **Governmental Activities** – Most of the Commonwealth's basic services are reported here, including education, health, public housing and welfare, public safety, economic development, general government, and interest on long-term debt. Federal grants (intergovernmental), personal and corporate income taxes, consumption and use taxes, business and other taxes, transfers from lottery revenues, and bond or loan proceeds finance most of these activities. Also included in Governmental Activities are sixteen blended component units, which are entities that, while legally separate from the Commonwealth, meet the blending criteria under GASB to be reported as part of the Primary Government.
- **Business-type Activities** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These Business-type Activities of the Commonwealth include the operations of the following major funds: the Unemployment

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June 30, 2023

Insurance Trust Fund, the Puerto Rico Health Insurance Administration (PRHIA), and the Puerto Rico Medical Services Administration (PRMeSA).

- **Discretely Presented Component Units** – Although legally separate from the Commonwealth, these discretely presented component units are important to the Commonwealth because the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. Discretely presented component units, presented in a separate column in these basic financial statements, are discretely presented principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because such discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. The Commonwealth classifies 36 separate legal entities as discretely presented component units, as disclosed in Note 1 to the basic financial statements.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Commonwealth's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Commonwealth's government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare each one of these is different. The Commonwealth's governmental and proprietary fund types use different perspectives and accounting basis. The funds presented in the fund financial statements are categorized as either major or nonmajor funds as required by U.S. GAAP. All the funds of the Commonwealth can be divided into the following categories:

- **Governmental Funds** – Most of the basic services provided by the Commonwealth are financed through governmental funds, which are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Commonwealth's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By doing the aforementioned, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

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June 30, 2023

The Commonwealth has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures, and changes in fund balances. The Commonwealth's four major governmental funds are:

- General Fund ¹
- Debt Service Fund
- COFINA Special Revenue Fund
- COFINA Debt Service Fund

The remaining nonmajor governmental funds, which consist of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) special revenue fund, Ponce Authority (PA) special revenue fund, Public Buildings Authority (PBA) special revenue fund and capital project fund, Puerto Rico Infrastructure Financing Authority (PRIFA) special revenue fund and debt service fund, Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) special revenue fund, Puerto Rico Maritime Shipping Authority (PRMSA) special revenue fund and debt service fund, Puerto Rico Public Private Partnerships Authority (PRPPA) special revenue fund, Puerto Rico System of Annuities and Pensions for Teachers (TRS) special revenue fund, Retirement System of the Judiciary of the Commonwealth of Puerto Rico (JRS) special revenue fund, Special Communities Perpetual Trust (SCPT) special revenue fund, the Children's Trust (TCT) special revenue fund and debt service fund, the University of Puerto Rico Comprehensive Cancer Center (UPRCCC) special revenue fund, and the Commonwealth's capital project funds, which are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- **Proprietary Funds** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are also known as enterprise funds. Proprietary funds provide the same type of information as the Business-type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for Business-type Activities and the proprietary funds financial statements.

The Commonwealth has three major proprietary funds:

- Unemployment Insurance Fund
- Puerto Rico Health Insurance Administration (PRHIA)
- Puerto Rico Medical Service Administration (PRMeSA)

Other nonmajor proprietary funds consist of the Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System, Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), Ponce Ports Authority (PPA), and the Bureau of Emergency Services 9-1-1 which are grouped and presented in a separate column in the proprietary funds' financial statements. The

¹ The General Fund is the primary operating fund of the Commonwealth. The financial resources received and used in the General Fund mostly includes: the General Fund budgeted resources, as approved by the Legislature of Puerto Rico (the Legislature) and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, resources that otherwise would be accounted for in special revenue funds, and agencies with independent treasuries.

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basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major discretely presented component units' combining financial statements.

Required Supplementary Information/Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of total other postemployments benefits liability schedules, total pension liability schedules, schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, combining schedules for nonmajor governmental funds, nonmajor proprietary funds, and nonmajor discretely presented component units.

Overall Financial Position and Results of Operations (Government-wide financial statements)

The following is an analysis of the financial position and changes in the financial position of the Commonwealth's Governmental Activities and Business-type Activities for fiscal year 2023.

Net Position

Condensed financial information from the statement of net position as of June 30, 2023, and 2022 is as follows (in thousands):

	Governmental Activities		Business-type Activities		Primary Government	
	2023	2022 (As restated)	2023	2022 (As restated)	2023	2022 (As restated)
Assets:						
Non-capital assets:						
Cash and investments	\$ 14,272,554	12,880,145	2,451,206	1,383,865	16,723,760	14,264,010
Receivables, net	4,882,264	3,619,590	1,540,942	1,753,206	6,423,206	5,372,796
Other	101,938	360,617	15,921	17,340	117,859	377,957
Total non-capital assets	19,256,756	16,860,352	4,008,069	3,154,411	23,264,825	20,014,763
Capital Assets	7,782,246	7,687,476	123,001	111,022	7,905,247	7,798,498
Total assets	27,039,002	24,547,828	4,131,070	3,265,433	31,170,072	27,813,261
Deferred outflows of resources	5,232,941	6,759,143	113,390	102,310	5,346,331	6,861,453
Liabilities:						
Long-term liabilities	65,834,256	76,497,138	1,660,576	1,672,594	67,494,832	78,169,732
Other liabilities	6,448,109	5,632,637	1,087,895	820,257	7,536,004	6,452,894
Total liabilities	72,282,365	82,129,775	2,748,471	2,492,851	75,030,836	84,622,626
Deferred inflows of resources	4,272,086	1,137,952	59,797	30,671	4,331,883	1,168,623
Net Position:						
Net investment in capital assets	6,767,454	6,756,128	85,283	82,890	6,852,737	6,839,018
Restricted	2,717,315	748,696	1,384,741	1,244,986	4,102,056	1,993,682
Unrestricted (deficit)	(53,767,277)	(59,465,580)	(33,832)	(483,655)	(53,801,109)	(59,949,235)
Total net position (deficit)	\$ (44,282,508)	(51,960,756)	1,436,192	844,221	(42,846,316)	(51,116,535)

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Governmental entities are required by U.S. GAAP to report on their net position. The statement of net position presents the value of all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position (deficit) may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the Primary Government as of June 30, 2023, amounted to approximately \$36.5 billion and \$79.4 billion, respectively, for a net deficit of approximately \$42.8 billion as of June 30, 2023, compared to a net deficit of approximately \$51.1 billion as of June 30, 2022 (as restated).

Net position (deficit) for Governmental Activities decreased by approximately \$7.7 billion for fiscal year 2023, decreasing to a deficit of approximately \$44.3 billion as of June 30, 2023, from a deficit of approximately \$52 billion as of June 30, 2022 (as restated). The unrestricted deficit for Governmental Activities – that part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation, or other legal requirements – had a deficit of approximately \$53.8 billion as of June 30, 2023. The unrestricted deficit in Governmental Activities, which decreased by approximately \$5.7 billion, exists primarily because of cumulative excessive operating expenses in disparity with actual revenues. This deficit can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The statement of net position in Governmental Activities reflects outstanding bonds and notes amounting to approximately \$30.6 billion and total pension liability amounting to approximately \$32.1 billion as of June 30, 2023, as compared to outstanding bonds and notes amounting to approximately \$31.8 billion and net pension liability amounting to approximately \$41.2 billion as of June 30, 2022 (as restated).

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending, and except for Business-type assets, do not generate direct revenue for the Commonwealth. They do represent, however, an obligation on the part of the Commonwealth to maintain these assets in the future. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since most of the capital assets themselves cannot be used to liquidate these liabilities.

The net position in Business-type Activities increased by approximately \$592 million in fiscal year 2023 when compared to fiscal year 2022 (as restated), from approximately a \$844.2 million net position as of June 30, 2022 (as restated), to approximately a \$1.4 billion net position as of June 30, 2023.

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Statements of Activities and Results of Operations

Condensed financial information of the statements of activities for the years ended June 30, 2023, and 2022 is as follows (in thousands):

	Governmental Activities		Business-type Activities		Primary Government	
	2023	2022 (As restated)	2023	2022 (As restated)	2023	2022 (As restated)
Revenue:						
Program revenue:						
Charges for services	\$ 870,068	1,069,822	1,530,031	1,373,267	2,400,099	2,443,089
Operating grants and contributions	16,552,421	14,871,400	3,611,712	4,309,835	20,164,133	19,181,235
Capital grants and contributions	73,932	70,292	—	—	73,932	70,292
	17,496,421	16,011,514	5,141,743	5,683,102	22,638,164	21,694,616
General revenue:						
Taxes	13,184,436	13,372,643	—	—	13,184,436	13,372,643
Revenue from opioid settlement agreement	113,977	122,145	—	—	113,977	122,145
Revenue from global tobacco settlement agreement	75,342	82,703	—	—	75,342	82,703
Revenue from component units	77,008	52,435	—	—	77,008	52,435
Other, including earning (loss) on investments	407,559	238,233	41,012	2,732	448,571	240,965
	13,858,322	13,868,159	41,012	2,732	13,899,334	13,870,891
Total revenue	31,354,743	29,879,673	5,182,755	5,685,834	36,537,498	35,565,507
Expenses:						
General government	3,337,901	7,308,295	—	—	3,337,901	7,308,295
Public safety	2,077,516	1,786,143	—	—	2,077,516	1,786,143
Health	5,613,994	4,169,977	—	—	5,613,994	4,169,977
Public housing and welfare	5,795,650	5,773,611	—	—	5,795,650	5,773,611
Education	2,284,798	4,069,254	—	—	2,284,798	4,069,254
Economic development	3,119,867	1,955,013	—	—	3,119,867	1,955,013
Intergovernmental	230,577	339,094	—	—	230,577	339,094
Interest and other	1,253,575	2,020,697	—	—	1,253,575	2,020,697
Unemployment insurance	—	—	166,138	1,124,623	166,138	1,124,623
Puerto Rico Health Insurance Administration	—	—	4,334,827	3,960,765	4,334,827	3,960,765
Puerto Rico Medical Services Administration	—	—	189,124	207,374	189,124	207,374
Nonmajor proprietary funds	—	—	631,140	633,997	631,140	633,997
Total expenses	23,713,878	27,422,084	5,321,229	5,926,759	29,035,107	33,348,843
Increase (decrease) in net position before special and extraordinary items and transfers	7,640,865	2,457,589	(138,474)	(240,925)	7,502,391	2,216,664
Special and Extraordinary items:						
Special item - Forgiveness of Debt	—	389,750	—	—	—	389,750
Extraordinary item - Gain on PROMESA Title III and VI	767,828	5,504,342	—	—	767,828	5,504,342
Total special and extraordinary items	767,828	5,894,092	—	—	767,828	5,894,092
Transfers	(730,445)	(330,585)	730,445	330,585	—	—
Change in net position	7,678,248	8,021,096	591,971	89,660	8,270,219	8,110,756
Net position (deficit), beginning of year, as restated (note 4)	(51,960,756)	(59,981,852)	844,221	754,561	(51,116,535)	(59,227,291)
Net position (deficit), end of year	\$ (44,282,508)	(51,960,756)	1,436,192	844,221	(42,846,316)	(51,116,535)

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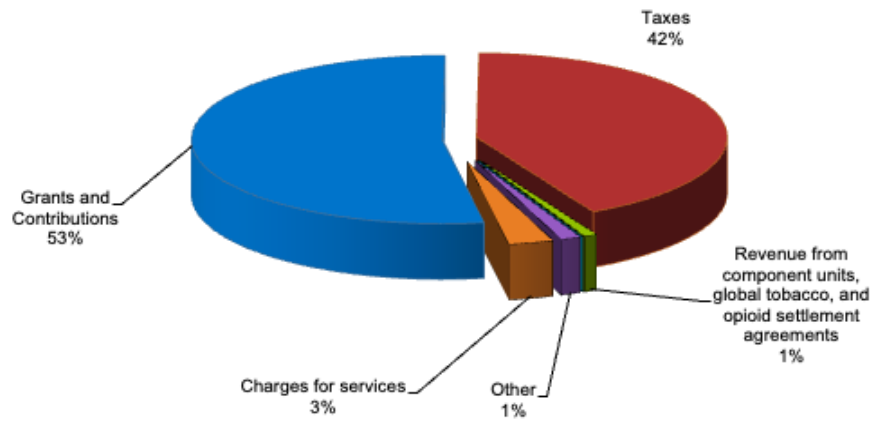
As described above, the Governmental Activities net deficit position decreased from approximately \$52 billion as of June 30, 2022 (as restated) to approximately \$44.3 billion as of June 30, 2023, a decrease of approximately \$7.7 billion. The decrease in total net deficit position is mainly due to the reduction of expenses of the General Government function of approximately \$4 billion when comparing the \$7.3 billion in fiscal year 2022 to the \$3.3 billion recorded in fiscal year 2023. This reduction in General Government expenses was in part attributed to a change in actuarial assumptions regarding future pension benefits, which decreased the total pension liability. This change in assumptions resulted from the implementation of, the Commonwealth's Plan of Adjustment, which was executed on March 15, 2022. Although the vast majority of the financial impacts that resulted from the implementation of the Plan of Adjustment were accounted for in the fiscal year ended June 30, 2022, this change in actuarial assumption is reflected in the current fiscal year because the measurement date used for purposes of the actuarial pension valuation is the beginning of the fiscal year, June 30, 2022, therefore the impact of such actuarial changes are reflected in the current fiscal year. The Governmental Activities' expenses cover a range of governmental services. The largest expenses were for: (i) general government (14% of total expenses), (ii) public housing and welfare (24% of total expenses), (iii) education (10% of total expenses), (iv) economic development (13% of total expenses), (v) health (24% of total expenses), and (vi) public safety (9% of total expenses). In fiscal year 2023, Governmental Activities' expenses, which amounted to approximately \$23.7 billion, were funded by approximately \$13.9 billion in general revenue, and approximately \$17.5 billion in program revenue (comprised primarily of federal financial assistance). In addition, the implementation of Act No. 66-2014, known as the "*Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act*" contributed to a control in expenses through measures such as:

- Reduction in payroll and payroll related expenses.
- Freeze formula base contributions to the University of Puerto Rico, the Commonwealth's Judicial Branch, and the Municipalities.
- Reduction in education expenses, such as, a reduction in school transportation services, payroll savings on account of teacher's retirement system and no contracting to fill vacancies.
- Reduction of special appropriations.
- Elimination of certain subsidies to programs or operations of discretely presented component units.

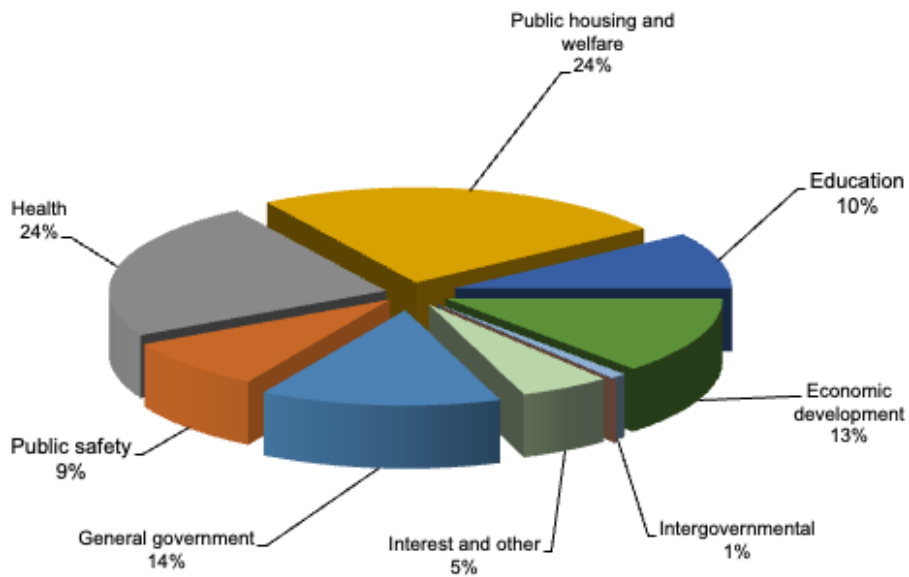
The total revenue from Governmental Activities for fiscal year 2023 increased by approximately \$1.5 billion compared to fiscal year 2022. This increase is in large part related to an increase in operating grants and contributions of approximately \$1.7 billion.

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Revenues – Governmental Activities



Expenses – Governmental Activities



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As of June 30, 2023, Business-type Activities' total net position increased by approximately \$592 million when compared to the prior fiscal year. Approximately 30% of the Business-type Activities total revenue came from charges for services, while approximately 70% resulted from grants and contributions (primarily federal financial assistance). Business-type Activities expenses cover a range of services. The largest expenses were for Health Insurance Administration. In fiscal year 2023, Business-type Activities' total expenses exceeded revenue by approximately \$138.5 million. The excess of expenses over revenues in fiscal year 2023 was the result of a reduction in operating grants and contributions, amounting to approximately \$698.1 million. Total expenses decreased by approximately \$605.5 million in comparison with the prior year's expenses, related to a decrease of approximately \$958.5 million in insurance benefits payments from the Unemployment Insurance Fund.

Governmental Funds

The governmental funds financial statements provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2023, the Commonwealth's governmental funds, which include the General Fund, the Debt Service Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, and nonmajor governmental funds, reported a combined ending fund balance of approximately \$10.6 billion. In fiscal year 2023, revenue in these governmental funds exceeded expenditures by approximately \$1.6 billion. For fiscal year 2023, the excess of revenue over expenditures decreased by approximately \$153.7 million when compared with the prior year.

The General Fund is the chief operating fund of the Commonwealth. At the end of fiscal year 2023, the General Fund, which encompasses other financial resources outside the General Fund budget such as federal funds, pledged funds, special revenue funds, and agencies with independent treasuries, had a total fund balance of approximately \$9.2 billion. The fund balance of the Commonwealth's General Fund increased by approximately \$1.5 billion as a result of the fiscal year's change in financial position. An excess of revenue over expenditures of approximately \$2.6 billion.

The Debt Service Fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term general obligations debt. The net change in fund balance of the debt service fund was a decrease in fund balance of approximately \$53.9 million in fiscal year 2023, and the fund balance at the end of year decreased to approximately \$71.3 million as of June 30, 2023. Bonds and interest payable during fiscal year 2023 decreased by approximately \$9.4 million when compared with fiscal year 2022.

The COFINA Special Revenue Fund is used to account for and report all financial resources of the Puerto Rico Sales Tax Financing Corporation (COFINA). The fund balance of the COFINA Special Revenue Fund decreased by approximately \$10.1 million in fiscal year 2023, decreasing to a fund balance of approximately \$6 million as of June 30, 2023. The COFINA Debt Service Fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations of COFINA. The fund balance of the COFINA Debt Service Fund increased by approximately \$63 million during fiscal year 2023, to a fund balance of approximately \$245.8 million as of June 30, 2023.

Proprietary Funds

The Commonwealth's enterprise funds provide the same type of information presented in the Business-type Activities in the government-wide financial statements, but in more detail. The Unemployment Insurance Fund's total net position balance increased from approximately \$267.9 million as of June 30, 2022, to approximately \$365.6 million as of June 30, 2023, an increase of approximately \$97.7 million. Expenses from the fund for unemployment benefits decreased by approximately \$958.5 million, as compared to fiscal year 2022.

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The PRHIA enterprise fund total net position increased from a net position of approximately \$414.4 million as of June 30, 2022, to a net position of approximately \$788.5 million as of June 30, 2023, an increase of approximately \$374.1 million in large part as a result in an increase of U.S. government grants received.

The PRMeSA enterprise fund net deficit (as restated) decreased from approximately \$755.1 million as of June 30, 2022, to a deficit of approximately \$707.7 million as of June 30, 2023, a decrease of approximately \$47.4 million.

General Fund Budgetary Highlights

The Commonwealth Constitution requires the Governor of Puerto Rico (the Governor) to submit a balanced budget that contains a plan of expenditures for the ensuing fiscal year and identifies the anticipated revenues and other resources sufficient to meet the proposed expenditures. The Commonwealth adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided on page 198 as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund presents only the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP.

The total General Fund actual revenue, on a budgetary basis for fiscal year 2023, was approximately \$12.8 billion (excluding other financing sources), representing an increase of approximately \$1.7 billion, or 16%, from the originally budgeted revenue, and an increase of approximately \$225.7 million or 2% from actual revenue of approximately \$12.6 billion for fiscal year 2022.

Total General Fund actual expenditures, on a budgetary basis for fiscal year 2023, were approximately \$12.9 billion, representing an increase of approximately \$451.1 million or 4% from original budgeted expenses and a decrease of approximately \$10 billion or 44% from actual expenditures of approximately \$22.9 billion for fiscal year 2022.

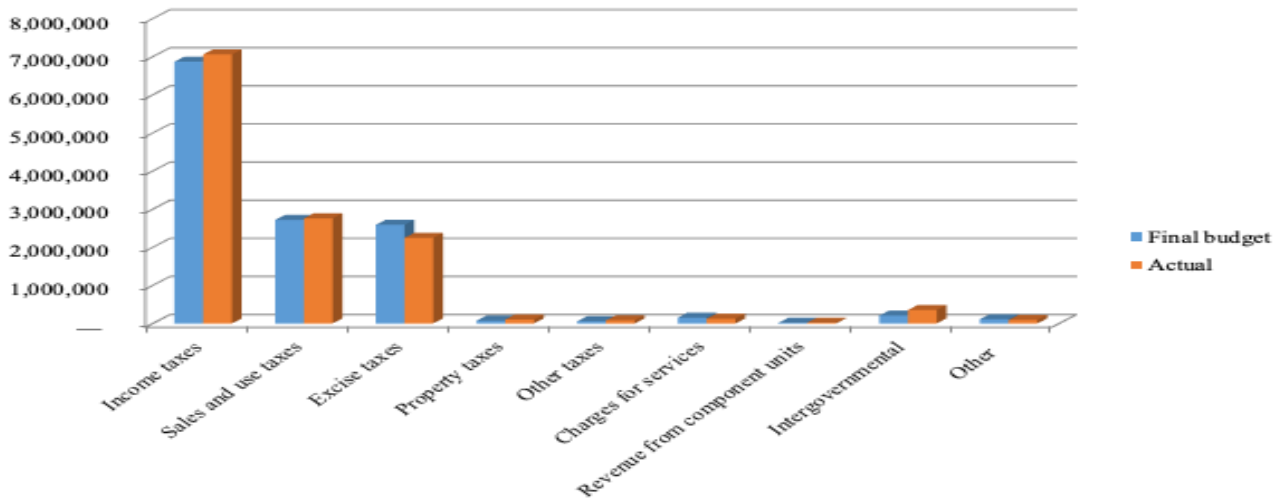
For fiscal year 2023, the total deficiency of revenue under expenditures in the General Fund (budgetary basis) was approximately \$40.1 million. It consisted of the difference between actual revenue of approximately \$12.8 billion (excluding other financing sources), less total actual expenditures of approximately \$12.9 billion. This deficiency of approximately \$40.1 million in the General Fund (budgetary basis) differs from the excess of revenue over expenditures in the General Fund on a modified accrual basis (U.S. GAAP) of approximately \$2.6 billion, which was offset by approximately \$1.5 billion in other financing uses, principally consisting of transfers to other funds, for a resulting net increase in fund balances of approximately \$1.5 billion for the fiscal year 2023 after the inclusion of a Gain on PROMESA Title III transaction. The variance between the U.S. GAAP and budgetary basis deficiency results from differences in the basis of accounting, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements. Examples of such differences include: (i) recognition of proceeds of long-term debt issued as other financing sources, (ii) recognition of receivables (revenue) for reimbursements of expenses allocated to federal funds, (iii) the recognition of revenue and expenditures of entities with independent treasuries, (iv) expenditures incurred in nonbudgetary funds (special revenue funds, internal revenue funds, and other funds), which were not included in the General Fund Budget, and (v) timing differences in basis of accounting such as (a) the recognition of receivables on income and corporate taxes and (b) recognition of expenditure accruals. A reconciliation is presented on page 198 in the notes to required supplementary information section. The Commonwealth's ability to continue reducing the deficit will depend in part on its ability to continue raising revenues and reducing expenditures and debt obligations in the face of economic uncertainties.

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The following information is presented to assist the reader in comparing the final amended budget and the actual results.

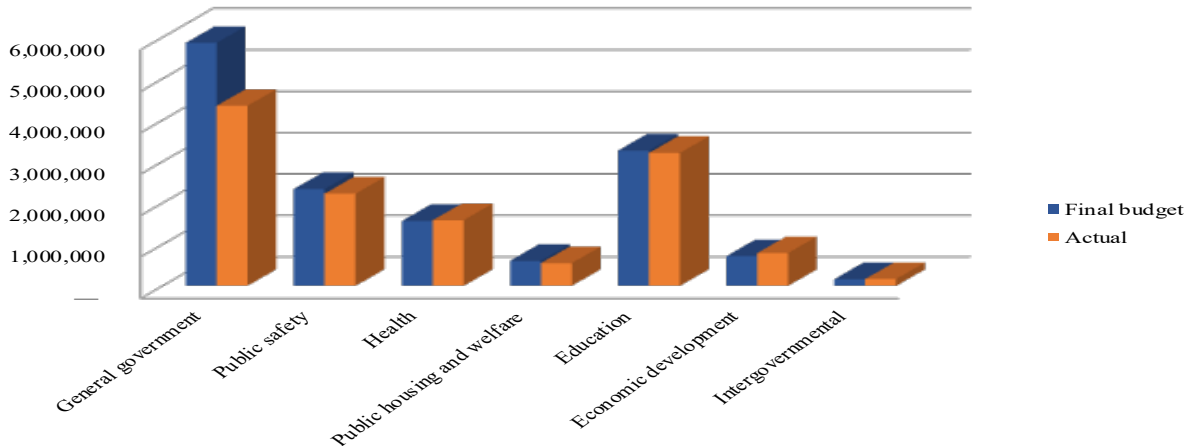
Actual Revenue – General Fund

Budgetary Basis
 Year ended June 30, 2023
 (In thousands)



Actual Expenditures – General Fund

Budgetary Basis
 Year ended June 30, 2023
 (In thousands)



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Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the Primary Government's capital assets (in thousands):

	Governmental activities		Business-type activities		Total Primary Government	
	2022		2022		2022	
	2023	(as restated)	2023	(as restated)	2023	(as restated)
Land	\$ 986,776	987,141	36,005	36,005	1,022,781	1,023,146
Construction in progress	1,039,699	980,047	—	—	1,039,699	980,047
Buildings and building improvements, net	4,937,833	5,129,830	50,121	50,848	4,987,954	5,180,678
Equipment, furniture, fixtures, vehicles and software, net	474,505	233,914	36,875	24,169	511,380	258,083
Infrastructure, net	343,433	356,544	—	—	343,433	356,544
Total capital assets	<u>\$ 7,782,246</u>	<u>7,687,476</u>	<u>123,001</u>	<u>111,022</u>	<u>7,905,247</u>	<u>7,798,498</u>

The Commonwealth's investment in capital assets for its Governmental Activities and Business-type Activities as of June 30, 2023, amounted to approximately \$15.5 billion, less accumulated depreciation and amortization of approximately \$7.6 billion, resulting in a book value of approximately \$7.9 billion. Capital assets include land, constructions in progress, buildings, building improvements, equipment, and infrastructure. Capital assets included in the Governmental Activities column are principally owned by blended component units (e.g., PBA and PRIFA) and are primarily of value only to the Commonwealth, such as public schools, roads, and buildings used for governmental services. Depreciation and amortization expense for its Governmental Activities and Business-type Activities amounted to approximately \$445.5 million for the year ended June 30, 2023.

Other infrastructure assets, such as highways, bridges, toll road facilities, water and sewer systems, electricity production, transmission and distribution systems, and similar assets, are owned by discretely presented component units.

Additional information on the Commonwealth's capital assets can be found in Note 9 to the basic financial statements that accompany this report.

Debt Administration – Primary Government

The Commonwealth has incurred long-term debt financing and other obligations, including lease/purchases and contractual obligations where the Commonwealth's legal obligation to make payments is typically subject to and paid from annual appropriations made by the Legislature of Puerto Rico (the Legislature) of the Commonwealth. For example, the debts reported by most blended component units, by Business-type Activities and certain discretely presented component units are supported, directly or indirectly, by payments from resources from the Commonwealth's Governmental Activities.

As of June 30, 2023, the Primary Government's bonds and notes outstanding amounted to approximately \$31.1 billion, and the discretely presented component units' bonds and notes outstanding amounted to approximately \$16.6 billion.

General obligation bonds are backed by the full faith, credit, and taxing power of the Commonwealth. The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes

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guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the Commonwealth is in compliance with the 15% limitation at the time of issuance of such guaranteed debt. Internal revenue consists principally of income taxes, sales and use tax, property taxes, and excise taxes.

In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. Issues related to this matter were resolved under the COFINA Plan of Adjustment.

Debt of certain discretely presented component units (other than bond anticipation notes), such as Puerto Rico Electric and Power Authority and Puerto Rico Aqueduct and Sewer Authority, is supported by operating revenue. However, the debt of certain blended and discretely presented component units was historically supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or conditionally allocated taxes.

Additional information on the Commonwealth's long-term debt can be found in Note 11 to the accompanying basic financial statements.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order confirming the *Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al.* (as confirmed, the Commonwealth Plan of Adjustment), which incorporates several agreements reached with creditors and other parties in interest to resolve Puerto Rico's Title III cases, including resolving the litigation related to the retention of certain revenues that were historically transferred to PREPA. For a further discussion of the Eighth Amended Plan and litigation related thereto, refer to the PROMESA Proceedings in Note 3.

Currently Known Facts

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Commonwealth's financial position and results of operations. For additional information and further detail, refer to Note 2, Note 3, and Note 19.

Tropical storm Ernesto

On August 14, 2024, Puerto Rico was affected by the passage of tropical storm Ernesto leaving in its path up to 25 roads temporarily closed, landslides, rivers out of flow, and knocking power to most of the residents. Against this backdrop, the President of the United States, Joe Biden, approved that the Federal Emergency Management Agency (FEMA) provide emergency assistance to cover up to 75% of the infrastructure damage reported by municipalities, if they comply with the requirements.

FEMA Mission Assignment Cost-Share Obligation – Hurricane Fiona

After June 30, 2023, the Commonwealth, through Central Office for Recovery, Reconstruction and Resiliency (COR3), received FEMA Notice and Demand Letters for approximately \$105.5 million of cost-share obligations related to Hurricane Fiona Mission Assignments. The Commonwealth recognized the related obligation in the General Fund as of June 30, 2023. In October 2024, FEMA approved a compromise and five-year payment plan, and the Commonwealth executed a promissory note totaling approximately \$115.1 million, including interest. Management continues to monitor the liquidity and budgetary impact of FEMA cost-share obligations and related reimbursement timing.

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Puerto Rico Highway and Transportation Authority (PRHTA) Loan

The Commonwealth Plan of Adjustment included a \$360 million loan to the PRHTA for liquidity, which was repaid as part of the commercial close of the Puerto Rico Public-Private Partnerships Authority (PRPPPA) concession granted by PRHTA to Spanish infrastructure operator Abertis Infraestructuras, S.A. For additional information on this transaction, please refer to Note 19, Subsequent Events.

Puerto Rico Power Electric Authority (PREPA) Loan

On December 19, 2023, the Puerto Rico Treasury Department (PRTD) completed a first disbursement to PREPA for approximately \$115 million as part of a \$300 million loan by the PRTD to PREPA. The loan proceeds will be strictly used to fund the: (i) PREPA Pension Obligations through the end of the third fiscal quarter of FY2024, and (ii) Rollover Reserve. For additional information on this transaction, please refer to Note 19, Subsequent Events.

Federal Expenditure Cuts and Potential Reduction in Federal Funding

Developments at the federal level have created uncertainty regarding potential reductions in federal funding available to state-administered programs. These developments are linked to policy changes initiated under the current administration of President Donald J. Trump, which included proposed cuts to certain federal expenditures. While the full extent of these cuts has not yet been finalized, they could significantly impact the level of federal financial support available to the Commonwealth for various federally funded programs.

Severe Weather Event

In late April and early May 2025, severe rainfall and flooding affected multiple regions of Puerto Rico, resulting in significant infrastructure damage, particularly to roads and bridges. Preliminary estimates suggest total damages could exceed \$70 million. Ten municipalities were placed under a state of emergency, and emergency funds were requested to support immediate response and mitigation. The Commonwealth is working with local and federal agencies to assess and address the situation.

Federal Government Shutdown

In late 2025, the U.S. federal government experienced a prolonged shutdown that disrupted certain federal operations and funding administration until a funding measure was enacted in mid-November 2025. This disruption may affect the timing of federal grant processing, reimbursements, and administrative actions relevant to the Commonwealth, including disaster recovery activities. The Commonwealth continues to monitor these impacts; however, as of the date of issuance of these financial statements, the related financial statement effects (if any) are not reasonably estimable.

Tax Relief Appropriation

On February 9, 2026, the Commonwealth announced that Joint Resolution 06-2026 had been signed, appropriating \$554 million from the General Fund to provide a tax-relief payment to eligible taxpayers.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Finanzas Públicas, P.O. Box 9024140, San Juan, PR 00902.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2023

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Totals primary government	
Assets:				
Cash and cash equivalents in commercial banks	\$ 8,874,632	1,582,206	10,456,838	2,910,533
Cash and cash equivalents in governmental banks	—	—	—	2,694
Investments	54,704	—	54,704	1,743,476
Receivables – net:				
Income and excise taxes	1,633,151	—	1,633,151	—
Sales and use tax	97,505	—	97,505	—
Insurance premium	—	5,264	5,264	88,244
Intergovernmental	1,459,053	545,644	2,004,697	476,188
Accounts	121,725	209,701	331,426	1,060,002
Loans	256,124	—	256,124	464,091
Accrued interest	36,492	156	36,648	45,996
Leases	58,200	602	58,802	882,971
Public public partnership	—	1,322	1,322	—
Other	435,569	2,871	438,440	102,558
Due from – net :				
Primary government	—	—	—	183,825
Component units	554,105	—	554,105	79,947
Other governmental entities	207,265	3,376	210,641	960,613
Internal balances	(82,555)	82,555	—	—
Inventories	22,940	—	22,940	495,834
Prepaid expenses	18,575	—	18,575	76,827
Other assets	15,282	4,953	20,235	4,870
Restricted assets:				
Cash and cash equivalents in commercial banks	3,418,189	385,800	3,803,989	2,762,770
Cash and cash equivalents under the custody of U.S. Treasury	—	453,853	453,853	—
Sales and use tax receivable	105,630	—	105,630	—
Insurance premium receivable– net	—	55,806	55,806	—
Intergovernmental receivable	—	2,311	2,311	—
Accounts receivable	—	18	18	—
Interest receivable	—	1,837	1,837	—
Loans receivable from component units	—	629,479	629,479	—
Investments	1,925,029	29,347	1,954,376	847,100
Other	930	10,968	11,898	81,326
Real estate held for sale or future development	44,211	—	44,211	191,332
Capital assets:				
Land and other nondepreciable	2,026,475	36,005	2,062,480	5,143,286
Other capital assets, net of depreciation/amortization	5,755,771	86,996	5,842,767	20,364,130
Total assets	<u>27,039,002</u>	<u>4,131,070</u>	<u>31,170,072</u>	<u>38,968,613</u>
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivatives	—	—	—	4,797
Loss on bonds refunding	977	—	977	47,382
Asset retirement obligation	—	—	—	98,725
Other postemployment benefits related	86,102	1,353	87,455	65,456
Pension related	5,145,862	112,037	5,257,899	1,465,720
Total deferred outflows of resources	<u>5,232,941</u>	<u>113,390</u>	<u>5,346,331</u>	<u>1,682,080</u>

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2023

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Totals primary government	
Liabilities:				
Accounts payable and accrued liabilities	2,356,560	763,151	3,119,711	3,365,305
Deposits and escrow liabilities	—	—	—	591,229
Tax refunds payable	815,551	—	815,551	—
Due to:				
Primary government	—	—	—	2,532,581
Component units	301,040	15,662	316,702	674,253
Other governmental entities	218,517	376	218,893	141,431
Interest payable	820,430	262,823	1,083,253	3,430,711
Grant advances	1,175,009	—	1,175,009	—
Unearned revenue	359,302	45,883	405,185	1,085,056
Notes payable to Government Development Bank Debt Restructuring Authority	1,700	—	1,700	—
Tax revenue anticipation notes	400,000	—	400,000	—
Liabilities payable within one year:				
General obligations and revenue bonds	543,150	—	543,150	2,966,317
Contingent value instrument debt	388,770	—	388,770	—
Notes payable to component units	67,150	182,196	249,346	—
Note payable to financial institution	—	—	—	753,797
Lease liability	64,346	1,433	65,779	23,955
Subscription liability	54,455	2,649	57,104	9,260
Compensated absences	392,907	8,717	401,624	68,191
Obligation for unpaid lottery prizes	—	127,372	127,372	—
Voluntary termination benefits	66,916	2,958	69,874	14,885
Net pension liability	—	—	—	210,032
Total pension liability	1,976,362	31,043	2,007,405	307,370
Total other postemployment benefit liability	86,102	1,358	87,460	18,258
Liability for insurance benefits	—	413,595	413,595	835,696
Other long-term liabilities	260,826	3,809	264,635	59,181
Liabilities payable after one year:				
General obligations and revenue bonds	20,611,523	—	20,611,523	12,376,960
Contingent value instrument debt	7,965,847	—	7,965,847	—
Notes payable to component units	616,991	303,207	920,198	—
Notes payable to financial institutions	—	—	—	508,991
Lease liability	104,196	3,731	107,927	62,221
Subscription liability	101,356	3,677	105,033	11,354
Compensated absences	216,668	7,298	223,966	171,924
Obligation for unpaid lottery prizes	—	30,536	30,536	—
Voluntary termination benefits	321,861	6,234	328,095	46,686
Net pension obligation	—	—	—	18,288
Net pension liability	—	—	—	5,538,538
Total pension liability	30,173,127	517,061	30,690,188	4,618,635
Total other postemployment benefit liability	894,185	11,935	906,120	605,630
Hedging derivatives instruments – interest rate swaps	—	—	—	4,797
Other long-term liabilities	927,518	1,767	929,285	817,028
Total liabilities	<u>72,282,365</u>	<u>2,748,471</u>	<u>75,030,836</u>	<u>41,868,560</u>
Deferred inflows of resources:				
Service concession arrangements	—	—	—	1,648,009
Leases	54,649	407	55,056	843,688
Public public partnership	—	166	166	—
Other post employment benefits related	7,466	—	7,466	162,725
Pension related	4,209,971	59,224	4,269,195	1,839,962
Total deferred inflows of resources	<u>4,272,086</u>	<u>59,797</u>	<u>4,331,883</u>	<u>4,494,384</u>
Net position:				
Net investment in capital assets	6,767,454	85,283	6,852,737	10,707,142
Restricted for:				
Capital projects	99,226	—	99,226	280,065
Debt service	170,795	—	170,795	442,435
Emergency services	—	84,689	84,689	—
Lending activities	—	892,668	892,668	—
Payment of insurance benefits	—	407,384	407,384	—
Public housing and welfare	3,818	—	3,818	66,677
Student loans and other educational purposes	—	—	—	316,712
Other	2,443,476	—	2,443,476	865,778
Unrestricted (deficit)	<u>(53,767,277)</u>	<u>(33,832)</u>	<u>(53,801,109)</u>	<u>(18,391,060)</u>
Total net position	<u>\$ (44,282,508)</u>	<u>1,436,192</u>	<u>(42,846,316)</u>	<u>(5,712,251)</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2023

(In thousands)

Functions	Expenses	Program revenue			Net (expense) revenue and changes in net position			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 3,337,901	54,725	3,883,437	—	600,261	—	600,261	—
Public safety	2,077,516	149,599	154,851	—	(1,773,066)	—	(1,773,066)	—
Health	5,613,994	260,004	4,624,248	—	(729,742)	—	(729,742)	—
Public housing and welfare	5,795,650	57,684	5,290,833	73,932	(373,201)	—	(373,201)	—
Education	2,284,798	760	2,292,911	—	8,873	—	8,873	—
Economic development	3,119,867	347,296	306,141	—	(2,466,430)	—	(2,466,430)	—
Intergovernmental	230,577	—	—	—	(230,577)	—	(230,577)	—
Interest and other	1,253,575	—	—	—	(1,253,575)	—	(1,253,575)	—
Total governmental activities	23,713,878	870,068	16,552,421	73,932	(6,217,457)	—	(6,217,457)	—
Business-type activities:								
Unemployment insurance	166,138	301,599	4,155	—	—	139,616	139,616	—
Puerto Rico Health Insurance Administration	4,334,827	242,326	3,569,874	—	—	(522,627)	(522,627)	—
Puerto Rico Medical Services Administration	189,124	116,576	4,482	—	—	(68,066)	(68,066)	—
Nonmajor proprietary funds	631,140	869,530	33,201	—	—	271,591	271,591	—
Total business-type activities	5,321,229	1,530,031	3,611,712	—	—	(179,486)	(179,486)	—
Total primary government	\$ 29,035,107	2,400,099	20,164,133	73,932	(6,217,457)	(179,486)	(6,396,943)	—

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2023

(In thousands)

Functions	Expenses	Program revenue			Net (expense) revenue and changes in net position			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Component units:								
Government Development Bank for Puerto Rico	\$ 468,237	70,984	432,498	—	—	—	—	35,245
Puerto Rico Highways and Transportation Authority	995,770	292,864	43,857	162,099	—	—	—	(496,950)
Puerto Rico Electric Power Authority	4,991,142	4,142,968	370,146	152,475	—	—	—	(325,553)
Puerto Rico Aqueduct and Sewer Authority	864,005	1,143,502	—	150,440	—	—	—	429,937
University of Puerto Rico	866,871	269,122	367,397	2,072	—	—	—	(228,280)
State Insurance Fund Corporation	394,441	755,682	—	—	—	—	—	361,241
Nonmajor component units	1,190,400	658,244	337,127	127,347	—	—	—	(67,682)
Total component units	\$ 9,770,866	7,333,366	1,551,025	594,433	—	—	—	(292,042)
General revenue:								
Income taxes					6,751,352	—	6,751,352	—
Sales and use tax					3,461,921	—	3,461,921	—
Excise taxes					2,414,931	—	2,414,931	373,566
Other taxes					556,232	—	556,232	—
Revenue from opioid settlement agreement					113,977	—	113,977	—
Revenue from global tobacco settlement agreement					75,342	—	75,342	—
Revenue from State Insurance Fund Corporation					37,260	—	37,260	—
Revenue from Puerto Rico Tourism Company					16,950	—	16,950	—
Revenue from Automobile Accidents Compensation Administration					2,798	—	2,798	—
Revenue from Puerto Rico Electric Power Authority					20,000	—	20,000	—
Grants and contributions not restricted to specific programs					—	—	—	6,791
Revenue from primary government					—	—	—	1,163,400
Unrestricted investment earnings – net					351,175	35,251	386,426	200,945
Other					56,384	5,761	62,145	—
Extraordinary item - Gain on PROMESA Tittle III and VI proceedings					767,828	—	767,828	7,523,533
Transfers					(730,445)	730,445	—	—
Total general revenue, extraordinary items, and transfers					13,895,705	771,457	14,667,162	9,268,235
Change in net position					7,678,248	591,971	8,270,219	8,976,193
Net position:								
At beginning of year, as previously reported					(51,914,171)	844,427	(51,069,744)	(14,966,130)
Correction of errors and change in reporting entity (note 4)					(46,585)	(206)	(46,791)	277,686
Net position (deficit) – beginning of year, as restated					(51,960,756)	844,221	(51,116,535)	(14,688,444)
Net position (deficit) – end of year					\$ (44,282,508)	1,436,192	(42,846,316)	(5,712,251)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2023

(In thousands)

	General	Debt service	COFINA special revenue	COFINA debt service	Nonmajor governmental	Total governmental
Assets:						
Cash and cash equivalents in commercial banks	\$ 8,429,620	—	2,777	—	442,235	8,874,632
Investments	—	—	—	—	54,704	54,704
Receivables – net:						
Income and excise taxes	1,633,151	—	—	—	—	1,633,151
Sales and use tax receivable	97,505	—	—	—	—	97,505
Intergovernmental	1,386,986	—	—	—	72,067	1,459,053
Accounts	107,947	—	—	—	13,778	121,725
Loans	—	—	—	—	256,124	256,124
Accrued interest	36,492	—	—	—	—	36,492
Other	397,288	—	439	—	37,842	435,569
Due from – net:						
Other funds	78,831	—	—	—	202,557	281,388
Component units	554,105	—	—	—	—	554,105
Other governmental entities	200,526	—	—	—	6,739	207,265
Other assets	12,977	—	—	—	2,305	15,282
Restricted assets:						
Cash and cash equivalents in commercial banks	2,297,412	691,410	—	1,010	428,357	3,418,189
Sales and use tax receivable	—	—	—	105,630	—	105,630
Investments	1,502,163	—	19,455	298,781	104,630	1,925,029
Other assets	—	—	—	—	930	930
Real estate held for sale or future development	—	—	—	—	1,854	1,854
Total assets	\$ 16,735,003	691,410	22,671	405,421	1,624,122	19,478,627
Liabilities, deferred inflow of resources, and fund balances (deficit):						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,099,775	—	299	—	256,486	2,356,560
Tax refunds payable	815,551	—	—	—	—	815,551
Due to:						
Other funds	136,567	—	16,363	159,657	51,356	363,943
Component units	288,025	—	—	—	13,015	301,040
Other governmental entities	167,315	—	—	—	51,202	218,517
Interest payable	198,940	151,209	—	—	59,762	409,911
Grant advances	1,175,009	—	—	—	—	1,175,009
Unearned revenue	311,123	—	—	—	48,179	359,302
Notes payable to component units	2,843	—	—	—	33,632	36,475
Tax revenue anticipation notes	400,000	—	—	—	—	400,000
General obligation and revenue bonds	—	468,925	—	—	—	468,925
Other liabilities	6,000	—	—	—	—	6,000
Total liabilities	5,601,148	620,134	16,662	159,657	513,632	6,911,233
Deferred inflows of resources:						
Unavailable income taxes	1,357,475	—	—	—	—	1,357,475
Intergovernmental grants and contributions	195,924	—	—	—	—	195,924
Developer fees	120,651	—	—	—	—	120,651
Opioid settlement agreement	236,122	—	—	—	—	236,122
Global tobacco settlement agreement	—	—	—	—	37,250	37,250
Total deferred inflows of resources	1,910,172	—	—	—	37,250	1,947,422
Fund Balances:						
Spendable:						
Restricted	2,596,526	71,276	—	245,764	684,249	3,597,815
Committed	—	—	—	—	12,904	12,904
Assigned	6,864	—	6,009	—	473,139	486,012
Unassigned (deficit)	6,620,293	—	—	—	(97,052)	6,523,241
Total fund balances	9,223,683	71,276	6,009	245,764	1,073,240	10,619,972
Total liabilities, deferred inflow of resources, and fund balances	\$ 16,735,003	691,410	22,671	405,421	1,624,122	19,478,627

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2023

(In thousands)

Total fund balances (deficit) of governmental funds	\$	10,619,972
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:		
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net position		41,515
Accounts receivables reported in governmental activities but not in governmental funds		
Leases		58,200
Deferred outflows of resources reported in governmental activities but not in governmental funds		
Loss on bonds refunding		977
Other postemployment benefits related		86,102
Pension related		5,145,862
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds		7,782,246
Real estate held for sale or future development are not current financial resources and, therefore, are not reported in the governmental funds		42,357
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities		1,947,422
Deferred inflows of resources reported in governmental activities but not in governmental funds		
Leases		(54,649)
Other postemployment benefits related		(7,466)
Pension related		(4,209,971)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Interest payable		(410,519)
General obligation and revenue bonds		(20,685,748)
Contingent value instruments		(8,354,617)
Notes payable to component units		(649,366)
Lease liability		(168,542)
Subscription liability		(155,811)
Compensated absences		(609,575)
Voluntary termination benefits		(388,777)
Total pension liability		(32,149,489)
Other postemployment benefit obligation		(980,287)
Other long-term liabilities		(1,182,344)
		<u> </u>
Total net position (deficit) of governmental activities	\$	<u><u>(44,282,508)</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds

Year ended June 30, 2023

(In thousands)

	<u>General</u>	<u>Debt service</u>	<u>COFINA special revenue</u>	<u>COFINA debt service</u>	<u>Nonmajor governmental</u>	<u>Total governmental</u>
Revenue:						
Taxes:						
Income taxes	\$ 6,847,017	—	—	—	—	6,847,017
Sales and use tax	2,936,692	—	—	525,229	—	3,461,921
Excise taxes	2,414,931	—	—	—	—	2,414,931
Property taxes	154,440	—	—	—	—	154,440
Other taxes	401,792	—	—	—	—	401,792
Charges for services	866,555	—	—	—	—	866,555
Revenue from global tobacco settlement agreement	75,321	—	—	—	—	75,321
Revenue from component units	77,008	—	—	—	—	77,008
Intergovernmental	14,713,465	—	—	—	1,749,385	16,462,850
Interest and investment earnings	322,030	—	727	10,435	17,983	351,175
Other	16,803	—	5	—	40,995	57,803
Total revenue	28,826,054	—	732	535,664	1,808,363	31,170,813
Expenditures:						
Current:						
General government	5,283,837	—	1,337	—	362,481	5,647,655
Public safety	2,141,852	—	—	—	—	2,141,852
Health	5,525,506	—	—	—	62,590	5,588,096
Public housing and welfare	5,655,421	—	—	—	457	5,655,878
Education	4,515,702	—	—	—	—	4,515,702
Economic development	1,529,475	—	—	—	1,539,014	3,068,489
Intergovernmental	230,577	—	—	—	—	230,577
Capital outlays	532,883	—	—	—	38,833	571,716
Debt service:						
Principal	566,165	468,925	25	35,661	78,191	1,148,967
Interest and other	221,673	302,418	—	430,065	44,001	998,157
Other – debt issuance costs	—	—	—	—	3,646	3,646
Total expenditures	26,203,091	771,343	1,362	465,726	2,129,213	29,570,735
Excess (deficiency) of revenue over (under) expenditures	2,622,963	(771,343)	(630)	69,938	(320,850)	1,600,078
Other financing sources (uses):						
Transfers in	296,198	717,399	6,932	—	433,149	1,453,678
Transfers out	(2,160,828)	—	(16,363)	(6,932)	—	(2,184,123)
Proceeds from long term debt issued	381,843	—	—	—	—	381,843
Proceeds from sale of capital assets	2,925	—	—	—	—	2,925
Total other financing sources (uses)	(1,479,862)	717,399	(9,431)	(6,932)	433,149	(345,677)
Extraordinary item:						
Gain on PROMESA Tittle III transaction	320,076	—	—	—	51,778	371,854
Total extraordinary item	320,076	—	—	—	51,778	371,854
Net change in fund balances	1,463,177	(53,944)	(10,061)	63,006	164,077	1,626,255
Fund balances – beginning of year, as restated (note 4)	7,760,506	125,220	16,070	182,758	909,163	8,993,717
Fund balances – end of year	\$ 9,223,683	71,276	6,009	245,764	1,073,240	10,619,972

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2023

(In thousands)

Net change in fund balances – total governmental funds	\$	1,626,255
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	\$	571,716
Less depreciation and amortization expense		(445,535)
Loss on disposal of assets		<u>(31,411)</u>
Subtotal		94,770
The issuance of long-term debt (e.g., bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments of long-term debt		1,148,967
Proceed from long-term debt issued		<u>(381,843)</u>
Subtotal		767,124
Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds. Also, revenue related to prior periods that became available during the current period is reported in governmental funds but are eliminated in the statement of activities.		183,930
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		4,604,676
Extraordinary items reported in the statement of activities related to the plan of adjustments not reported at the governmental funds		395,831
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net position. This amount is the net decrease in total inventories and prepaid expenses.		<u>5,662</u>
Change in net position of governmental activities	\$	<u><u>7,678,248</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Net Position – Proprietary Funds
June 30, 2023
(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
		Administration	Administration		
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	\$ —	1,309,232	10,692	262,282	1,582,206
Receivables – net:					
Insurance premiums	—	—	—	5,264	5,264
Intergovernmental	—	545,400	—	244	545,644
Accounts	—	196,567	6,325	6,809	209,701
Accrued interest receivable	—	—	—	156	156
Lease receivable	—	—	338	—	338
Other	—	—	1,030	175	1,205
Due from other funds	—	—	14,334	55,824	70,158
Due from other governmental entities	—	—	3,272	104	3,376
Other assets	—	660	4,247	46	4,953
Restricted assets:					
Cash and cash equivalents in commercial banks	20,183	—	—	276,044	296,227
Cash and cash equivalents under the custody the U.S. Treasury	453,853	—	—	—	453,853
Accounts	—	—	—	18	18
Accrued interest	—	—	—	1,837	1,837
Insurance premiums receivable	55,806	—	—	—	55,806
Intergovernmental receivable	2,311	—	—	—	2,311
Other	33	—	—	—	33
Loans from component units	—	—	—	14,655	14,655
Total current assets	532,186	2,051,859	40,238	623,458	3,247,741
Noncurrent assets:					
Cash and cash equivalents in commercial banks – restricted	—	—	89,573	—	89,573
Receivables – net:					
Loans from component units – restricted	—	—	—	614,824	614,824
Lease receivable	—	—	264	—	264
Due from other funds	—	32,428	—	—	32,428
Other	458	1,208	—	—	1,666
Restricted investments	—	—	—	29,347	29,347
Public public partnership receivable	—	—	1,322	—	1,322
Other restricted assets	—	—	—	10,935	10,935
Land and other nondepreciable	—	—	6,872	29,133	36,005
Capital assets, net of depreciation/amortization	—	2,992	73,782	10,222	86,996
Total assets	532,644	2,088,487	212,051	1,317,919	4,151,101
Deferred outflows of resources:					
Other postemployment benefits related	—	11	1,065	277	1,353
Pension related	—	4,159	87,245	20,633	112,037
Total deferred outflows of resources	—	4,170	88,310	20,910	113,390
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	221	726,952	27,558	8,420	763,151
Due to other funds	—	4,881	6,106	9,044	20,031
Due to component units	—	—	15,662	—	15,662
Due to other governmental entities	—	—	—	376	376
Interest payable	—	98,308	151,691	12,824	262,823
Unearned revenue	28,839	—	1	17,043	45,883
Notes payable to component units	—	182,196	—	—	182,196
Lease liability	—	412	120	901	1,433
Subscription liability	—	—	385	2,264	2,649
Compensated absences	—	646	7,446	625	8,717
Obligation for unpaid lottery prizes	—	—	—	127,372	127,372
Voluntary termination benefits payable	—	409	2,293	256	2,958
Liability for insurance benefits	138,019	275,052	—	524	413,595
Total pension liability	—	358	23,207	7,478	31,043
Total other postemployment benefit liability	—	11	1,065	282	1,358
Other long-term liabilities	—	—	3,809	—	3,809
Total current liabilities	167,079	1,289,225	239,343	187,409	1,883,056
Noncurrent liabilities:					
Notes payable to component units	—	—	282,445	20,762	303,207
Lease liability	—	2,189	74	1,468	3,731
Subscription liability	—	—	1,479	2,198	3,677
Compensated absences	—	—	4,748	2,550	7,298
Obligation for unpaid lottery prizes	—	—	—	30,536	30,536
Voluntary termination benefits payable	—	1,679	3,531	1,024	6,234
Total pension liability	—	9,799	419,212	88,050	517,061
Total other postemployment benefit liability	—	282	8,936	2,717	11,935
Other long-term liabilities	—	—	1,767	—	1,767
Total liabilities	167,079	1,303,174	961,535	336,714	2,768,502
Deferred inflows of resources:					
Pension related	—	1,014	45,969	12,241	59,224
Leases	—	—	407	—	407
Public public partnership	—	—	166	—	166
Total deferred outflows of resources	—	1,014	46,542	12,241	59,797
Net position:					
Net investment in capital assets	—	391	78,596	6,296	85,283
Restricted for emergency services	—	—	78,420	6,269	84,889
Restricted for lending activities	—	—	—	892,668	892,668
Restricted for payment of insurance benefits	365,565	—	—	41,819	407,384
Unrestricted (deficit)	—	788,078	(864,732)	42,822	(33,832)
Total net position (deficit)	\$ 365,565	788,469	(707,716)	989,874	1,436,192

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenses, and Changes in Fund Net Position – Proprietary Funds

Year ended June 30, 2023

(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Operating revenue:					
Health insurance administration	\$ —	242,293	—	—	242,293
Insurance premiums	301,599	—	—	26,114	327,713
Lottery ticket sales	—	—	—	817,699	817,699
Patient service, net of provision for bad debts	—	—	116,366	—	116,366
Emergency telephone service charges	—	—	—	23,148	23,148
Interest	—	—	—	835	835
Other	—	33	210	1,734	1,977
Total operating revenue	301,599	242,326	116,576	869,530	1,530,031
Operating expenses:					
Insurance benefits	166,138	—	—	1,612	167,750
Medical premiums and claims	—	4,290,731	—	—	4,290,731
Lottery prizes	—	—	—	520,924	520,924
Patient services	—	—	165,229	—	165,229
General, administrative, and other operating expenses	—	28,517	(403)	97,979	126,093
Total operating expenses	166,138	4,319,248	164,826	620,515	5,270,727
Operating income (loss)	135,461	(4,076,922)	(48,250)	249,015	(3,740,696)
Nonoperating revenue (expenses):					
U.S. government grants	4,155	3,569,874	4,482	33,201	3,611,712
Contributions to component units	—	—	—	(8,879)	(8,879)
Interest and investment earnings	7,084	13,909	—	14,258	35,251
Loss on disposition of capital assets	—	—	—	(121)	(121)
Interest expense	—	(15,579)	(24,298)	(1,625)	(41,502)
Other	—	—	4,875	886	5,761
Total nonoperating revenue (expenses)	11,239	3,568,204	(14,941)	37,720	3,602,222
Income (loss) before transfers	146,700	(508,718)	(63,191)	286,735	(138,474)
Transfers from other funds	—	882,774	110,572	16,934	1,010,280
Transfers to other funds	(49,033)	—	—	(230,802)	(279,835)
Net change in net position	97,667	374,056	47,381	72,867	591,971
Net position (deficit)– beginning of year, as restated (note 4)	267,898	414,413	(755,097)	917,007	844,221
Net position (deficit)– end of year	\$ 365,565	788,469	(707,716)	989,874	1,436,192

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Cash Flows – Proprietary Funds
Year ended June 30, 2023
(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Cash flows from operating activities:					
Receipts from customers and users	\$ 287,890	156,452	106,450	870,426	1,421,218
Other receipts	—	—	—	54	54
Payments to healthcare organizations and third party administrators	—	(3,970,534)	—	—	(3,970,534)
Payments to suppliers	—	(17,051)	(86,203)	(92,385)	(195,639)
Payments to employees	—	(4,446)	(134,614)	(18,328)	(157,388)
Loans originated	—	—	—	(25,206)	(25,206)
Interest received on loans	—	—	—	619	619
Principal collected on loans	—	—	—	10,018	10,018
Payments of lottery prizes	—	—	—	(520,362)	(520,362)
Payments of insurance benefits	(153,200)	—	—	(1,649)	(154,849)
Net cash provided by (used in) operating activities	<u>134,690</u>	<u>(3,835,579)</u>	<u>(114,367)</u>	<u>223,187</u>	<u>(3,592,069)</u>
Cash flows from noncapital financing activities:					
U.S. government grants	2,908	3,868,645	4,482	33,572	3,909,607
Contributions to component units	—	—	—	(8,878)	(8,878)
Other receipts	—	—	—	894	894
Interest paid	—	(68)	(251)	—	(319)
Transfers from other funds	—	870,559	113,895	16,917	1,001,371
Transfers to other funds	(49,033)	—	—	(230,785)	(279,818)
Net cash provided by (used in) noncapital and related financing activities	<u>(46,125)</u>	<u>4,739,136</u>	<u>118,126</u>	<u>(188,280)</u>	<u>4,622,857</u>
Cash flows from capital and related financing activities:					
Transfers from other funds	—	—	16,089	—	16,089
Principal and interest payments	—	(262)	(452)	(1,817)	(2,531)
Capital expenditures	—	(335)	(15,577)	(289)	(16,201)
Net cash provided by (used in) capital and related financing activities	<u>—</u>	<u>(597)</u>	<u>60</u>	<u>(2,106)</u>	<u>(2,643)</u>
Cash flows from investing activities:					
Interest collected on deposits, and investments	7,052	13,909	4,875	11,491	37,327
Proceeds from sales and maturities of investments	—	—	—	777	777
Net cash provided by investing activities	<u>7,052</u>	<u>13,909</u>	<u>4,875</u>	<u>12,268</u>	<u>38,104</u>
Net change in cash and cash equivalents	95,617	916,869	8,694	45,069	1,066,249
Cash and cash equivalents at beginning of year	378,419	392,363	91,571	493,257	1,355,610
Cash and cash equivalents at end of year	<u>\$ 474,036</u>	<u>1,309,232</u>	<u>100,265</u>	<u>538,326</u>	<u>2,421,859</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 135,461	(4,076,922)	(48,250)	249,015	(3,740,696)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	—	611	8,953	2,022	11,586
Provision for bad debts	—	5,503	12,663	240	18,406
Changes in operating assets and liabilities:					
Decrease (increase) in accounts and loans receivable	1,029	(85,788)	(9,956)	(1,498)	(96,213)
Decrease in lease receivable	—	—	338	—	338
Decrease (increase) in due from component units	—	—	(1,516)	(15,404)	(16,920)
Decrease in due from other governmental entities	—	—	1,304	(104)	1,200
Decrease (increase) in other assets	—	(86)	(575)	2,093	1,432
Decrease (increase) in deferred outflow of resources	—	(2,846)	(4,733)	(3,501)	(11,080)
Increase (decrease) in accounts payable and accrued liabilities	(139)	273,291	2,579	(4,435)	271,296
Increase (decrease) in due to other funds	—	2,407	(480)	299	2,226
Decrease in due to component units	—	—	(31,923)	—	(31,923)
Increase (decrease) in due to other governmental entities	—	—	—	77	77
Increase (decrease) in unearned revenue	(14,738)	—	(296)	1,268	(13,766)
Increase (decrease) in compensated absences	—	(88)	(252)	111	(229)
Increase (decrease) in deferred inflow of resources	—	744	21,676	6,705	29,125
Increase (decrease) in total pension liability	—	3,677	(58,469)	(13,622)	(68,414)
Decrease in total other postemployment benefits liability	—	147	(4,105)	(556)	(4,514)
Increase in obligation for unpaid lottery prizes	—	—	—	562	562
Increase (decrease) in voluntary termination benefits payable	—	(388)	(2,753)	(49)	(3,190)
Increase (decrease) in liability for unemployment, disability and health insurance	13,077	44,159	—	(36)	57,200
Increase in other long-term liabilities	—	—	1,428	—	1,428
Total adjustments	<u>(771)</u>	<u>241,343</u>	<u>(66,117)</u>	<u>(25,828)</u>	<u>148,627</u>
Net cash provided by (used in) operating activities	<u>\$ 134,690</u>	<u>(3,835,579)</u>	<u>(114,367)</u>	<u>223,187</u>	<u>(3,592,069)</u>
Noncash capital and financing activities:					
Loss on disposition of capital assets	\$ —	—	—	173	173
Subscription asset and liability	\$ —	—	2,139	5,398	7,537

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2023

(In thousands)

	Custodial Fund
Assets:	
Cash and cash equivalents in commercial banks:	
Unrestricted	\$ <u>687,986</u>
Total assets	<u>687,986</u>
Liabilities:	
Accounts payable and accrued liabilities	<u>687,986</u>
Total liabilities	\$ <u>687,986</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Changes in Fiduciary Net Position
Year ended June 30, 2023
(In thousands)

	<u>Custodial Fund</u>
Additions:	
Tax and fee collections for other governments	\$ 39,498
Collections for individuals and other organizations	<u>855,116</u>
Total additions	<u>894,614</u>
Deductions:	
Distributions of taxes and fees to other governments	39,498
Distributions to individuals and other organizations	<u>855,116</u>
Total deductions	<u>894,614</u>
Net decrease in net position	—
Net position:	
Beginning of year	<u>—</u>
End of year	<u><u>\$ —</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2023

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Assets:									
Cash and cash equivalents in commercial banks	\$ 54,855	11,527	520,044	491,586	81,074	858,336	2,017,422	893,111	2,910,533
Cash and cash equivalents with governmental banks	—	—	—	—	—	—	—	2,694	2,694
Investments	100,863	—	—	95,840	120,295	908,335	1,225,333	518,143	1,743,476
Receivables – net:									
Insurance premiums	—	—	—	—	—	88,244	88,244	—	88,244
Intergovernmental	69,694	61,671	209,585	57,107	58,047	—	456,104	20,084	476,188
Accounts	—	10,407	743,788	139,241	34,435	—	927,871	132,131	1,060,002
Loans and advances	343,037	—	—	—	8,101	85,953	437,091	27,000	464,091
Accrued interest	1,528	—	—	—	—	—	1,528	44,468	45,996
Lease receivable	—	3,769	27,861	—	2,345	1,884	35,859	847,112	882,971
Other	2,109	48,000	25,151	—	—	—	75,260	27,298	102,558
Due from – net:									
Primary government	—	26,882	52,388	34,899	—	—	114,169	69,656	183,825
Component units	—	—	29,725	4,485	—	—	34,210	45,737	79,947
Other governmental entities	—	—	—	63,641	13,168	—	76,809	883,804	960,613
Inventories	—	—	434,810	47,465	2,641	1,526	486,442	9,392	495,834
Prepaid expenses	—	4,990	16,168	18,315	9,797	1,707	50,977	25,850	76,827
Other assets	655	—	—	—	—	—	655	4,215	4,870
Restricted assets:									
Cash and cash equivalents in commercial banks	101,885	313,900	1,203,588	592,836	114,586	—	2,326,795	435,975	2,762,770
Investments	74,966	—	—	—	486,610	—	561,576	285,524	847,100
Other restricted assets	—	—	—	—	—	—	—	81,326	81,326
Real estate held for sale or future development	2,842	—	—	—	—	—	2,842	188,490	191,332
Capital assets:									
Land and other nondepreciable	7,753	2,361,477	857,257	775,963	75,275	18,532	4,096,257	1,047,029	5,143,286
Other capital assets, net of depreciation/amortization	2,239	6,073,297	6,818,286	4,829,567	692,082	136,954	18,552,425	1,811,705	20,364,130
Total assets	762,426	8,915,920	10,938,651	7,150,945	1,698,456	2,101,471	31,567,869	7,400,744	38,968,613
Deferred outflows of resources:									
Accumulated decrease in fair value of hedging derivatives	—	—	4,797	—	—	—	4,797	—	4,797
Loss on bonds refunding	826	—	10,049	35,639	570	—	47,084	298	47,382
Asset retirement obligation	—	—	98,725	—	—	—	98,725	—	98,725
Other post employment benefits related	249	1,166	16,934	16,712	25,706	1,956	62,723	2,733	65,456
Pension related	30,356	89,532	328,786	216,886	239,519	301,553	1,206,632	259,088	1,465,720
Total deferred outflows of resources	31,431	90,698	459,291	269,237	265,795	303,509	1,419,961	262,119	1,682,080

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2023

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Liabilities:									
Accounts payable and accrued liabilities	59,303	152,369	2,401,493	328,344	86,400	75,615	3,103,524	261,781	3,365,305
Deposits and escrow liabilities	—	—	299,309	98,599	—	—	397,908	193,321	591,229
Due to:									
Primary government	63,350	359,636	1,215,388	618,891	29,727	—	2,286,992	245,589	2,532,581
Component units	19,910	6,133	1,503	9,408	15,050	—	52,004	622,249	674,253
Other governmental entities	—	—	—	1	6,450	31,056	37,507	103,924	141,431
Interest payable	—	20,120	2,894,915	132,755	—	—	3,047,790	382,921	3,430,711
Unearned revenue	34,407	6,351	215,164	265,975	100,428	62,143	684,468	400,588	1,085,056
Liabilities payable within one year:									
Revenue bonds	40,490	14,085	2,647,983	84,770	32,835	—	2,820,163	146,154	2,966,317
Notes payable to financial institutions	1,553	—	706,074	2,103	109	—	709,839	43,958	753,797
Lease liability	232	—	2,942	2,407	1,730	15,401	22,712	1,243	23,955
Subscription liability	295	—	6,270	171	1,890	—	8,626	634	9,260
Compensated absences	618	1,853	5,502	4,917	29,534	15,450	57,874	10,317	68,191
Voluntary termination benefits	—	3,995	—	4,873	—	—	8,868	6,017	14,885
Liability for insurance benefits	—	—	—	—	—	774,294	774,294	61,402	835,696
Net pension liability	—	—	210,032	—	—	—	210,032	—	210,032
Total pension liability	10,725	32,000	—	86,033	—	96,072	224,830	82,540	307,370
Total other postemployment benefits liability	250	1,200	6,751	5,826	—	1,504	15,531	2,727	18,258
Other long-term liabilities	1,296	1,028	—	—	312	51,875	54,511	4,670	59,181
Liabilities payable after one year:									
Revenue bonds	157,976	1,330,251	5,662,605	3,150,592	282,896	—	10,584,320	1,792,640	12,376,960
Notes payable to financial institutions	55,156	—	28,807	392,373	266	—	476,602	32,389	508,991
Lease liability	296	—	9,745	7,150	1,418	36,341	54,950	7,271	62,221
Subscription liability	917	3,200	3,323	1,548	1,842	—	10,830	524	11,354
Compensated absences	—	3,444	2,940	40,659	100,494	17,477	165,014	6,910	171,924
Voluntary termination benefits	—	17,657	—	8,721	—	—	26,378	20,308	46,686
Net pension obligation	—	—	—	—	—	—	—	18,288	18,288
Net pension liability	—	—	3,786,308	—	1,752,230	—	5,538,538	—	5,538,538
Total pension liability	146,281	497,286	—	1,212,973	—	1,547,269	3,403,809	1,214,826	4,618,635
Total other postemployment benefits liability	2,959	13,475	249,534	94,072	198,788	18,283	577,111	28,519	605,630
Hedging derivative instruments – interest rate swaps	—	—	4,797	—	—	—	4,797	—	4,797
Other long-term liabilities	42,010	90,588	467,133	—	92,311	62,069	754,111	62,917	817,028
Total liabilities	638,024	2,554,671	20,828,518	6,553,161	2,734,710	2,804,849	36,113,933	5,754,627	41,868,560
Deferred inflows of resources:									
Service concession arrangements	—	992,559	—	—	—	—	992,559	655,450	1,648,009
Leases	—	3,680	27,800	—	2,152	1,884	35,516	808,172	843,688
Other post employment benefits related	—	—	95,554	23,590	43,581	—	162,725	—	162,725
Pension related	25,339	66,308	588,182	253,838	493,321	164,125	1,591,113	248,849	1,839,962
Total deferred inflows of resources	25,339	1,062,547	711,536	277,428	539,054	166,009	2,781,913	1,712,471	4,494,384
Net position:									
Net investment in capital assets	8,771	7,337,579	(605,428)	1,494,066	468,414	103,743	8,807,145	1,899,997	10,707,142
Restricted for:									
Capital projects	—	40,994	—	—	6,183	—	47,177	232,888	280,065
Debt service	268	290,983	—	—	52,759	—	344,010	98,425	442,435
Affordable housing and related loan insurance programs	66,677	—	—	—	—	—	66,677	—	66,677
Student loans and other educational purposes	—	—	—	—	311,462	—	311,462	5,250	316,712
Other	—	—	178,897	452,041	41,595	—	672,533	193,245	865,778
Unrestricted (deficit)	54,778	(2,280,156)	(9,715,581)	(1,356,514)	(2,189,926)	(669,621)	(16,157,020)	(2,234,040)	(18,391,060)
Total net position (deficit)	\$ 130,494	5,389,400	(10,142,112)	589,593	(1,309,513)	(565,878)	(5,908,016)	195,765	(5,712,251)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Combining Statement of Activities – Discretely Presented Component Units
Year ended June 30, 2023
(In thousands)

	General revenue and transfers											Net position (deficit) – beginning of year, as previously reported	Correction of errors and changes in reporting entity (note 4)	Net position (deficit) – beginning of year, as restated	Net position (deficit) end of year		
	Program revenue			Net revenue (expenses) and changes in net position	Payments from (to) other component units						Extraordinary Gain					Change in net position	
	Charges for services	Operating grants and contributions	Capital grants and contributions		Payments from (to) primary government	Grants and contributions not restricted to specific programs	Interest and investment earnings	Excise taxes and others									
Expenses																	
Major component units:																	
Government Development Bank for Puerto Rico	\$ 468,237	70,984	432,498	—	35,245	8,431	—	—	—	—	—	4,433	48,109	82,385	—	82,385	130,494
Puerto Rico Highways and Transportation Authority	905,770	292,864	43,857	162,099	(496,950)	298,595	—	—	3,654	4	6,820,650	6,625,953	(1,229,661)	(6,892)	(1,236,553)	5,389,400	
Puerto Rico Electric Power Authority	4,991,142	4,142,968	370,146	152,475	(325,553)	—	—	—	25,819	95,563	—	(204,171)	(10,132,121)	194,180	(9,937,941)	(10,142,112)	
Puerto Rico Aqueduct and Sewer Authority	864,005	1,143,502	—	150,440	429,937	—	—	—	24,832	9,160	579,037	1,042,966	(453,373)	—	(453,373)	589,593	
University of Puerto Rico State Insurance Fund Corporation	866,871	269,122	367,397	2,072	(228,280)	554,748	—	—	—	90,147	—	416,615	(1,726,128)	—	(1,726,128)	(1,309,513)	
	394,441	755,682	—	—	361,241	(37,260)	—	—	61,070	—	—	385,051	(950,929)	—	(950,929)	(565,878)	
Nonmajor component units	1,190,400	658,244	337,127	127,347	(67,682)	338,886	—	6,791	85,570	178,692	119,413	861,670	(556,303)	90,398	(465,905)	195,765	
	\$ 9,770,866	7,333,366	1,551,025	594,433	(292,042)	1,163,400	—	6,791	200,945	373,566	7,523,533	8,976,193	(14,966,130)	277,686	(14,688,444)	(5,712,251)	

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2023

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution as approved by the people of Puerto Rico and the U.S. Congress. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development. On June 30, 2016, as a result of the current fiscal crisis that affects the Commonwealth (as further described below in Note 2 and Note 3), the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), was established under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, including review and approval of certain governmental functions.

The accompanying basic financial statements of the Commonwealth 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).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds and discretely presented component units, the results of operations of the Commonwealth and its various funds and discretely presented component units, and the cash flows of the proprietary funds.

(a) Financial Reporting Entity

As required by U.S. GAAP, the financial reporting entity of the Commonwealth includes all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Commonwealth appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. In situations where the Commonwealth has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Commonwealth and when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(b) Component Units

The basic financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*.

(i) Blended Component Units

The following entities, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the Primary Government as follows:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is a cost sharing, multiple employers defined benefit pension plan, that covers all regular

COMMONWEALTH OF PUERTO RICO

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employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. On May 21, 2017, the Oversight Board—at the request of the Governor of Puerto Rico (the Governor)—commenced a Title III case for ERS by filing a petition for relief under Title III of PROMESA in the Title III Court. As discussed in Note 3, ERS has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA.

After the enactment of Act 106-2017 on August 23, 2017, ERS is governed by a thirteen member board of trustees, composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), who served as President of the Retirement Board of the Government of Puerto Rico's (the Retirement Board), the Secretary of the Department of Treasury (DOT) of the Commonwealth, the Director of the Office of Management and Budget of the Commonwealth (PROMB), the Director of the Office of Human Resources of the Commonwealth, a representative of the teachers from the Department of Education (DOE), a representative from the public corporations, a representative from the Judicial Branch, the President of the Federation of Mayors, the President of the Association of Mayors, and four representatives of the public interest. After August 23, 2017, ERS is administered by the Retirement Board which also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of ERS. Therefore, the basic financial statements of ERS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Ponce Authority (PA) (Previously Known as Port of the Americas Authority) – On August 12, 2016, the Governor signed into law Act No. 176-2016, known as “Law of the Ponce Authority”, to amend various articles from Act No. 171-2002. Act No. 176-2016 re-named the Port of the Americas Authority to Ponce Authority, changed the PA's governance structure, and expanded its purposes, faculties, and powers, including through the creation of a new Coordinated Infrastructure Master Plan for the City of Ponce. After the enactment of Act No. 176-2016, PA is now governed by a seven member board co-presided by the Secretary of the Department of Economic Development and Commerce (DEDC) and the Director of the Ponce Territorial Order Office. The other members include (1) the Secretary of the Department of Natural and Environmental Resources (DNER), (2) an architect or certified planner, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (3) an economist, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (4) a civil engineer, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature, and (5) a small businesses representative, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature. The main purpose of the PA is the promotion, development, improvement, and operation of the large-scale container terminal in the city of Ponce, Puerto Rico. The PA must also prepare a coordinated master plan for the Infrastructure of Ponce. The Commonwealth provides financial support to the PA through legislative appropriations, and its current existing debt is guaranteed by the Commonwealth pursuant to the provisions of Act No. 409 of September 22, 2004 (Act No. 409-2004). The Commonwealth continues to provide financial support to this new entity. Therefore, PA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

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Ponce Ports Authority (PPA) – On December 12, 2011, Act No. 240 (Act No. 240-2011) was approved creating the PPA, with a seven member board composed of (1) the Secretary of the DEDC, (2) the director of the Ponce port, (3) three members to be appointed by the Governor with the consent of the Senate and (4) two members to be appointed by the Mayor of Ponce with the consent of the Ponce Municipal Legislature. PPA was created to continue the development of the container terminal formerly undertaken by Ponce Authority (PA) and to implement the facilities' future operations. Therefore, all the assets, rights, and duties of PA (with the exception of its existing debt) would be transferred to PPA. Effective fiscal year 2015, the PPA board was formed, and operations started. However, as of June 30, 2023, the PA assets have not been transferred to PPA. On December 19, 2013, Act No. 156 was approved amending Act No. 240-2011 by, among other things, authorizing PPA to request a line of credit of up to \$60 million from the Government Development Bank (GDB) and establishing that the payment of such debt would be satisfied with annual Commonwealth's legislative appropriations starting in fiscal year 2015. As the total debt outstanding of PPA is payable from Commonwealth's legislative appropriations, PPA's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) – On April 6, 2016, Act No. 21 (Act No. 21-2016) was approved creating FAFAA as an independent public corporation and government instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth, its agencies, instrumentalities, subdivisions, public corporations and/or municipalities, and to assist such entities in confronting the fiscal and economic emergency that Puerto Rico is experiencing. FAFAA assumed the fiscal agency and financial advisory responsibilities that were previously held by GDB. On January 18, 2017, the Governor signed into law the Enabling Act of the Fiscal Agency and Financial Advisory Authority, Act No. 2-2017. This new law amended and replaced sections of the prior law that established FAFAA. Act No. 2-2017 expanded FAFAA's powers to include, among other things, sole responsibility to renegotiate, to restructure and/or to reach an agreement with creditors on all or part of the public debt or any other debt issued by any government entity. In addition, FAFAA is the entity in charge of the collaboration, communication and cooperation efforts between the Commonwealth and the Oversight Board, created under PROMESA.

FAFAA's Board is composed of five members: (1) FAFAA's Executive Director appointed by the Governor, (2) a representative of the Senate of Puerto Rico, (3) a representative of the House of Representatives of Puerto Rico who will be appointed by the President of each Legislative Body, and (4) two members appointed by the Governor. The members can only be replaced and/or removed by the entity who appointed them. FAFAA does not have legal authority to issue bonds, notes, or any other debt instrument; however, it will be the principal financial advisor and will approve all future debt issuances of any instrumentality of the Commonwealth. FAFAA's annual budget is appropriated from the General Fund.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a board of directors, which, by law, is composed of eleven members (six compulsory members and five discretionary members). The compulsory members are the Secretary of the Department of Health (PRDOH) of the Commonwealth, the Secretary of the DOT of the Commonwealth, the Director of the PROMB, the Executive Director of FAFAA, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. The board of directors' president is designated by the Governor, and all discretionary board members are executives in a

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trustworthy position. PRHIA was created for the purpose of implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals (via the Medicaid program administered and funded primarily by the Centers for Medicare and Medicaid Services through a memorandum of understanding with the PRDOH); and also to employees of the Commonwealth, Municipalities and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan in exchange for a fee paid by them through payroll deductions. PRHIA also recovers its operating costs through charges made to Municipalities and a rebate program with pharmacies where PRHIA retains 100% of the income derived from this program. Since 2015, the Commonwealth appropriates funds from its general fund budget to provide resources for the payment of principal and interest on PRHIA's line of credit obligation, which is the total debt outstanding of PRHIA. Therefore, PRHIA's basic financial statements are blended in the Commonwealth's fund financial statements as a major enterprise fund.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by a seven member board comprised of five members appointed by the board of directors of the FAFAA, the Secretary of the DOT and one member appointed by the Governor. The President is appointed by the Governor from among its members. PRIFA is a financing authority whose responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's total debt outstanding, mostly Special Tax Revenue Bonds comprising over 95% of its total debt, was payable from federal excise taxes levied on the rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Department of the Treasury and returned to the Commonwealth. The Special Tax Revenue Bonds were payable from Commonwealth legislative appropriations. Therefore, PRIFA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund. As discussed in Note 3, PRIFA has successfully completed its restructuring pursuant to a court-approved qualified modification under Title VI of PROMESA, which became effective on March 15, 2022.

Puerto Rico Maritime Shipping Authority (PRMSA) – PRMSA is governed by the Executive Director of FAFAA. The operations of PRMSA have been limited to processing the remaining legal requirements resulting from the sale of certain maritime operations formerly owned and operated by PRMSA. Such legal requirements consist solely of servicing the long-term debt that remained in PRMSA after the sale. In the past, the Commonwealth has appropriated funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMSA's basic financial statements are blended in the Commonwealth's fund financial statements as a debt service fund.

Puerto Rico Medical Services Administration (PRMeSA) – PRMeSA is governed by a ten member board comprised of the Secretary of the PRDOH (who serves as the Chairman), the Dean of the Medical Sciences Faculty of the University of Puerto Rico (UPR), the President of the board of directors of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the PRDOH. PRMeSA's purpose is to plan, organize, operate, and administer the Commonwealth's centralized health services, and provide support for the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto

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Rico Medical Center. The Commonwealth should annually appropriate funds from its general operating budget to provide for the payment of principal and interest of its debt, which is the total debt outstanding of PRMeSA. Therefore, PRMeSA's basic financial statements are blended in the Commonwealth's fund financial statements as a major enterprise fund.

Puerto Rico Public Private Partnerships Authority (PRPPPA) – PRPPPA is governed by a five member board of directors comprised of the Executive Director of FAFAA, the Secretary of the DOT, the President of the Puerto Rico Planning Board (PRPB), and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. PRPPPA is the only government entity authorized and responsible for implementing public policy on public private partnerships established by Act No. 29-2009, as amended, and to determine the functions, services, or facilities for which such Partnerships will be established. Also, PRPPPA through the operation of the Central Office for Recovery, Reconstruction and Resiliency (COR3), is responsible for administering the FEMA Pre-disaster Mitigation, Public Assistance, Hazard Mitigation Grant Program and the Crisis Counseling Assistance and Training Program Grant on behalf of the Commonwealth. Therefore, the basic financial statements of PRPPPA are blended in the Commonwealth's funds financial statements as a special revenue fund.

Puerto Rico Sales Tax Financing Corporation (Known as COFINA, its Spanish Acronym) – COFINA was created under Act No. 91-2006, as amended. COFINA was originally created for the purpose of financing the payment, retirement, or defeasance of certain debt obligations of the Commonwealth outstanding as of June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Legislature expanded the purposes of COFINA to assist in funding operational expenses of the Commonwealth for 2009 through 2012, to the extent included in the annual budget of the Commonwealth. As of June 30, 2020, the board of directors of COFINA is comprised of three members appointed by the Governor. Because COFINA's Sales Tax Revenue Bond obligations have historically been repaid with the Commonwealth-levied sales and use taxes as described in Note 11, its basic financial statements are blended in the Commonwealth's fund financial statements as a major special revenue and major debt service fund. As discussed in Note 3, COFINA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on February 12, 2019.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is a single employer trust created by the Legislature for the purpose of providing pension and other benefits to all teachers of the DOE, all pensioned teachers, all teachers transferred to an administrative position in the DOE, and those who practice in private institutions accredited by the Department of Education (DOE) who elect to become members. TRS provides retirement, death, and disability benefits. After the enactment of Act 106-2017 on August 23, 2017, TRS is governed by the same board of trustees as ERS and is administered by the Retirement Board, which also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC). TRS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the DOE and retired employees of TRS Administration. After the enactment of Act 106-2017, TRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of TRS. Therefore, the basic financial statements of TRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

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Public Buildings Authority (PBA) – PBA is governed by a seven member board comprised of the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the DOE, the President of the GDB, and four members appointed by the Governor with the advice and consent of the Senate. As provided under Act No. 2-2017, the board member position previously occupied by the President of the GDB is currently held by the Executive Director of FAFAA as of January 18, 2017. PBA is a legally separate entity, whose activities are blended within the Primary Government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities to the Commonwealth's departments, component units, and instrumentalities. Therefore, the basic financial statements of the PBA are blended in the Commonwealth's fund financial statements as a special revenue, debt service, and capital project fund. As discussed in Note 3, PBA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on March 15, 2022.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth. After the enactment of Act 106-2017 on August 23, 2017, JRS is governed by the same board of trustees as ERS and is administered by the Retirement Board. After the enactment of Act 106-2017, JRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of JRS. Therefore, the basic financial statements of JRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Special Communities Perpetual Trust (SCPT) – SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth (the Commonwealth DOH), the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one Mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. Over the years since its inception, SCPT has seen its revenue sources diminish as its principal assets, mortgage loans, are being fully reserved. SCPT had accumulated debt with the GDB, which is payable from Commonwealth Legislative appropriations. Therefore, SCPT's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

The Children's Trust – The Children's Trust is governed by a seven member board comprised of the Governor, who designates the president of the board, the Executive Director of FAFAA, the Director of the PROMB, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the wellbeing of families, children, and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998, between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies should continue making contributions in perpetuity. As the Children's Trust provides financial assistance entirely or almost entirely to the Commonwealth's departments and its total debt outstanding is being repaid with the GSA resources

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received by the Commonwealth, its basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) – UPRCCC is governed by a nine member board comprised of four ex officio members: the President of the UPR, the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the PRDOH, and the Dean of the UPR School of Medicine. The remaining five members must be citizens of Puerto Rico who have shown commitment to the fight against cancer, and are appointed by the Governor with the approval of the Commonwealth Senate with the following criteria: two members from the investigative studies or cancer treatment community; one member with experience in management, finance, or business administration, or with previous experience managing hospitals or medical investigation clinics; one member who is a cancer patient; and one member who will be a member of the “Liga Puertorriqueña Contra el Cancer.” The Commonwealth provides financial support to UPRCCC through legislative appropriations. The UPRCCC was created by Act No. 230 of August 26, 2004 (Act No. 230-2004), to be the governmental entity principally responsible to execute public policy related to the prevention, orientation, investigation, and treatment of cancer in Puerto Rico. On October 31, 2013, Act No. 128 (Act No. 128-2013) was approved amending Act No. 230-2004 in order to specifically establish that beginning with fiscal year 2015, annual Commonwealth legislative appropriations of \$15 million could be made available to cover the debt service of the obligations incurred by the UPRCCC in its capital related projects, particularly the construction of its medical and hospital facilities. Prior to Act No. 128-2013, Act No. 230-2004 was not conclusive as to the revenue source from which to repay the aforementioned debt service. As the total debt outstanding is payable from the Commonwealth's legislative appropriations, UPRCCC's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

The COFINA Debt Service Fund, and the COFINA Special Revenue Fund are presented as major governmental funds, while PRMeSA and PRHIA are presented as major enterprise funds. All the other blended component units are reported in the nonmajor governmental funds column, except for PPA, which is reported in the nonmajor enterprise funds column. Complete basic financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico P .O. Box 42003 – Minillas Station San Juan, PR 00940-2203	Ponce Authority P .O. Box 195534 San Juan, PR 00919-5534
Ponce Ports Authority P .O. Box 7051 Ponce, PR 00752	Puerto Rico Fiscal Agency and Financial Advisory Authority P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Health Insurance Administration P.O. Box 195661 San Juan, PR 00919-5661	Puerto Rico Infrastructure Financing Authority P .O. Box 41207 Minillas Station San Juan. PR 00940
Puerto Rico Maritime Shipping Authority P .O . Box 42001 San Juan, PR 00940-2001	Puerto Rico Medical Services Administration P .O. Box 2129 San Juan, PR 00922-2129
Puerto Rico Public Private Partnerships Authority P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico Sales Tax Financing Corporation P.O. Box 42001 San Juan, PR 00940-2001

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Puerto Rico System of Annuities and Pensions for Teachers P.O. Box 191879 San Juan, PR 00919-1879	Public Buildings Authority P.O. Box 41029- Minillas Station San Juan, PR 00940-1029
Retirement System for the Judiciary of the Commonwealth of Puerto Rico P.O. Box 42003- Minillas Station San Juan, PR 00940-2203	Special Communities Perpetual Trust P.O. Box 42001 San Juan, PR 00940-2001
The Children's Trust P.O. Box 42001 San Juan, PR 00940-2001	University of Puerto Rico Comprehensive Cancer Center PMB 711, 89 De Diego Ave., Suite 105 San Juan, PR 00927-6346

(ii) *Discretely Presented Component Units*

The discretely presented component units described below, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and No. 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of the Puerto Rico Science, Technology and Research Trust, which do not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These discretely presented component units are not blended with the Primary Government because they do not provide services entirely, or almost entirely to the Primary Government, their governing board is not substantively the same as that of the Primary Government, the Primary Government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the Primary Government. These discretely presented component units have been classified by management between major and nonmajor discretely presented component units. A major discretely presented component unit is determined by the Commonwealth based on the nature and significance of its relationship to the Primary Government. This determination is based on the evaluation of the following factors: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. If a discretely presented component unit is expected to meet some of these considerations for inclusion as major discretely presented component unit in a future year, the Commonwealth may elect to report it as such.

Major Discretely Presented Component Units

Government Development Bank for Puerto Rico (GDB) – Prior to March 23, 2018, when GDB ceased operating and commenced an orderly winddown of its operations, GDB acted as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also issued warranties to third parties, made loans, and advanced funds predominantly to the Commonwealth's departments, component units, and municipalities. Act No. 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (the Moratorium Act), created

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FAFAA to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities. This new fiscal agency and advisory authority commenced its functions as described above immediately upon the Moratorium Act's enactment. The Moratorium Act did not have an impact on the designation of GDB as a major discretely presented component unit for fiscal year 2022. GDB completed a debt restructuring pursuant to the GDB Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. For additional information regarding GDB's Qualifying Modification under Title VI of PROMESA, refer to Note 3.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine member board comprising of six members appointed by the Governor with the advice and consent of the Senate (including the President of the Puerto Rico Planning Board), the Executive President of the Puerto Rico Electric Power Authority (PREPA), the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth previously guaranteed the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45-1994 was later amended to include other loans under the Clean Water State Revolving Funds Program (SRFP) and under the USDA Rural Development Program. All bonds and loans previously guaranteed under Act No. 45-1994 have been restructured or refinanced to eliminate any Commonwealth guarantee. The Commonwealth historically provided certain financial support to PRASA through legislative appropriations for debt service of its Public Finance Corporation (PFC) notes, which are contingent upon such appropriation. As discussed in Note 3, the PFC notes have been discharged and canceled pursuant to the PFC Title VI Qualifying Modification.

Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a seven member board, six of which are appointed by the Governor and one member is an elected consumer representative. PREPA is responsible for conserving, developing, and utilizing the power resources to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth's municipalities are entitled to receive contributions in lieu of taxes from PREPA. On July 2, 2017, the Oversight Board—at the request of the Governor—commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the Title III Court.

Puerto Rico Highways and Transportation Authority (PRHTA) – PRHTA is governed by a seven member board comprised of the Secretary of DTPW (serving as the President of the board), the President of the PRPB, the Secretary of the DOT, the Executive Director of FAFAA, and three other members from the private sector appointed by the Governor with the advice and consent of the Senate. The PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by the PRHTA, and the power to issue bonds, notes, or other obligations. Prior to establishing of the public private partnerships of the toll highway system, the PRHTA planned and managed the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. On May 21, 2017, the Oversight Board—at the request of the Governor—commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the Title III Court. As discussed in Note 3, PRHTA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on December 6, 2022.

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State Insurance Fund Corporation (SIFC) – SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board is comprised of the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources (DLHR) of the Commonwealth, an officer from the PRDOH, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico (UPR) – The UPR is governed by a thirteen member Governing Board, nine of which are appointed by the Governor and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full time students. The Secretary of the DOE becomes an ex officio member of the governing board. The Commonwealth provides financial support to the UPR through legislative appropriations.

Nonmajor Discretely Presented Component Units

Automobile Accidents Compensation Administration (AACA) – AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. The AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth may influence rates charged by the AACA and may have access to its resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) – CCCPRC is governed by a seven member board comprised of the Secretary of the PRDOH, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the PRMeSA, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to the CCCPRC through legislative appropriations.

Center of Diabetes for Puerto Rico (CDPR) – CDPR is governed by a nine member board, which includes the Secretary of the PRDOH, the dean of the School of Medical Sciences of the UPR, the other seven members are appointed by the Governor. The CDPR was created to be responsible for the planification, organization, operation and administration of investigative services, orientation, prevention, and treatments of diabetes in Puerto Rico. The Commonwealth provides financial support to the CDPR through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) – CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members are appointed by the Mayor of the Municipality of San Juan. The CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. The Commonwealth generally provides financial support to the CIDPC.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) – CPECMP was created for the purpose of coordinating the public policy related to the rehabilitation of the Caño Martín Peña area. The CPECMP is governed by a board of directors of thirteen members of which seven members are

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appointed by the Governor and six members are appointed by the Mayor of the Municipality of San Juan. The Commonwealth generally provides financial support to the CPECMP through legislative appropriations.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine member board comprised of the Executive Director of FAFAA, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the DEDC, the Director of the PROMB, the Secretary of the DOT, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. The EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited to economic activities that may have the effect of substituting imports. The Commonwealth can impose its will on the EDB.

Farm Insurance Corporation of Puerto Rico (FICPR) – FICPR is governed by a five member board comprised of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of the FAFAA, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth can impose its will on the FICPR.

Fine Arts Center Corporation (FACC) – FACC is governed by a nine member board comprising of the President of the Musical Arts Corporation (MAC) and eight members appointed by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Government Development Bank Debt Restructuring Authority (DRA) – DRA is a statutory public trust and governmental instrumentality of the Commonwealth created pursuant to Act No. 109 of August 24, 2017, as amended, known as the GDB Restructuring Act, which was enacted for the purpose of facilitating the restructuring of GDB's indebtedness and release of certain claims against GDB pursuant to a largely consensual debt restructuring process under Title VI of PROMESA. The DRA is independently operated and governed by a three member board of trustees who are appointed by, and serve at the pleasure of, the Governor. The Commonwealth can impose its will on the DRA.

Institute of Puerto Rican Culture (IPRC) – IPRC is governed by a nine member board comprised of the President of MAC and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities, and culture. The Commonwealth provides financial support to the IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – ITNGPR is governed by a seven member board comprised of the Adjutant General of the Puerto Rico National Guard, the Executive Director of FAFAA, the Secretary of Justice of the Commonwealth, three members of the military from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active and retired members of the Puerto Rico National Guard and their families. The Commonwealth can impose its will on the ITNGPR.

Land Authority of Puerto Rico (LAPR) – LAPR is governed by a five member board comprised of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR

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was created to carry out the provisions of the Land Law of Puerto Rico, principally geared to the agricultural development of Puerto Rico. LAPR maintains debt that is payable from Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (LRA) – LRA is governed by a nine member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential, and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. The LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation, and maintenance of the economic development on the land and facilities formerly occupied by the U.S. Navy. The Commonwealth generally provides financial support to the LRA through legislative appropriations.

Musical Arts Corporation (MAC) – MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – PCSDIPRC is governed by a nine member board comprised of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the DOT, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth can impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) – PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. The PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and private citizens. The Commonwealth occasionally provides financial support to the PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) – PRCCDA is governed by a nine member board of directors comprised of three members from the public sector and six members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Director of the PROMB, and the Executive Director of FAFAA. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, convention centers, and at least one with financial expertise who are appointed by the Governor with the advice and consent of the

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Senate. PRCCDA was created to be responsible, for improving, developing, managing, and operating the property and improvements within the Puerto Rico Convention Center District (the District) geographical area. PRCCDA has the power to finance all the improvements to be developed through the issuance of bonds and the imposition of assessments against the owners or lessees of land within the District who benefit from the Puerto Rico Convention Center (Convention Center) and other improvements. Also, PRCCDA promotes the development, construction, expansion, and improvement of the Convention Center, Bahía Urbana, and the Jose Miguel Agrelot Coliseum (the Coliseum). The administration, operation and management of the Convention Center and the Coliseum are carried out by a third-party private entity, under PRCCDA's responsibility. Bahía Urbana is administered by PRCCDA's management. The Commonwealth provides financial support to the PRCCDA through legislative appropriations. As discussed in Note 3, PRCCDA has successfully completed its restructuring pursuant to a court-approved qualifying modification under Title VI of PROMESA, which became effective on March 15, 2022.

Puerto Rico Destination Marketing Corporation (DMO) – DMO was created under the provisions of Act No. 17 of March 30, 2017, known as the Act for the Promotion of Puerto Rico as Destination. The purpose of Act No. 17 was to combine within the organization the sales and marketing efforts performed by the Puerto Rico Convention Bureau for the groups and convention segment, and those performed by PRTC for the leisure segment to unify the brand and provide consistency in the efforts to attract visitors and increase the exposure of Puerto Rico as a tourist destination worldwide. The DMO is governed by a thirteen member board comprised of three ex officio members: the Secretary of the DEDC, the Executive Director of the PRTC, the Executive Director of the PRCCDA; two members representing the Legislature, one appointed by the President of the Senate of Puerto Rico and one appointed by the Speaker of the House of Representatives; seven members representing the tourism industry, one member of the board of directors or a chief executive of the Puerto Rico Hotel and Tourism Association, Inc., one chief or executive or a member of the governing body of the Puerto Rico Convention Bureau, Inc., one chief executive or member of the board of directors of the contractor hired by the Public-Private Partnership for the administration and operation of the Luis Muñoz-Marín International Airport, one member of the Paradores de Puerto Rico Owners' Association, as determined by the governing body of such organizations, three members appointed by the Governor of Puerto Rico with the advice and consent of the Senate and the House of Representatives of Puerto Rico, from a list of candidates to be submitted by a Committee on Appointments created and constituted by members of the board of directors of the DMO who are not representatives of government entities; and one member appointed by the Governor who is a member, director, or chief executive of a nonprofit organization committed to the visitor economy and to the transformation of Puerto Rico into a world destination as an economic and social development strategy. The Commonwealth provides financial support to the DMO through legislative appropriations.

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the DOT, the Executive Director of FAFAA, the President of the PRPB, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth's sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are used for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that was payable from

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Commonwealth's appropriations. The Commonwealth has historically provided financial support to PRIDCO through legislative appropriations and can influence PRIDCO.

On October 27, 2023, PRIDCO, through the Oversight Board, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court approved the Qualifying Modification on December 6, 2023. The Qualifying Modification for PRIDCO went into effect on December 28, 2023, for additional information see Note 3(b)(vii).

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA, its Spanish acronym) – AFICA is governed by a seven-member board comprised of the Executive Director of PRIDCO, the Executive Director of FAFAA, the Executive Director of PRIFA, the Executive Director of the Puerto Rico Tourism Company (PRTC), the President of the Environmental Quality Board (EQB), and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units. The Commonwealth can impose its will on AFICA.

Puerto Rico Integrated Transit Authority (PRITA) – PRITA is governed by a nine member board comprised of the Secretary of the DTPW, who serves as Chairman, the Executive Director of PRHTA, the President of the PRPB, the Director of PROMB, the Executive Director of FAFAA, two additional members from the private sector appointed by the Governor with the advice and consent of the Senate and two other members representing entities within the Metropolitan Planning Organization, who are selected through the vote from its own Board of Directors. PRITA was created by Act No. 123 of August 3, 2014 (Act No. 123-2014) for the purpose of implementing a uniform public policy on collective, road and maritime transportation, and with it the integration of the operations, assets, rights, obligations, and funds of PRHTA's urban train, the Puerto Rico Metropolitan Bus Authority (PRMBA) and the Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA). As of June 30, 2023, full transfer of responsibility from PRHTA and the transit agencies to PRITA has not been fully completed due to the lack of available resources, mostly due to the Commonwealth's fiscal deficit. Despite this, there has been some progress in the integration as several bus routes previously managed by PRMBA are now managed by PRITA for management in 2015. The Commonwealth generally provides financial support to PRITA through legislative appropriations and PRITA will transfer the necessary funds to the PRHTA and PRMBA, when they are engaged in construction, operations and maintenances of Mass, Rail and Maritime Transportation Facilities.

Puerto Rico Land Administration (PRLA) – PRLA is governed by an eleven member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the PRPB, who serves as Vice President, the Secretary of the DOT, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of PRIDCO, and four members appointed by the Governor with the advice and consent of the Senate. The PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico Metropolitan Bus Authority (PRMBA) – PRMBA is governed by the Secretary of DTPW of the Commonwealth. The PRMBA provides bus transportation to passengers within the San Juan

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Metropolitan Area. The Commonwealth provides financial support to the PRMBA legislative appropriations. Act No. 123-2014, which created PRITA, and provided for the integration of PRMBA's operations into PRITA; however, as of June 30, 2023, PRMBA's operations, assets, rights, obligations, and funds had not been transferred.

Puerto Rico Municipal Finance Agency (PRMFA) – PRMFA is governed by a five member board comprised of the Executive Director of FAFAA, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom must be either the Mayor or chief financial officer of a municipality. The PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs. The Commonwealth is required to cover any potential deficiency that may exist on the PRMFA reserve accounts established for debt service.

Puerto Rico Municipal Finance Corporation (Known as COFIM, for its Spanish Acronym) – COFIM is governed by a seven member board comprised of three members of the Board of Directors of FAFAA, three Mayors from municipalities in Puerto Rico (two of them from the political party controlling the majority of municipalities and the remaining Mayor elected by the rest of the municipalities) and one member representing the public interest recommended by all the Mayors of the municipalities and ratified by the Governor. COFIM was created by Act No. 19-2014 to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities' debt obligations payable from the municipal sales and use tax. The Commonwealth is required to cover any potential deficiency that may exist on the COFIM reserve accounts established for debt service.

Puerto Rico Ports Authority (PRPA) – PRPA is governed by a five member board comprised of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of the DEDC, the Executive Director of the PRTC, the Executive Director of PRIDCO and one private citizen appointed by the Governor with the advice and consent of the Senate. The purpose of the PRPA is to administer all owned ports and aviation transportation facilities of the Commonwealth and to render other related services, including the supervision and monitoring of the service concession arrangement of the Luis Muñoz Marín International Airport. The Commonwealth generally provides financial support to the PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) – PRPBC is governed by an eleven member board of directors comprised of the Secretary of the DOE, the President of the UPR, the Executive Director of the IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. The PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to the PRPBC through legislative appropriations.

Puerto Rico School of Plastic Arts (PRSPA) – PRSPA is governed by a seven member board. Four members are appointed by the board of directors of the IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of the IPRC, one of whom serves as president. The PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to the PRSPA through legislative appropriations.

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Puerto Rico Science, Technology and Research Trust (PRSTRT) – PRSTRT is governed by an eleven member board of trustees comprised of five members ex officio representing certain Primary Government agencies and public corporations: the Secretary of the DEDC, the President of the UPR, the Director of PROMB, the Executive Director of FAFAA and the Executive Director of PRIDCO; and six additional trustees appointed by the board of trustees. The PRSTRT was created by Act No. 214-2004, as amended, to foster and fund research, development and infrastructure projects related to science and technology to promote the economic, social, or educational development of the Commonwealth and to operate exclusively for charitable, educational, and scientific purposes. The PRSTRT was initially financially supported through various sources including moneys from certain UPR's funds, private donations and legislative appropriations which have not recurred during the past several years. But recently, most of the funds come indirectly from the Commonwealth's contributions into several funds that are managed and administered by PRIDCO, which in turn makes such funds available to PRSTRT. The PRSTRT's board of trustees is not appointed by the Commonwealth. However, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the substantial indirect financial support provided by the Commonwealth through legislative appropriations, and the fact that PRSTRT was created by law to implement and execute the Commonwealth's scientific research mission. Further, it can be eliminated by actions of the Commonwealth.

Puerto Rico Tourism Company (PRTC) – PRTC is governed by a seven member board comprised of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to the PRTC through legislative appropriations.

Complete basic financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Automobile Accidents Compensation
Administration
P.O. Box 364847
San Juan, PR 00936-4847

Center of Diabetes for Puerto Rico
P.O. Box 70344 PMB-87
San Juan, PR 00936

Corporation for the "Caño Martín Peña"
ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940-2001

Cardiovascular Center Corporation of
Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Company for the Integral Development of the
"Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Fine Arts Center Corporation
P.O. Box 41287 – Minillas Station
San Juan, PR 00940-1287

GDB Debt Restructuring Authority
P.O. Box 42001
San Juan, PR 00940-2001

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Institute of Puerto Rican Culture P.O. Box 9024184 San Juan, PR 00902-4184	Institutional Trust of the National Guard of Puerto Rico P.O. Box 9023786 San Juan, PR, 00902-3786
Land Authority of Puerto Rico P.O. Box 9745 Santurce, PR 00908-9745	Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads 400 Calaf Street, PMB 456 San Juan, PR 00918-1314
Musical Arts Corporation P.O. Box 41227 San Juan, PR 00940-1227	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives P.O. Box 195449 San Juan, PR 00919-5449
Puerto Rico Aqueduct and Sewer Authority P.O. Box 7066 San Juan, PR 00916-7066	Puerto Rico Conservatory of Music Corporation 951 Ponce de León Ave. San Juan, PR 00907-3373
Puerto Rico Convention Center District Authority P.O. Box 19269, San Juan, Puerto Rico, 00910-1269	Puerto Rico Destination Marketing Corporation Tanca Street #500, Ochoa Building, Suite 402B Old San Juan, PR 00901
Puerto Rico Electric Power Authority P.O. Box 364267 San Juan, PR 00936-4267	Puerto Rico Highways and Transportation Authority P.O. Box 42007 San Juan, PR 00940-2007
Puerto Rico Industrial Development Company P.O. Box 362350 San Juan, PR 00936-2350	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Integrated Transit Authority P.O. Box 41267 San Juan, PR 00940	Puerto Rico Land Administration P.O. Box 363767 San Juan, PR 00936-3767
Puerto Rico Metropolitan Bus Authority P.O. Box 195349 San Juan, PR 00919-5349	Puerto Rico Municipal Finance Agency P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Municipal Finance Corporation P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico Ports Authority P.O. Box 362829 San Juan, PR 00936-2829
Puerto Rico Public Broadcasting Corporation P.O. Box 190909 San Juan, PR 00919-0909	Puerto Rico School of Plastic Arts P.O. Box 9021112 San Juan, PR 00902-1112
Puerto Rico Science, Technology and Research Trust P.O.Box 363475 San Juan, PR 00936-3475	Puerto Rico Tourism Company Tanca Street #500, Ochoa Building, 3rd Floor Old San Juan, PR 00902-3960
State Insurance Fund Corporation P.O. Box 365028 San Juan, PR 00936-5028	University of Puerto Rico Jardín Botánico Sur 1187 Street Flamboyán San Juan, PR 00916-1117

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(c) Component Units Audited Separately

The basic financial statements of the Commonwealth include the basic financial statements of the following component units that were audited by other auditors:

(i) Blended Component Units

- Ponce Ports Authority
- Ponce Authority (formerly known as Port of the Americas Authority)
- Public Buildings Authority
- Puerto Rico Fiscal Agency and Financial Advisory Authority
- Puerto Rico Health Insurance Administration
- Puerto Rico Infrastructure Financing Authority
- Puerto Rico Maritime Shipping Authority
- Puerto Rico Public Private Partnerships Authority
- Puerto Rico Medical Services Administration
- Retirement System for the Judiciary of the Commonwealth of Puerto Rico
- Special Communities Perpetual Trust
- The Children's Trust
- University of Puerto Rico Comprehensive Cancer Center

(ii) Discretely Presented Component Units

- Automobile Accidents Compensation Administration
- Cardiovascular Center Corporation of Puerto Rico and the Caribbean
- Center of Diabetes for Puerto Rico
- Company for the Integral Development of the "Península de Cantera"
- Corporation for the "Caño Martín Peña" ENLACE Project
- Economic Development Bank for Puerto Rico
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Government Development Bank for Puerto Rico
- Institute of Puerto Rican Culture
- Institutional Trust of the National Guard of Puerto Rico
- Land Authority of Puerto Rico
- Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
- Musical Arts Corporation
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- Puerto Rico Aqueduct and Sewer Authority

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Puerto Rico Conservatory of Music Corporation
Puerto Rico Convention Center District Authority
Puerto Rico Destination Marketing Corporation
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities
Financing Authority
Puerto Rico Integrated Transit Authority
Puerto Rico Land Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Municipal Finance Corporation
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico School of Plastic Arts
Puerto Rico Science, Technology and Research Trust
Puerto Rico Tourism Company
State Insurance Fund Corporation
University of Puerto Rico

(d) Basis of Presentation

(i) Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the nonfiduciary activities of the Commonwealth and its discretely presented component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from Business-type Activities, which rely to a significant extent on fees and charges for services or which are financed and operated in a manner similar to private business enterprises. Likewise, the Primary Government is reported separately from the legally separate discretely presented component units for which the Primary Government is financially accountable. The statement of net position presents the reporting entities' nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent amount is

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not included in the calculation of this component of net position. Rather, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.

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

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. The Commonwealth does not allocate general government (indirect) expenses to other functions. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

(ii) *Fund Financial Statements*

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, including those component units, which are required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Major funds are determined using a predefined percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue, or expenditures/expenses of either the fund category or the governmental and proprietary funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

(iii) *Governmental Funds*

Governmental funds focus on the sources and uses of funds and provide information on near term inflows, outflows, and balances of available resources. The Commonwealth reports the following governmental funds:

- *General Fund* – The General Fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally

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provided by a government, except those required to be accounted for and reported in another fund. The General Fund includes transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. The financial resources received and used in the General Fund mostly include budgeted resources (such as taxes and charges for services), as approved by the Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as federal funds, pledged funds, other special revenue and general type funds, and agencies with independent treasuries.

- *Debt Service Fund* – The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs, other than bonds payable from the operations of proprietary fund types, pension trust funds, and component units, either blended or discretely presented.
- *COFINA Special Revenue Fund* – The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) was used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in the COFINA Debt Service fund.
- *COFINA Debt Service Fund* – The debt service fund of COFINA was used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.
- *Nonmajor Governmental Funds* – The Commonwealth reports the following blended component units within the nonmajor governmental funds: PBA, FAFAA, The Children's Trust, PRIFA, PRMSA, PA, SCPT, ERS, TRS, JRS, PRPPPA and the UPRCCC. The nonmajor governmental funds also includes the Commonwealth's capital project fund.

If a component unit is blended, it should be blended with those funds of the Primary Government by including them in the appropriate fund category of the Primary Government. Although the Primary Government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a special revenue fund. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the Primary Government directly or for discretely presented component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.

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- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority. The highest level of decision-making authority for the Commonwealth is the Legislature and the Governor, and the formal action is the passage of a law specifying the purposes for which amounts can be used.
- *Assigned* – includes fund balance amounts that are constrained by the Commonwealth and are intended to be used for specific purposes that are neither considered restricted nor committed. The Director of the PROMB is authorized to assign an amount for a specific purpose through the approval of budget certificates as required by statute.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Commonwealth uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

(iv) *Proprietary Funds*

These funds account for those activities that are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

- *Unemployment Insurance Fund* – This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.
- *PRHIA* – This fund, a blended component unit, accounts for a health insurance system operated through contracts with insurance underwriters to provide quality medical and hospital care to low-income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan.
- *PRMeSA* – This fund, a blended component unit, accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as the Puerto Rico Medical Center.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, the Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), PPA and the Bureau of Emergency Services 9-1-1.

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(v) *Fiduciary Funds*

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following is the Commonwealth's fiduciary funds:

- *Custodial Funds* – The Custodial Fund accounts for assets held by the Commonwealth. Consigned monies in the Puerto Rico Court of Justice and in the Puerto Rico Department of the Family for child support are the major assets accounted for in this fund. There are no actions, approvals or conditions required to be fulfilled by the beneficiary prior to the release of the assets.

(e) **Measurement Focus and Basis of Accounting**

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period (see Note 1(h) for further description about the period of availability for the principal sources of revenue in the Governmental Activities).

Principal revenue sources considered susceptible to accrual include personal and corporate income taxes (recognized as taxpayers earn the underlying income), sales and uses taxes (recognized as the underlying sales are made), excise taxes (as the underlying import or related activity takes place), property taxes (imposed on real estate property values, as defined), intergovernmental revenue (typically, when related expenditures are incurred), and other taxes and charges for services (typically, as cash is received).

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation as of the fiscal year-end (June 30), is reported only in the government-wide financial statements.
- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.
- Debt service requirements, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and is awaiting payment. Until these criteria are met, these liabilities have been recorded only in the government-wide financial statements.

A summary reconciliation of the difference between total fund balances (deficit) as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

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A summary reconciliation of the difference between net change in fund balances (deficit) as reflected in the governmental funds statement of revenue, expenditures, and changes in fund balances (deficit) and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of the statement of revenue, expenditures, and changes in fund balances (deficit) of governmental funds to the statement of activities.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Basic Financial Statements – The basic financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major sources of revenue of the Commonwealth's major proprietary funds are as follows:

- *Unemployment Insurance Fund* – Insurance premiums charged to individual employers.
- *PRHIA* – Amounts received through the PRDOH representing payments by the Medicaid Program under Title XIX of the Social Security Act and State Plan, contributions from the Commonwealth to cover the local share to meet the Medicaid Program matching requirements and amounts charged and collected from employers and municipalities for direct health services provided to its members.
- *PRMeSA* – Amounts charged and collected from private citizens, member institutions and municipalities for patient services provided.

(f) Cash, Cash Equivalents and Short-Term Investments

The Commonwealth follows the practice of pooling cash. Cash balances of funds held in the Commonwealth Treasury are commingled in a general checking account and several zero balance bank accounts for special purposes. The available cash balance in the general checking account beyond immediate need is pooled in interest bearing accounts with commercial banks insured with the Federal Deposit Insurance Corporation (FDIC).

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition. Short-term investments are recorded at cost.

The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Department of the Treasury. Interests earned over such deposit is retained in the fund.

Cash and short-term investments and cash equivalents of the component units and certain funds of the Primary Government are maintained in bank accounts, separate from those of the rest of the Primary Government, in their own names.

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(g) Investments

Investments in large part include U.S. government and agencies' obligations, mortgage-backed securities, local government obligations, and corporate debt and equity obligations. Investments and investment contracts are carried at fair value, except for money market investments with a remaining maturity at the time of purchase of one year or less, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds, and the statement of revenue, expenses, and changes in net position – proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included within interest and investments earnings.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: (i) the market approach, (ii) the cost approach, or (iii) the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – inputs whose values are based are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commonwealth's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification.

(h) Accounts Receivable, Loans, General Revenue and Unearned Revenue

Income taxes receivables, in both the General Fund balance sheet and statement of net position, include predominantly an estimate of amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income taxes receivables in the General Fund are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the current fiscal year-end that are related to taxable years of prior periods. Income taxes receivable also include amounts owed by taxpayers on income earned prior to the fiscal year-end (June 30), estimated to be collectible but not currently available, and thus are reported as deferred inflows of resources in the General Fund; such deferred inflows are considered revenue in the statement of

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activities as the availability criteria is not applicable on the government-wide financial statements for revenue recognition.

The sales and use tax receivable are recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year-end related to sales and use transactions due on or before year end. The same treatment is given in the government-wide financial statements.

Excise tax receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year-end related to transactions that occurred before year end. The same treatment is given in the government-wide financial statements. Act No. 154-2010 imposed a temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations, and foreign partnerships. Act No. 154-2010 applies to income realized and acquisitions occurring after December 31, 2010. Initially, the excise tax would apply until the year 2017. The excise tax is based on the value of the personal property, or the services acquired, and was 4% for calendar year 2011, 3.75% in 2012 and 2.75% for portions of 2013 until February 28, 2013. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017. On January 23, 2017, Act No. 3-2017 was enacted extending the fixed rate of 4% for ten additional years.

Intergovernmental receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for one year following the fiscal year-end related to transactions that occurred before year end. Those intergovernmental receivables not expected to be collected within the aforementioned one-year period are recorded as deferred inflows of resources. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements, are met, other than timing, are met are considered unearned revenue. Resources received before timing requirements are met are considered deferred inflows of resources.

Intergovernmental receivables also include taxes that the CRIM is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM, pursuant to Act No. 83-1991. This receivable from CRIM is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for 180 days following the current fiscal year-end that are related to transactions that occurred before year end. The amounts from CRIM not expected to be collected within the aforementioned 180 days period are recorded as deferred inflows of resources.

Unemployment, disability, driver's insurance, and other services receivables recognized in the proprietary funds are stated net of estimated allowances for uncollectible accounts.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts

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receivable from the Primary Government and other component units that arise from service charges, are evaluated for collectability.

Loans of the General Fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the General Fund on their behalf.

The loans of the pension plans are presented net of estimated allowances for adjustments and losses in realization. However, most of the loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the Primary Government, other component units, and municipalities, and are presented net of allowances for uncollectible accounts. The remaining loans of the component units are to small and medium businesses, agricultural, and low-income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(i) Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net position of Governmental Activities.

(j) Restricted Assets

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits and lending activities.

(k) Real Estate Held for Sale or Future Development

Real estate held for sale or future development is carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(l) Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable Governmental Activities, Business-type Activities, and discretely presented component unit columns in the government-wide financial statements and in the proprietary fund financial statements. The Commonwealth's Primary Government defines capital assets as assets that (i) have an initial, individual cost of \$25,000 or more at the date of acquisition and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

Capital assets donated by third parties are recorded at fair value at the time of donation. Those capital assets donated by related parties are recorded at the carrying value existing at the transferor's records. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for Business-type Activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

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Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and discretely presented component units' basic financial statements.

Capital assets of the Primary Government are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	<u>Years</u>
Building and building improvements	20-50
Equipment, furniture, fixtures, vehicles, and software	5-15
Infrastructure	50

The capital assets of the discretely presented component units are recorded in accordance with the applicable standards of the discretely presented component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets, and on the nature of each of the discretely presented component unit's operations.

The estimated useful lives of capital assets reported by the discretely presented component units are as follows:

	<u>Years</u>
Building and building improvements	3-50
Equipment, furniture, fixtures, vehicles, and software	3-20
Intangibles, other than software	3-5
Infrastructure	10-50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (mostly attributed to PRPA and PRHTA), these are maintained on their books and stated at cost or at estimated historical cost. Construction in progress made by the third-party operators under these service concession arrangements is not recorded by the aforementioned discretely presented component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated after the closing date of their respective service concession arrangements because such agreements require the third-party operators to return the related facilities to these discretely presented component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service concession arrangements. Under these service concession arrangements, the aforementioned discretely presented component units have received from the third-party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the discretely presented component units, are

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considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate 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.

(m) Accounting for Leases

The Commonwealth accounts for leases in accordance with GASB Statement No. 87, *Leases*. This statement requires a lessee to recognize a lease liability and an intangible right-of-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources for a period, exceeding 12 months, during which a lessee has a noncancelable right to use an underlying asset. This term should include any additional periods covered by either the lessor's or lessee's option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain that the lessee will not exercise that option.

Leases with a maximum possible term of 12 months or less at commencement, including any options to extend, regardless of their probability of being exercised, are recognized as expenses on a straight-line basis over the lease term.

The Commonwealth monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively.

Lease receivable and liability

At the lease commencement date, the Commonwealth initially measures a lease receivable at the present value of payments expected to be received, reduced by any provision of estimated uncollectible accounts, and a lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease receivable or liability is reduced by the principal portion of lease payments received or made at or before the lease commencement date.

The future lease payments received or made should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligation for those payments is incurred.

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Right-of-use lease asset

The right-of-use lease asset is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

(n) Accounting for Subscription-Based Information Technology Arrangements (SBITA's)

The Commonwealth accounts for subscription-based information technology arrangements (SBITA's) in accordance with GASB Statement No. 96, "Subscription-Based Information Technology Arrangements". This statement requires the governments to recognize a subscription liability and an intangible right-of-use subscription asset. This term should include any additional periods covered by either the SBITA vendor's or government's option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain that the government will not exercise that option.

SBITA's with a maximum possible term of 12 months or less at commencement, including any options to extend, regardless of their probability of being exercised, are recognized as expenses on a straight-line basis over the SBITA term.

The Commonwealth monitors changes in circumstances that may require remeasurement of a SBITA. When certain changes occur that are expected to significantly affect the amount of the SBITA liability, the liability is remeasured and a corresponding adjustment is made to the SBITA asset, respectively.

Subscription liability

At the SBITA commencement date, the Commonwealth initially measures a SBITA liability at the present value of payments expected to be made during the SBITA contract. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made at or before the SBITA commencement date.

The future SBITA payments made should be discounted using the interest rate implicit in the SBITA. If the interest rate cannot be readily determined by the Commonwealth, the Commonwealth's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the SBITA payment amounts during the SBITA term) should be used.

Right-of-use subscription asset

The right-of-use subscription asset is initially measured as the initial amount of the SBITA liability plus ancillary cost to place the asset into use, plus SBITA payments and SBITA payments made to the SBITA vendor at or before the commencement of the SBITA term, less any SBITA incentives received at or before the commencement of the SBITA term. The subscription asset is amortized into amortization expense on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying asset.

(o) Income Tax Refunds Payable

During the calendar year, the Commonwealth collects individual and corporate income taxes through withholdings and payments from taxpayers. As of June 30, of each year, the Commonwealth estimates the amount owed to taxpayers for overpayments of income taxes during the first half of the calendar year. These estimated amounts and the actual individual and corporate income tax refunds claimed for prior years but not paid at year-end are recorded as income tax refunds payable and as a reduction of tax revenue in both the Governmental Funds and the Governmental Activities.

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(p) *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position includes deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government and the discretely presented component units have four major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) the accumulated decrease in the fair value of hedging derivatives, (iii) asset retirement obligation and (iv) several items related to pensions and other postemployment benefits, the four of them reported in the government-wide statement of net position. A loss on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding losses can be found in Note 11. Of the pension related items (further disclosed in Note 1(s) and Note 16), changes in proportionate share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will include deferred inflows of resources, which represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of captions arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is unavailable revenue. Deferred inflows of resources related to unearned revenue at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. Deferred inflows of resources related to leases arise when the Primary Government acts as a lessor. Under the modified accrual basis of accounting, a lessor is required to recognize a lease receivable and a deferred inflow of resources to account for a lease. A lessor subsequently should recognize the deferred inflow of resources as an inflow of resources. The Primary Government and the discretely presented component units also have two captions that qualify for reporting in this category in the government-wide statement of net position and those are the unamortized balance of gains on bond refunding and several items related to pensions and other postemployment benefits. A gain on a bond refunding results when the carrying value of refunded debt is less than its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding gains can be found in Note 11. Of the pension and other postemployment benefits related items (further disclosed in Note 1(s) and Note 17), changes in proportionate share of contributions, differences between expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. The discretely presented component units also have one additional item that qualifies for reporting in this category in the government-wide statement of net position, which is the unamortized balances of the upfront amounts received and related adjustments pertaining to the Service Concession Arrangements of PRPA and PRHTA.

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(q) Long-Term Debt

The liabilities reported in the government-wide financial statements include the Commonwealth's general obligation and revenue bonds, contingent value instruments and long-term notes, obligations under lease/purchase agreements, obligations for voluntary termination benefits, accrued compensated absences, long-term liabilities to other governmental entities, net pension liability, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and discretely presented component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government-wide financial statements, premiums and discounts on long-term debt and other long-term obligations are presented in the columns for Governmental and Business-type Activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs, other than prepaid insurance, are reported as expenses.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

(r) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, except for synthetic guaranteed investment contracts that are fully benefit responsive, are reported at fair value in the government-wide financial statements. The changes in fair value of effective hedging derivative instruments are reported as deferred inflows or deferred outflows of resources. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

(s) Accounting for Pension Costs

The Commonwealth accounts for pension costs under the provision of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements No. 67 and 68* (GASB Statement 73). Statement No. 73 maintains the "accrual basis" model under Statement 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the pension plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, the

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Commonwealth recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation not under the Commonwealth's management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 16.

The Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Other employers also participate in the pension plan. A proportionate share of pension related amounts is determined because certain participating employers, component units of the Commonwealth, issue stand-alone basic financial statements. GASB Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each employer's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS, JRS and TRS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022, actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2023.

(t) Other Postemployment Benefits

In addition to the pension benefits described in Note 16, the Commonwealth provides other retirement benefits, such as summer (for JRS retirees only) and Christmas bonus, and postemployment healthcare benefits (collectively referred to as other postemployment benefits or OPEB) for its retired employees in accordance with local law. Substantially, all the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. The Commonwealth follows the guidance of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, this statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflow of resources, deferred inflow of resources and expenses. For additional information regarding OPEB, refer to Note 17.

(u) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2 days per month up to an annual amount of 24 days, except for the teachers who accrue 4 days per month, up to an annual maximum of 40 days and police officers and firefighters who accrue 2.5 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 a maximum accumulation of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method (except for Puerto Rico Police Bureau employees), in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax). The liability for compensated absences of Puerto Rico Police Bureau (PRPOB) employees is estimated based on actual termination payments made and projected statistically, which is a hybrid between the vesting and termination

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methods. The governmental fund financial statements record expenditures when employees are paid for leave, or when the balance due is accrued upon the employee's separation from employment. Compensated absences accumulation policies for blended and discretely presented component units varies by entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

(v) Termination Benefits

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Whereby, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(w) Interfund Activities and Intraentity Transactions

The Commonwealth had the following interfund activities and intraentity transactions:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the Primary Government and its discretely presented component units, and among the discretely presented component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the Primary Government and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between the Primary Government and discretely presented component units which are equivalent to long-term debt financing. The Primary Government's liability is reported in the statement of net position, the proceeds in the Primary Government's statement of revenue, expenditures and changes in fund balance governmental funds, and the asset in the discretely presented component units' statement of net position. Amounts due from discretely presented component units are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

(x) Lottery Revenue and Prizes

The revenue, expenses, and prizes awarded by the Traditional Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as unearned revenue. Unpaid prizes awarded as of June 30, are reported as obligation for unpaid lottery prizes. Unclaimed prizes expire after six months and are transferred to the General Fund.

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(y) Risk Management

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the Primary Government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. The Commonwealth's blended component units are responsible for assuring that its property is properly insured. Annually, these blended component units compile the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2023 remained similar to those of prior years. In the last three years, the Commonwealth's or the component units' insurance settlements have not exceeded the amount of coverage.

Certain discretely presented and blended component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations. The most significant self-insurance funds reside at the discretely presented component unit's level and are described in detail in Note 14.

(z) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues*, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, generally referred to as Tobacco Settlement Authority (in the Commonwealth's case, the Children's Trust), should be considered a blended component unit of the government that created it. The TB also states that the government receiving the payments from the tobacco companies under the agreement, referred to as settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and tobacco settlement authorities for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(aa) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(bb) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2022:

- GASB Statement No. 91, *Conduit Debt Obligations*. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service

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of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. This Statement did not have any material impact on these financial statements.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. This Statement requires that PPPs that meet the definition of a lease apply the guidance in GASB Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. This Statement did not have any impact in the Commonwealth's Primary Government and discretely presented component units.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, this Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use 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. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*, as amended. The changes adopted to conform to the provisions of this statement were not reflected as a restatement of the beginning net position because management does not believe it would have a material effect on the presentation of these financial statements. For more information related to the implementation of GASB Statement No. 96, please refer to Notes 9 and 11.
- GASB Statement No. 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 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with GASB 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. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should

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consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

(cc)Accounting Pronouncements Issued But Not Yet Effective

The following new accounting standards have been issued but are not yet effective:

- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*-an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.
- 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 beginning after December 15, 2023. Earlier application is encouraged.
- GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement defines a 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 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 a 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

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disclosed and the government's vulnerability to the risk of a substantial impact. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. This Statement 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. This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements. This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 105, *Subsequent Events*. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these statements may have on the Commonwealth's basic financial statements upon adoption.

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(2) Going Concern, Uncertainties and Liquidity Risk

(a) *Going Concern – Primary Government - Business-type Activities*

(i) *PRMeSA*

The stand-alone audited basic financial statements of the PRMeSA disclose that there is substantial doubt about PRMeSA's ability to continue as a going concern for the following reasons:

- PRMeSA had a net position deficit of approximately \$708.1 million and a working capital deficiency of approximately \$199.5 million as of June 30, 2023.
- PRMeSA has experienced recurring operating losses, including an operating loss of approximately \$48.5 million for the year ended June 30, 2023. PRMeSA's financial condition has been weakened by high operating costs and recurring operating losses, which in the past have affected its ability to pay suppliers, governmental agencies and other creditors on a regular basis.
- PRMeSA's operations depend on obtaining additional contributions from the Secretary of the PRDOH and the Commonwealth to partially subsidize existing and future operating losses, including losses resulting from high operating costs and services provided to the medical indigent population not covered under private health insurance or the Health Reform Program administered by the PRHIA.
- PRMeSA also has significant obligations, including its line of credit with the GDB and related accrued interest, which continue to affect its liquidity position.

Remediation Plan – PRMeSA

PRMeSA's management's plans to address these conditions include, among other actions, outsourcing and improving the revenue cycle management process, renegotiating private and government insurance contracts and rates, improving claim processing and collections from external payors, continuing aggressive collection efforts related to member institutions and insurance receivables, and evaluating its rate structure and billing model. PRMeSA also plans to continue operational restructuring initiatives, including controls over the filling of vacant positions, centralization of certain administrative functions, and cost-control measures related to payroll, overtime, materials, medicines, services, and purchases.

PRMeSA's management also expects to continue communications with the Commonwealth and the PRDOH to obtain additional contributions to support operations and recover operational costs. The ability of PRMeSA to continue as a going concern is dependent on the success of management's plans and continued financial support from the Commonwealth. PRMeSA's stand-alone audited basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Detailed information about PRMeSA's conditions and events that raise substantial doubt about its ability to continue as a going concern, and its corresponding remediation plan is disclosed in the notes to PRMeSA's 2023 stand-alone audited basic financial statements.

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(b) Going Concern – Discretely Presented Component Units

The following major discretely presented component units have been identified as having substantial doubt about their ability to continue as a going concern. Each major discretely presented component unit's circumstances and remediation plan are described below:

(i) GDB

The stand-alone audited basic financial statements of the GDB disclose that there is substantial doubt about GDB's ability to continue as a going concern for the following reasons:

- On March 23, 2018, GDB ceased its operations, and management initiated an orderly winddown process, which included a restructuring of GDB's debts pursuant to a Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. Details of the Qualifying Modification are further discussed in Note 3. For this reason, the stand-alone audited basic financial statements of GDB disclose that there is substantial doubt about GDB's ability to continue as a going concern.

For additional information about GDB's cessation of operations and implementation of the Qualifying Modification, refer to the notes to GDB's 2023 stand-alone audited basic financial statements.

(ii) PREPA

The stand-alone audited basic financial statements of PREPA disclose that there is substantial doubt about PREPA's ability to continue as a going concern for the following reasons:

- PREPA has defaulted on various debt obligations and does not currently have sufficient funds available to repay its obligations as they come due.
- PREPA has an accumulated deficit of approximately \$10.1 billion as of June 30, 2023, and during the year ended June 30, 2023, the deficit increased by approximately \$204.2 million.
- On July 2, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the Title III Court. PREPA is currently operating under the protection of the Title III Court.
- In recent years, Puerto Rico's infrastructure systems have experienced devastating damage in the wake of several natural disasters. In September 2017, Puerto Rico was directly impacted by Hurricanes Irma and Maria, causing substantial island-wide damage to PREPA's Transmission and Distribution System and other assets. In January 2020, Puerto Rico experienced a magnitude 6.4 earthquake located near Puerto Rico's southwestern coast, which caused significant damage to two units at PREPA's Costa Sur power plant and left most of Puerto Rico without electricity for hours. The effects of the earthquake were quickly followed by the emergence of the COVID-19 pandemic, which has had a negative effect on PREPA's collections and revenues, further weakening its liquidity position. Russia's February 2022 invasion of Ukraine placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption directly affected PREPA's operations by significantly increasing fuel purchase costs.
- On April 15, 2026, PREB issued its final rate order setting electric rates for fiscal years 2026, 2027, and 2028. Several parties including LUMA, Genera, and PREPA have filed motions for reconsideration of PREB's order. (see Note 19 for the Rate Case status update).
- The Authority continues to face significant financial and operational challenges. Despite holding over \$1.2 billion in cash as of September 30, 2024, the majority of these funds are restricted or

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earmarked. Moreover, this cash balance would not exist without the loans and funding that have been provided by the Commonwealth.

Remediation Plan – PREPA

On February 6, 2025, the Oversight Board certified a new fiscal plan that lays out a path for the operational and financial reorganization of PREPA and the transformation of Puerto Rico's energy system.

There is no certainty that any certified fiscal plan for PREPA will be fully implemented, or if implemented will ultimately provide the intended results.

As of December 2025, approximately \$15.4 billion in FEMA funds had been allocated for recovery and reconstruction efforts related to the electric system, of which approximately 28% had been disbursed. PREPA incurs significant upfront expenditures for federally funded projects that are subject to reimbursement. Delays in receiving FEMA reimbursements, together with uncertainty regarding the timing and sufficiency of rate adjustments, have constrained available cash for operations and increased PREPA's reliance on Commonwealth support and external financing. These timing differences have resulted in temporary cash shortages that affect PREPA's ability to meet near-term obligations. Accordingly, timely access to federal recovery funds, adequate rate recovery, and continued Commonwealth support remain critical to sustaining PREPA's operations over the next twelve months.

On March 28, 2025, the Oversight Board filed the latest versions of PREPA's Plan and disclosure statement. The Plan incorporated settlements previously reached with creditors holding approximately 44% of PREPA's debt. The Plan proposed for to pay creditors \$2.6 billion funded from sources "outside of PREPA." The Oversight Board stated that it will be working with the government to identify the source of funds to support the potential cash or bond recovery for creditors proposed in the Plan. Under this Plan, PREPA could still issue up to \$2.6 billion of bonds, which will be repayable on a fixed amortization schedule over 35 years from PREPA's Net Revenues.

On August 25, 2025, certain PREPA Bondholders filed a joint informative motion regarding an amendment and extension of the term of the bondholder cooperation agreement which stated that members of the PREPA Ad Hoc Group committed to terminating their support as a "Supporting Bond Party" under the plan support agreement between the PREPA Ad Hoc Group and the Oversight Board on October 1, 2025, if the Amended Plan is not confirmed by that date. The Amended Plan was not confirmed by that date. On October 7, 2025, certain PREPA bondholders terminated their participation as "Supporting Bond Parties" of the Amended Plan. As of the date of these financial statements, over 89% of PREPA's outstanding revenue bonds are subject to the bondholder cooperation agreement. On April 22, 2026, PREPA's bondholders filed an informative motion indicating they had agreed to extend the cooperation agreement's term to August 31, 2027. PREPA remains in litigation over an administrative expense motion filed by PREPA's bondholders, as further detailed in Note 19(b)(vii).

There is no certainty that the Title III Court will confirm the PREPA plan of adjustment, or that, if confirmed, the PREPA plan of adjustment will be fully implemented. For further information, refer to the currently proposed versions of the PREPA Plan of Adjustment and PREPA Disclosure Statement, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

Detailed information about PREPA's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of PREPA's 2023 fiscal year stand-alone audited basic financial statements.

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(iii) UPR

The stand-alone audited basic financial statements of UPR disclose that there is substantial doubt about its ability to continue as a going concern for the following reasons:

- UPR had an accumulated deficit position of approximately \$1.3 billion as of June 30, 2023.
- UPR has had recurring operating losses and has been highly dependent on the Commonwealth's appropriations to finance its operations and has historically relied on GDB for liquidity. Approximately 53% of UPR's total revenues were derived from Commonwealth appropriations for the year ended June 30, 2023. UPR's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.
- UPR has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.
- On June 29, 2017, UPR and the trustee for the UPR System Refunding Bonds, Series P and Q (the UPR System Revenue Bonds) entered into a standstill agreement (the Standstill Agreement), pursuant to which the UPR agreed to transfer to a segregated account, for the benefit of the holders of the UPR System Revenue Bonds, certain amounts in respect of revenue pledged for the repayment of the UPR System Revenue Bonds on the condition that during the covered period of the Standstill Agreement the Trustee of the UPR System Revenue Bonds would not institute, commence, or continue any legal proceeding against the UPR, the Commonwealth, or any of its agencies, instrumentalities, or municipalities thereof, to enforce rights related to UPR System Revenue Bonds. The Standstill Agreement has been subject to multiple extensions and currently remains effective through July 1, 2025 (unless further extended).

Remediation Plan – UPR

On May 27, 2021, the Oversight Board certified a new version of the UPR fiscal plan.

There is no certainty that any certified fiscal plan for UPR will be fully implemented, or if implemented will ultimately provide the intended results.

Detailed information about UPR's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of UPR's 2023 fiscal year stand-alone audited basic financial statements.

(iv) *Other Nonmajor Discretely Presented Component Units*

There are other nonmajor discretely presented component units that have accumulated deficits and others that even without deficits, have outstanding debt payable to the GDB Debt Recovery Authority (DRA) or subject to the Moratorium Act and related executive orders. Similar, to the reasons presented above for certain major discretely presented component units, there is uncertainty as to the ability of other nonmajor discretely presented component units to satisfy their obligations as they become due; therefore, raising substantial doubt about their ability to continue as a going concern.

Additionally, there are other nonmajor discretely presented component units that do not have a deficit position or loans outstanding with DRA as of June 30, 2023, and have not been impacted by the Moratorium Act and related executive orders. However, these entities are highly dependent on the financial support provided by the Commonwealth and relied on GDB as their sole option for obtaining financing to fund their operations. The financial support provided by the Commonwealth is contingent on inclusion of such entities in its General Fund's budget appropriations as approved by the Legislature (and subject to a budget certified by the Oversight Board). Any reduction in the amount

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of these contributions could result in financial difficulties for these entities, including the uncertainty as to their ability to satisfy their obligations as they become due, thereby raising substantial doubts about their ability to continue as a going concern.

(3) PROMESA Proceedings

Prior to March 15, 2022, the Commonwealth and many of its component units were in an economic and fiscal crisis, which caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. During the fiscal years subsequent to June 30, 2016, the Commonwealth, and other governmental entities such as COFINA, PRHTA, ERS, PREPA, PBA, GDB, PRIFA, PRCCDA, PFC, PRIDCO, and TDF (a blended component unit of GDB) initiated proceedings under Title III and Title VI of PROMESA at the request of the Governor to restructure or adjust their existing debt. All of these Title III and Title VI proceedings have concluded other than PREPA, as more fully discussed below.

(a) PROMESA and Puerto Rico Legislation

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes an out-of-court mechanism for restructuring financial debt, subject to approval by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board."

(b) Title II – Fiscal Plan and Budget Certification Process and Compliance

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

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Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance. In addition, the United States Court of Appeals for the First Circuit has issued certain rulings regarding the interpretation of the Oversight Board's powers under PROMESA sections 204(a) and 108(a) that apply administrative law principles to statutes passed by the Commonwealth and certified as not significantly inconsistent with a Board-certified fiscal plan.

(c) *Title III – In-Court Restructuring Process*

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, PRHTA, and COFINA.

(d) *Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions*

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District

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Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two-years. The GAO published its initial report on October 2, 2017. On June 30, 2025, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) *Title V – Infrastructure Revitalization*

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for “critical projects” as identified by the Revitalization Coordinator.

(f) *Title VI – Consensual, Out-of-Court Debt Modification Process*

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish “pools” of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

The United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

The Title VI process was successfully implemented to restructure certain debts of the GDB. The GDB Title VI process is discussed below under Discretely Presented Component Units – GDB, Qualifying Modification and Title VI Approval Process.

In addition, the Title VI process was utilized to restructure certain debts of PRIFA, PRCCDA, PFC, TDF, and PRIDCO.

(g) *Title VII – Sense of Congress*

Title VII of PROMESA sets forth the sense of Congress that “any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States.”

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(ii) *Puerto Rico Legislation*

Act No. 101-2020, the Debt Responsibility Act, was enacted to “restore Puerto Rico’s credibility and its access to the capital markets under reasonable terms and help restore economic growth while protecting future generations of the mistakes of the past” by, among other things, establishing a comprehensive cap on all net tax-supported debt and a sublimit on secured and/or securitized debt incurred to pay debt service on the new COFINA bonds. In addition, the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order include provisions requiring the Commonwealth to adhere to the Debt Responsibility Act and a Debt Management Policy that provides further guardrails for ongoing fiscal responsibility, including maximum limits on the Commonwealth’s annual amount of debt service payments. For further information, refer to the Commonwealth Plan of Adjustment, the Commonwealth Confirmation Order, and Debt Management Policy, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

Act No. 53-2021, the Law to End the Bankruptcy of Puerto Rico, was enacted on October 26, 2021, to, among other things, approve the issuance of the New GO Bonds and CVIs necessary to implement the restructuring transactions contemplated in the Commonwealth Plan of Adjustment (as defined below). In addition to approving the Commonwealth’s restructuring transactions, Act 53 conditioned the effectiveness of the Government’s approval on the preservation of all accrued pension benefits owed to current public pension participants, which required the elimination of the proposed pension cuts, as discussed in part (b) below.

(b) PROMESA Title III Cases

(i) *Commonwealth Title III Case*

On March 15, 2022, The Commonwealth Plan of Adjustment became effective resulting in a reduction of the Commonwealth’s total funded debt obligations from approximately \$34.3 billion of prepetition debt to approximately \$7.4 billion. Also on March 15, 2022, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. For general unsecured claims, all general unsecured claims against the Commonwealth, ERS, and PBA were discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court’s ruling on such claims. The First Circuit has affirmed the takings appeal, but if the issue is appealed to the United States Supreme Court and reversed, then the Eminent Domain/Inverse Condemnation Claims could be dischargeable and impaired. All other general unsecured creditors at the Commonwealth are receiving a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Commonwealth on March 15, 2022, and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. The Commonwealth continues processing general unsecured claims as part of the claims reconciliation process.

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(ii) *PRHTA Title III Case*

On May 21, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. Claims against PRHTA were resolved through the PRHTA Plan of Adjustment, which became effective on December 6, 2022. For additional information regarding the PRHTA Plan of Adjustment refer to the PRHTA stand-alone basic financial statement.

As a result of the PRHTA's PROMESA Title III Court proceedings during the year ended June 30, 2023, an extraordinary gain of approximately \$6.8 billion was recorded in their financial statements. A summary of the extraordinary gain is detailed as follows (in thousands):

Description	Total Extraordinary Gain
Bonds forgiveness, including advance refundings	\$ 3,052,072
Line of credit plus interest assumed by the Commonwealth	2,806,733
Interest on bonds discharged	1,227,344
Consideration given	(261,723)
Liabilities assumed	(3,776)
Total	\$ 6,820,650

For further information, refer to the final versions of the PRHTA Plan of Adjustment, PRHTA Findings of Fact, and PRHTA Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(iii) *PREPA Title III Case*

On July 3, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. [The deadline set by the Title III Court by which all creditors were required to file their proofs of claim against PREPA was June 29, 2018. Approximately 4,750 claims have been filed against PREPA in the total aggregate asserted amount of approximately \$27.9 billion. Of this amount, approximately 1,881 claims in the total aggregate asserted amount of approximately \$8.0 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 1,728 claims in the total aggregate asserted amount of approximately \$12.5 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ACR). The validity of these asserted claims has not yet been determined, and all claims remain subject to the claims reconciliation process, described in section (vii) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

On December 16, 2022, the Oversight Board filed the initial *Title III Plan of Adjustment of the Puerto Rico Electric Power Authority* and related PREPA Disclosure Statement. After considering multiple objections and a hearing on the PREPA Disclosure Statement, the Title III Court approved the PREPA Disclosure Statement on November 17, 2023.

On February 16, 2024, the Oversight Board filed a further version of the Amended Plan incorporating the terms of a settlement the Oversight Board reached with the UCC. Significant discovery and litigation over the Amended Plan took place and the confirmation proceeding was held from March 4, 2024, to March 19, 2024. The Title III Court took the matter under advisement.

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In light of the First Circuit's Lien Challenge decision discussed in Note 19, and to facilitate ongoing mediation among the parties for a consensual resolution, the Title III Court stayed all litigation related to the PREPA confirmation proceedings, *sine die*, except for discreet matters, including (i) to permit the Oversight Board to file an amended proposed plan of adjustment and amended proposed disclosure statement for PREPA, which were filed on March 28, 2025, (ii) to permit litigation concerning an administrative expense motion filed by PREPA's bondholders, which was denied by the Title III Court on March 16, 2026 and is now on appeal before the First Circuit, as further detailed in Note 19; and (iii) to permit the Oversight Board to file the Classification Motion (defined below), which was fully briefed and adjudicated, and is currently on appeal in the First Circuit where briefing concluded in February 2026, as further detailed in Note 19. Thereafter, on April 13, 2026, as further detailed in Note 19, the Title III Court issued an order lifting the litigation stay to go forward with the PREPA bondholders' equitable accounting counterclaim, along with related discovery issues.

There is no certainty that the Title III Court will approve or confirm the PREPA Plan of Adjustment, or that, if confirmed, the PREPA Plan of Adjustment will be fully implemented.

For further information, refer to the currently proposed versions of the PREPA Plan of Adjustment and PREPA Disclosure Statement, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(iv) *Claims Reconciliation Process for Title III Cases*

On October 16, 2018, the Oversight Board filed a motion seeking the approval of certain limited claim objection procedures designed to complete the claims reconciliation process for pre-Title III claims against the Commonwealth in a timely, efficient, and cost-effective manner. Such claims do not represent ongoing claims against the Commonwealth but will instead be satisfied pursuant to the terms of the Commonwealth Plan of Adjustment.

For additional information regarding creditor recoveries contemplated under the Commonwealth Plan of Adjustment, and the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(v) *PFC Qualifying Modification for PFC Bonds*

On December 14, 2022, the District Court approved a Title VI Qualifying Modification for PFC (the PFC Qualifying Modification). The PFC Qualifying Modification provides for a restructuring and discharge of the Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds) in exchange for (i) \$13.8 million in cash and (ii) approximately \$47 million of bonds issued by the GDB Debt Recovery Authority (the DRA Bonds). The PFC Qualifying Modification further provides that those promissory notes (the Notes) that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds are cancelled and extinguished and such entities are discharged from any liability arising from or related to such promissory notes.

On January 12, 2023, the PFC Qualifying Modification went effective, resulting in the discharge and cancellation of the PFC Bonds and the Notes.

AmeriNational Community Services, LLC, as Servicer for the DRA and Cantor-Katz Collateral Monitor LLC, as Collateral Monitor for the DRA contested the ability to issue the DRA Bonds.

On August 14, 2023, the Title III Court issued a ruling finding that FAFAA is authorized to direct the issuance of the DRA Bonds to the PFC bondholders to implement the terms of the PFC Qualifying Modification. This decision was appealed to the First Circuit, which heard oral arguments on April 3,

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2024, and issued an opinion on July 17, 2024, affirming the Title III Court’s ruling authorizing the issuance of new bonds under the PFC Title VI Qualifying Modification.

The execution of the PFC Qualification Modification resulted in an extraordinary gain on debt extinguishment as follows (in thousands):

Description	Governmental Fund	Accrual basis adjustments	Total Primary government	Component Units	Total
Cash paid to creditors	\$ (6,669)	-	(6,669)	(6,782)	(13,451)
Commonwealth appropriation bonds, discharged	179,120	397,045	576,165	515,844	1,092,009
Accrued Interest payable, discharged	199,403	6,597	206,000	195,085	401,085
Deferred loss on bonds refundings	-	(7,668)	(7,668)	(1,264)	(8,932)
Extraordinary gain	<u>\$ 371,854</u>	<u>395,974</u>	<u>767,828</u>	<u>702,883</u>	<u>1,470,711</u>

For further information, refer to the PFC Qualifying Modification and PFC Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4523&DocAttrName=PFCDOCKET_Q&MenuID=8042&AttributeName=PFC%20Docket.

(vi) *PRIFA-Ports Exchange*

On December 27, 2019, PRIFA completed a private exchange that resulted in the resolution of over 92% of those certain Series 2011 bonds issued by PRIFA (Ports Authority Project) (the PRIFA Ports Bonds). At the time of the exchange, the PRIFA Ports Bonds were outstanding in an amount of approximately \$190.6 million. Bondholders holding approximately \$177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRIFA Ports Bonds outstanding) of a cash payment of approximately \$82.4 million, resulting in the full resolution of such participating PRIFA Ports Bonds. The recovery the PRIFA Ports bondholders received in the exchange is in addition to the GDB DRA Bonds received by the PRIFA Ports bondholders in connection with a settlement of the bondholders’ letter of credit claims against GDB, which settlement was entered into as part of the GDB Title VI Qualifying Modification. After the exchange, the PRIFA Ports Bonds remained outstanding in the total aggregate amount of approximately \$13.4 million (the PRIFA Ports Stub Bonds).

On April 28, 2023, PRIFA, PRPA, and the Bank of New York Mellon, as trustee, entered into that certain Redemption Transaction Agreement, which contemplated the redemption of the PRIFA-Ports Stub Bonds. On June 2, 2023, approximately \$13.5 million of PRIFA-Ports Stub Bonds were redeemed in exchange for approximately \$10.4 million in cash at a PRIFA Custody Account with the Bank of New York Mellon. The PRIFA-Ports Stub Bonds are thus no longer outstanding.

(vii) *TDF Qualifying Modification (a blend component unit of GDB)*

On September 12, 2023, the District Court approved a Title VI Qualifying Modification for the Tourism Development Fund (TDF) (the TDF Qualifying Modification). The TDF Qualifying Modification went into effect on December 4, 2023. Under the TDF Qualifying Modification, approximately \$89 million of obligations related to (i) the letters of credit issued by TDF to support the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority Tourism Revenue Refunding Bonds, 2011 Series A and Tourism Revenue Bonds, 2000 Series A and (2) three loans owed by TDF to GDB were discharged in exchange for a \$10.5 million cash payment to the holders of such obligations.

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For further information, refer to the TDF Qualifying Modification and TDF Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4537&DocAttrName=TDFDOCKET_Q&MenuID=8059&AttributeName=TDF%20Docket.

(viii) *PRIDCO Qualifying Modification*

On August 3, 2023, the Oversight Board, and certain holders of the PRIDCO revenue bonds (the Revenue Bonds) issued under that certain Trust Indenture, dated as of July 1, 1964, between PRIDCO and U.S. Bank Trust National Association, as successor trustee, entered into a restructuring support agreement (the PRIDCO RSA) that prescribes a restructuring of PRIDCO's debts through a Qualifying Modification under Title VI of PROMESA. On August 30, 2023, PRIDCO and FAFAA executed the PRIDCO RSA.

On October 25, 2023, the Oversight Board certified the RSA as a "Qualifying Modification" pursuant to section 601(g) of PROMESA. The Qualifying Modification was approved by the U.S. District Court for the District of Puerto Rico on December 7, 2023, and became effective on December 28, 2023.

For further information, refer to the PRIDCO Qualifying Modification and PRIDCO Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4541&DocAttrName=PRIDCODOCKET_Q&MenuID=8070&AttributeName=PRIDCO%20Docket.

(ix) *Ports-DRA Settlement Agreement*

On January 23, 2024, (i) FAFAA; (ii) PRPA, (iii) the Puerto Rico Debt Recovery Authority (DRA); (iv) AmeriNational Community Services, LLC, as Servicer for the DRA (AmeriNational), and (v) Cantor-Katz Collateral Monitor LLC, as Collateral Monitor for the DRA (Cantor-Katz and together with the DRA and AmeriNational, the DRA Parties) entered into a Settlement Agreement to resolve approximately \$601 million of alleged liabilities owed by PRPA to the DRA Parties (the Settlement Agreement). Pursuant to the terms of the Settlement Agreement, the DRA received \$320 million in cash in full and final satisfaction of any and all claims of the DRA Parties against PRPA, including, but not limited to, all claims arising under or related to (i) the 2008 Ports Authority Loan, (ii) the 2014 Ports Authority Loan, and (iii) certain obligations arising under the Letter of Credit Disbursement and Reimbursement Agreement, dated December 1, 2011, between PRPA and GDB (the Reimbursement Agreement). The settlement transaction closed on February 2, 2024.

(x) *Additional DRA Settlement*

On September 25, 2023, the Oversight Board approved a proposed settlement agreement between the DRA and the following component units: GDB, LAPR, PA, PPA and EDB. The settlement agreement consists of a cash payment amounting to \$29.5 million to resolve \$65.4 million in outstanding principal and interest of loans owed by the component units to DRA.

On October 2, 2023, the settlement agreement was entered by FAFAA and the DRA in which \$50.9 million plus accrued interest in loans owed by the component units to the DRA were settled for a total discounted payment amounting to \$29.5 million. On June 1, 2023, EDB paid to the DRA a total of \$2.8 million and the remaining balance amounting to \$26.7 million was deposited by the component units into a specially designated bank account in FAFAA from which on October 13, 2023, the settlement payment to the DRA was made.

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(c) Default of Bond Principal and Interest Payments

As of June 30, 2023, PREPA remained in default on the payment of principal and interest on its outstanding Power Revenue Bonds. PREPA's bonds, with an original aggregate principal amount of approximately \$8.3 billion, continue to be outstanding. As of June 30, 2024, and through the date of issuance of these financial statements, principal and interest payments remain unpaid; therefore, all such bonds are considered to be in default. For additional information refer to PREPA's stand-alone audited financial statements.

(4) Accounting Changes and Correction of Errors

During 2023, the Commonwealth identified various errors related to prior year basic financial statements. Additionally, during the year there was a change in reporting entity at the primary government and discretely presented component units. The impact of the related adjustments to beginning net position/fund balance are as follows:

Governmental and Business-type Activities

The following table summarizes the changes to net position at the beginning of the year as previously reported for the Governmental and Business-type Activities in the government-wide financial statements (in thousands)

	Governmental Activities	Business-type Activities
Net position (deficit) – July 1, 2022, as previously reported	\$ (51,914,171)	844,427
Changes in reporting entity	(80,718)	—
Miscellaneous errors	34,133	(206)
Net position (deficit) – July 1, 2022, as restated	\$ (51,960,756)	844,221

Changes in reporting entity

The Reorganization Plan No.4 of the Department of Agriculture of July 29, 2010, created Agricultural Enterprises Development Administration (AEDA) and provided it with fiscal and operational autonomy not legal separation. As a result, AEDA financial information will be reported within the Governmental Activities.

The nature of operations of PRPPPA, a former discretely presented component unit, changed to the extent that it meets the criteria to be a blended component unit. As a result, PRPPPA will be reported as a blended component unit within the Governmental Activities.

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Governmental Funds

The following table summarizes the changes to fund balances at the beginning of the year as previously reported for the general fund (in thousands):

	<u>General Fund</u>	<u>ERS special revenue fund</u>	<u>Nonmajor governmental funds</u>
Fund balance – July 1, 2022, as previously reported:	\$ 7,653,751	413,137	461,337
Changes in major fund presentation	—	(413,137)	413,137
Changes in reporting entity	61,848	—	34,689
Miscellaneous errors	<u>44,907</u>	<u>—</u>	<u>—</u>
Fund balance – July 1, 2022, as restated	\$ <u><u>7,760,506</u></u>	<u><u>—</u></u>	<u><u>909,163</u></u>

The changes in major fund presentation resulted from ERS, special revenue fund not meeting the major fund quantitative thresholds provided by GASB Statement No. 34 in 2023.

Changes in reporting entity

The Reorganization Plan No.4 of the Department of Agriculture of July 29, 2010, created AEDA and provided it with fiscal and operational autonomy not legal separation. As a result, AEDA never met the criteria of a component unit and management decided to adjust the beginning balances on these financial statements to correct its presentation.

The nature of operations of PRPPPA, a former discretely presented component unit, changed to the extent that it meets the criteria to be a blended component unit. As a result, PRPPPA will be reported as a blended component unit within the Nonmajor Governmental Funds.

Proprietary Funds

The following table summarizes the changes to net position at the beginning of the year as previously reported for the proprietary funds (in thousands):

	<u>PRMeSA</u>	<u>Nonmajor Proprietary Funds</u>
Net position (deficit) – July 1, 2022, as previously reported:	\$ (756,221)	918,337
Miscellaneous errors	<u>1,124</u>	<u>(1,330)</u>
Net position (deficit) – July 1, 2022, as restated	\$ <u><u>(755,097)</u></u>	<u><u>917,007</u></u>

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Discretely Presented Component Units

The following table summarizes the changes to the beginning net deficit for certain discretely presented component units (in thousands):

Net deficit – July 1, 2021, as previously reported	\$ (14,966,130)
Changes in reporting entity	83,003
Miscellaneous errors	<u>194,683</u>
Net deficit – July 1, 2021 as restated	<u>\$ (14,688,444)</u>

Changes in reporting entity

The Reorganization Plan No.4 of the Department of Agriculture of July 29, 2010, created AEDA and provided it with fiscal and operational autonomy not legal separation. As a result, AEDA never met the criteria of a component unit and management decided to adjust the beginning net position for approximately \$119.4 million on these financial statements to correct its presentation.

The nature of operations of PRPPPA, a former discretely presented component unit, changed to the extent that it meets the criteria to be a blended component unit. As a result, an adjustment of approximately (\$34.9) million was made to the beginning net position of the discretely presented component units on these financial statements to correct its presentation.

The Culebra Conservation and Development Authority was removed from the reporting entity in fiscal year 2023, as it no longer qualifies as a component unit resulting in adjustment of approximately (\$1.5) million to the beginning net position of the discretely presented component units on these financial statements to correct its presentation.

Miscellaneous errors

Miscellaneous errors reflect corrections of previously misstated balances totaling approximately \$(6.9) million for PRHTA and \$194.2 million for PREPA. The PRHTA adjustment primarily relates to deferred inflows of resources arising from service concession arrangements, while the PREPA adjustments primarily relate to the correction of understated accounts receivable and impairment losses. Also non major component units made corrections of approximately \$7.4 million.

(5) Deposits and Investments

Primary Government

The Primary Government may invest in different types of securities, including among others domestic, international, and fixed income securities, among others.

The Primary Government maintains a cash and investment pool that is available for use by all funds, including some of the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position and balance sheet as cash and cash equivalents.

Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commonwealth's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

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The carrying amount of deposits of the Primary Government as of June 30, 2023, consists of the following (in thousands):

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Governmental activities:				
Commercial banks	\$ 8,874,632	3,418,189	12,292,821	12,203,927
Total	\$ 8,874,632	3,418,189	12,292,821	12,203,927
	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Business-type activities:				
Commercial banks	\$ 1,582,206	385,800	1,968,006	1,970,085
Under the custody of the U.S. Treasury	—	453,853	453,853	453,853
Total	\$ 1,582,206	839,653	2,421,859	2,423,938

As of June 30, 2023, the total aggregate amount of the Primary Government's bank balance of deposits in commercial banks was approximately \$14.2 billion, covered by the FDIC or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately \$2 million were held in the Pension Reserve Trust which are reserved for the payment of pension benefits and approximately \$453.9 million with the U.S. Treasury represent unemployment insurance premiums collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized.

The Commonwealth maintains an Emergency Reserve as a stabilization arrangement intended to provide resources for unanticipated events and other qualifying circumstances consistent with the Commonwealth's Fiscal Plan; the Emergency Reserve is established and funded through the General Fund budget adopted by legislative resolution. Additions to the Emergency Reserve occur through legislative appropriations and authorized transfers approved as part of the budget process, and amounts may be spent only through authorization in accordance with the Commonwealth's budgetary and related legislative processes. As of June 30, 2023, the cash balance held in the separate bank account designated for the Emergency Reserve was approximately \$1 billion.

Investments

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Commonwealth may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk – This is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation.

Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

The Commonwealth's general investment policy is to apply the "prudent investor" rule, which states investments must be made with judgment and care under circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation

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but for investment, and considering the probable safety of their capital as well as the probable income to be derived. The prudent investor rule should be applied in the context of managing an overall portfolio.

Short-term funds of the agencies, including operating funds, may be invested in U.S. Treasury bills; U.S. Treasury notes or bonds with short-term maturities; short-term obligations of U.S. government agencies and instrumentalities classified within the highest rating category of Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's); fully insured or collateralized certificates of deposit of eligible financial institutions designated by the Commissioner of Financial Institutions and the Secretary of the DOT; prime commercial paper rated A1/P1 by S&P and Moody's or secured by an irrevocable line of credit of an institution rated within the highest rating category of S&P and Moody's or collateralized by government securities; bankers' acceptances (as alternatives to CDs) of eligible financial institutions doing business in Puerto Rico provided adequate collateral has been pledged; obligations of the Commonwealth and its instrumentalities with an expected rate of return similar to other securities with the same risk profile.

Longer term funds may also be invested in U.S. government and agency securities in the highest rating category of S&P and Moody's. This includes Taxable Municipal Bonds of state and local governments in the United States classified within the three (3) highest categories of at least two of the principal rating services; taxable municipal obligations of the Primary Government and its component units; structured investments (notes and other types of on balance sheet securities issued by a U.S. Government Agency or another financial institution in the highest rating category of at least two of the principal rating services); and any mortgage backed instrument issued by a U.S. Government Agency in the highest rating category of S&P and Moody's.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commonwealth policy on larger portfolios with positions in securities having potential default risk is to limit the investments in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.

Interest Rate Risk – It is the Commonwealth policy that a minimum 10% of the total portfolio be held in highly marketable U.S. Treasury bills or overnight investment instruments. Larger portfolios should not hold more than 30% of the portfolio in marketable instruments with maturities beyond one month. This policy should be followed as long as it does not reduce investment yields.

Governmental Activities

The Governmental Activities investments consisted of approximately \$83.7 million in nonparticipating investment contracts (guaranteed investment contracts) that were exposed to custodial risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the Primary Government's name.

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As of June 30, 2023, the fair value of the Governmental Activities' investments based on the hierarchy of inputs was as follows (in thousands):

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government securities	\$ —	1,479,324	—	1,479,324
External investment pools – fixed-income securities:				
First American Money Market Fund	20,946	—	—	20,946
Nonparticipating investment contracts:				
UniCredit Bank AG – Guaranteed: Investment Contract	<u>—</u>	<u>—</u>	<u>83,684</u>	<u>83,684</u>
Total investments measured at fair value	<u>\$ 20,946</u>	<u>1,479,324</u>	<u>83,684</u>	1,583,954
Investments measured at amortized cost or NAV:				
Dreyfus Government Cash Management				285,957
Money market funds				32,375
Negotiable certificate of deposits				1,699
Blackrock Liquidity Funds Treasury Trust Funds				19,446
Limited partnership/private equity				54,704
Other				<u>1,598</u>
Total investments			<u>\$</u>	<u>1,979,733</u>

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The following table summarizes the type and maturities of investments held by the Governmental Activities as of June 30, 2023 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type	Maturity (in years)			Total
	Within one year	After one to five years	After ten years	
U.S. government securities	\$ 1,479,324	—	—	1,479,324
Money market funds	32,375	—	—	32,375
Negotiable certificates of deposits	1,699	—	—	1,699
Other	—	1,598	—	1,598
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	285,957	—	—	285,957
Fisrt American Money Market Fund	20,946	—	—	20,946
Blackrock Liquidity Funds Treasury Trust Funds	19,446	—	—	19,446
Nonparticipating investment contracts:				
Unicredit Bank AG-Guaranteed Investment Contract	—	—	83,684	83,684
Total debt securities and fixed-income investment contracts	\$ 1,839,747	1,598	83,684	1,925,029
Equity securities:				
Limited parterships/private equity				54,704
Total				1,979,733
Reconciliation to the government- wide statement of net position:				
Unrestricted investments			\$	54,704
Restricted investments				1,925,029
Total			\$	1,979,733

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The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Governmental Activities as of June 30, 2023, consisted of the following (in thousands):

Investment type	Rating				Total
	AAA	A+ to A-	BBB+ to B-	Not Rated	
Money market funds	—	—	—	32,375	32,375
Negotiable certificate of deposits	—	—	—	1,699	1,699
Other	—	—	—	1,598	1,598
External investment pools – fixed-income securities:					
Dreyfus Government Cash Management	285,957	—	—	—	285,957
First American Money Market Fund	20,946	—	—	—	20,946
Blackrock Liquidity Funds Treasury Trust Funds	19,446	—	—	—	19,446
Nonparticipating investment contracts:					
UniCredit Bank AG-Guaranteed Investment Contract	—	—	83,684	—	83,684
Total debt securities and fixed-income investment contracts	<u>\$ 326,349</u>	<u>—</u>	<u>83,684</u>	<u>35,672</u>	<u>445,705</u>

Approximately \$1.5 billion of the total Governmental Activities' investments consist of U.S. Treasury instruments, which carry no credit risk and therefore, are not included within the table above. These investments were mostly held in the Pension Reserve Trust to be used to pay pension benefits, subject to several constraints, in case the Commonwealth becomes unable to make such payments as they become due.

Investments in Limited Partnerships

The fair value of investments in limited partnerships as of June 30, 2023, amounted to approximately \$54.7 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings of subject companies' management.

As of June 30, 2023, the Governmental Activities had capital commitments with limited partnerships and related contributions as follows (in thousands):

	Public sector commitments	Fiscal year contributions	Unfunded commitments	Fair value
Guayacán Private Equity Fund, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	\$ 5,000	—	355	4,997
Puerto Rico System of Annuities and Pensions for Teachers	<u>5,000</u>	<u>—</u>	<u>355</u>	<u>4,967</u>
Subtotal	<u>10,000</u>	<u>—</u>	<u>710</u>	<u>9,964</u>

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	<u>Public sector commitments</u>	<u>Fiscal year contributions</u>	<u>Unfunded commitments</u>	<u>Fair value</u>
Guayacán Private Equity Fund II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	453	7,135
Subtotal	<u>25,000</u>	<u>—</u>	<u>453</u>	<u>7,135</u>
Other Funds:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	52,629	—	7	37,605
Subtotal	<u>52,629</u>	<u>—</u>	<u>7</u>	<u>37,605</u>
Total	<u>\$ 87,629</u>	<u>—</u>	<u>1,170</u>	<u>54,704</u>

Business-type Activities

As of June 30, 2023, the fair value of the Business-type Activities' investments based on the hierarchy of inputs is as follows (in thousands):

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and agency securities	\$ —	2,876	—	2,876
Mortgage and asset-backed securities:				
GNMA	—	310	—	310
FNMA	—	2,200	—	2,200
FHLMC	—	2,272	—	2,272
Commercial mortgages	—	370	—	370
Asset-backed securities	—	1,399	—	1,399
U.S. corporate bonds and notes	—	5,594	—	5,594
Foreign corporate and government bonds and notes	—	641	—	641
U.S. municipal notes	—	1,628	—	1,628
External investment pools – equity securities	—	12,057	—	12,057
Total investments measured at fair value	<u>\$ —</u>	<u>29,347</u>	<u>—</u>	<u>29,347</u>

The following table summarizes the type and maturities of investments held by the Business-type Activities as of June 30, 2023 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

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<u>Investment type</u>	<u>After one to five years</u>	<u>After five to ten years</u>	<u>After ten years</u>	<u>Total</u>
U.S. government and agency securities	\$ 1,501	732	643	2,876
Mortgage and asset-backed securities:				
GNMA	—	163	147	310
FNMA	1	—	2,199	2,200
FHLMC	12	—	2,260	2,272
Commercial mortgages	—	—	370	370
Asset-backed securities	490	822	87	1,399
U.S. corporate bonds and notes	1,208	1,165	3,221	5,594
Foreign corporate and government bonds and notes	332	—	309	641
U.S. municipal notes	10	256	1,362	1,628
Total debt securities	\$ <u>3,554</u>	<u>3,138</u>	<u>10,598</u>	17,290
External investment pools – equity securities:				
ISHARES TR Russell 2000 EFT				2,092
Vanguard Index Funds S&P 500 EFT				6,128
Vanguard Developed Markets EFT				3,837
Total				\$ <u>29,347</u>
Reconciliation to the government-wide statement of net position:				
Restricted investments				\$ <u>29,347</u>
Total				\$ <u>29,347</u>

The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Business-type Activities as of June 30, 2023, consist of the following (in thousands):

<u>Investment type</u>	<u>Rating</u>							<u>Total</u>
	<u>AAA</u>	<u>AA+ to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BBB-</u>	<u>BB+ to BB-</u>	<u>B+ to B-</u>	<u>Not rated</u>	
Mortgage and asset-backed securities:								
FNMA	\$ 2,200	—	—	—	—	—	—	2,200
FHLMC	2,272	—	—	—	—	—	—	2,272
Commercial mortgages	—	—	—	—	—	—	370	370
Asset-backed securities	529	—	—	—	—	—	870	1,399
U.S. corporate bonds and notes	25	741	2,523	1,804	—	409	92	5,594
Foreign corporate and government bonds and notes	—	—	148	309	184	—	—	641
U.S. municipal notes	834	538	75	—	—	—	181	1,628
Total debt securities	\$ <u>5,860</u>	<u>1,279</u>	<u>2,746</u>	<u>2,113</u>	<u>184</u>	<u>409</u>	<u>1,513</u>	<u>14,104</u>

Approximately \$3.2 million of the total Business-type Activities' investments consist of approximately \$310 thousands in U.S. Government National Mortgage Association (GNMA) securities and approximately \$2.9 million in U.S. Treasury Instruments, which carry no credit risk and therefore, are not included within the table above.

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Fiduciary Funds

Cash and Cash Equivalents

Cash and cash equivalents of the Fiduciary Funds as of June 30, 2023, consisted of the following (in thousands):

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ 687,986	—	687,986	708,925

Cash and cash equivalents consist of deposits with commercial banks and short-term investments. Short-term investments include money market funds and other cash equivalents.

Discretely Presented Component Units

Deposits

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts. Cash and cash equivalents of the discretely presented component units as of June 30, 2023, consisted of (in thousands):

Major Discretely Presented Component Units

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ 2,017,422	2,326,795	4,344,217	4,498,211
Total	\$ 2,017,422	2,326,795	4,344,217	4,498,211

As of June 30, 2023, the major discretely presented component units had approximately \$71.6 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Nonmajor Discretely Presented Component Units

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ 893,111	435,975	1,329,086	1,359,579
Governmental banks	2,694	—	2,694	4,804
Total	\$ 895,805	435,975	1,331,780	1,364,383

As of June 30, 2023, the nonmajor discretely presented component units had approximately \$4.8 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Credit Risk – In addition to the investments permitted for the Primary Government, the discretely presented component units' investment policies allow management to invest in the following: certificates of deposit or Euro notes issued by financial institutions in the U.S. in which the issuer is classified in the highest rating category for short-term obligations and in the two highest rating category for long-term obligations as classified by S&P and Moody's; corporate notes and bonds classified in the highest categories of at least two of the principal rating services; taxable corporate debt issued through AFICA within the two (2) highest rating categories of at least two of the principal rating services; trust certificates (subject to prior written consultation

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with FAFAA); and Mortgage and Asset Backed Securities rated AAA by S&P or Aaa by Moody's; no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The discretely presented component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The discretely presented component units' investment policies provide that investment transactions must be entered into with counterparties that are rated BBB+/A 1 or better by S&P's or equivalent rating by Fitch Ratings or Moody's, depending on the type and maturity of the investment and the counterparty to the transaction.

Concentration of credit risk – In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value must be invested in the securities of any single issuer. The following table summarizes the type and maturities of investments held by the discretely presented component units as of June 30, 2023 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Discretely Presented Component Units

As of June 30, 2023, the fair value of the discretely presented component units' investments based on the hierarchy of inputs is as follows:

Investment type	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ 592,260	—	—	592,260
U.S. government agencies notes:				
FHLB	—	397	—	397
FNMA	—	6,464	—	6,464
FHLMC	—	3,206	—	3,206
FFCB	—	11,420	—	11,420
Other	—	2,125	—	2,125
Mortgage and asset-backed securities:				
GNMA	—	34,623	—	34,623
FNMA	—	11,583	—	11,583
FHLMC	—	9,293	—	9,293
Commercial mortgages	—	379	—	379
Asset-backed securities	—	6,261	—	6,261
Other	—	28,682	—	28,682
U.S. corporate bonds and notes	—	74,663	—	74,663
Foreign government bonds and notes	—	2,968	—	2,968
U.S. municipal notes	—	48,485	—	48,485
Commonwealth agency bonds and notes	—	2,891	—	2,891
External investment pools – fixed – income securities	—	13,270	—	13,270
U.S. corporate stocks	360,014	—	—	360,014
Investments at fair value level	\$ 952,274	256,710	—	1,208,984

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Investments valued at NAV or amortized cost:

Cash equivalent – money market fund	56,253
Negotiable certificates of deposit	158
Limited partnership/private equity	43,557
Guaranteed investments contract	82,060
External investment pools – equity securities	<u>395,897</u>
Total major component units	1,786,909
Total nonmajor component units	<u>803,667</u>
Total investments	\$ <u><u>2,590,576</u></u>

The following table summarizes the type and maturities of investments held by major discretely presented component units as of June 30, 2023 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type	Maturity (in years)				Total
	Within one year	After one to five years	After five to ten years	After ten years	
U.S. government securities	\$ 541,241	21,024	21,173	8,822	592,260
U.S. government sponsored agencies notes:					
FHLB	—	115	282	—	397
FNMA	5,909	301	—	254	6,464
FHLMC	—	1,415	855	936	3,206
FFCB	—	4,198	4,647	2,575	11,420
Other	—	1,519	606	—	2,125
Mortgage and asset-backed securities:					
GNMA	—	16,770	8,172	9,681	34,623
FNMA	—	1,619	2,060	7,904	11,583
FHLMC	1,003	2,124	1,189	4,977	9,293
Commercial mortgages	—	—	—	379	379
Asset-backed securities	—	5,031	1,036	194	6,261
Other	9	—	364	28,309	28,682
U.S. corporate bonds and notes	9,832	29,693	20,000	15,138	74,663
Foreign government bonds and notes	297	734	1,937	—	2,968
U.S. municipal notes	139	2,785	2,422	43,139	48,485
Commonwealth agency bonds and notes	—	—	—	2,891	2,891
Money market funds	56,253	—	—	—	56,253
Negotiable certificates of deposit	158	—	—	—	158
External investment pools – fixed-income securities	133	273	12,761	103	13,270
Nonparticipating investment contracts	—	—	22,847	59,213	82,060
Total debt securities and fixed-income investment contracts	\$ <u>614,974</u>	<u>87,601</u>	<u>100,351</u>	<u>184,515</u>	987,441
Equity securities:					
U.S. corporate stocks					360,014
External investment pools – equity securities					395,897
Limited partnership/private equity					<u>43,557</u>
Total major component units					1,786,909
Total nonmajor component units					<u>803,667</u>
Total					\$ <u><u>2,590,576</u></u>

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Custodial Credit Risk – The discretely presented component units had approximately \$50.1 million (approximately \$158 thousand and \$50 million at major and nonmajor discretely presented component units, respectively) in various types of U.S. government and agency securities, mortgage backed securities, and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the discretely presented component units' name.

Foreign Currency Risk – SIFC (a major discretely presented component unit) limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2023, the SIFC had the following investments denominated in foreign currency (in thousands):

<u>Description</u>	<u>Currency</u>	<u>Fair value</u>
Common and preferred stocks and equities	Australian dollar	\$ 1,262
	Swiss Franc	1,999
	Danish Krone	1,880
	Euro	14,694
	British Pound	5,535
	Hong Kong Dollar	1,773
	Indonesian Rupiah	474
	Japanese Yen	6,437
	Swedish Krona	2,611
	Singapore Dollar	<u>1,106</u>
Total		<u>\$ 37,771</u>

Credit Ratings of Commonwealth's Bonds

The investment policies of the Commonwealth require its agencies and instrumentalities to hold only investment grade ratings debt securities in their investment portfolio. With over 91% and 55% of the investments at the Primary Government and discretely presented component unit level, respectively, with credit ratings no lower than "A" or without risks as of June 30, 2023, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the downgrades. The remaining percentage of investments is either rated throughout the B spectrum or not rated, except for nonmajor discretely presented component units' investments in GDB, Primary Government Bonds, and Commonwealth's Municipalities Bonds of approximately \$206 million, all of which are rated D as of June 30, 2023.

(6) Receivables and Payables

Governmental and Proprietary Funds

Receivables in the governmental funds include approximately \$1.8 billion of accrued income, excise, and sales and use taxes. Intergovernmental receivables include approximately \$1.5 billion from the federal government. In addition, the proprietary funds include approximately \$61 million of unemployment, disability, and drivers' insurance premium receivables; approximately \$6.3 million receivable from private citizens, member institutions, and municipalities for patient services provided by the PRMeSA; and approximately \$742 million receivable from the U.S. Department of Health (USDOH), municipalities and private citizens and pharmacies for the related health insurance coverage services provided by PRHIA's operations. Payables in the governmental funds include approximately \$2.4 billion of trade accounts due to suppliers for purchase of merchandise and services rendered, and approximately \$95.7 million of salary related benefits owed to

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eligible police agents for annual salary increases, awards, and other monetary benefits granted to them through several laws dating back to 1954, and approximately \$815.5 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004 1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended (the TB), a receivable of \$37.3 million was recorded as other receivable in the government-wide financial statements and in the nonmajor governmental funds for estimated shipments from January 1 to June 30, 2023, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the Tobacco Settlement Authority (the Children's Trust in the case of the Commonwealth) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone basic financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bonds sold to the settling government (the Commonwealth). Since the Children's Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out of the fund that accounts for the activities of the Tobacco Settlement Authority. Since the Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the Tobacco Settlement Authority to the settling government (the Commonwealth), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Prior to the enactment of Act 106-2017 on August 23, 2017, ERS, TRS, and JRS loans receivable from plan members were guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. After August 23, 2017, pension benefits will be paid by each participating employers as the benefits become due. The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans. As of June 30, 2023, the loans and interest receivable from plan members amounted to approximately \$279.8 million and \$8.6 million, respectively, net of an escrow funds of mortgage loans and guarantee insurance reserve and allowance for adjustments and losses in realization of approximately \$32.3 million.

Discretely Presented Component Units – GDB

As of June 30, 2023, loans from GDB to public corporations and agencies of the Commonwealth (excluding municipalities) amounting to approximately \$864 million were repayable from the following sources (in thousands):

	<u>Amount</u>
Repayment source:	
General fund and/or legislative appropriations	857,609
Operating revenues	<u>6,159</u>
Total	\$ <u><u>863,768</u></u>

For the fiscal year ended June 30, 2023, there were no disbursements and collections of principal of public-sector loans.

As of June 30, 2023, approximately \$864 million of the public-sector loans was impaired. The budget certified by the Oversight Board for fiscal years 2020 through 2023 did not include appropriations for the payment of debt service owed to GDB. In addition, as discussed in Note 3, the Commonwealth Plan of Adjustment

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discharged all appropriation claims, which includes any claim for an appropriation related to the repayment of a GDB loan.

Most loans to public corporations and agencies totaling approximately \$864 million were classified as nonaccrual. Interest income that would have been recorded under the original term of these loans amounted to approximately \$69 million in fiscal year 2023.

Loans to the private sector include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately \$167 million as of June 30, 2023. Private sector loans classified as nonaccrual amounted to approximately \$74.6 million as of June 30, 2023. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately \$4.6 million in 2023.

Tax Abatements

The Commonwealth follows the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement defines a tax abatement and requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Commonwealth enters into tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the Commonwealth. Each agreement was negotiated under a local law, which allows the Commonwealth to abate property or income taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the Commonwealth or promising to relocate within the Commonwealth. Depending on the terms of the agreement and law, abated taxes may be subject to recapture upon default of the entity. The Commonwealth is not subject to any tax abatement agreements entered into by other governmental entities. There were no amounts received or receivable from other governments; there were no government-made commitments other than to reduce taxes; there were no abatements disclosed separately, and no information was omitted if required by GASB Statement No. 77. The following table represents the abated revenues for the year ended June 30, 2023:

Name of program	Stipends received by certain physicians during their internship	Credit for construction investment in urban centers	Credit for investment in tourism development	Purchase: Tourism Development	Act 135 - 1997, Tax Incentives Law of 1998
Purpose of program	Tax exemption of stipends to resident physicians to keep them in the public service.	Tax abatement to promote and incentive the revitalization of Urban Centers through construction of living spaces. Promote increase in property values and create jobs.	The amount of credit for tourism investment. Every investor may claim a credit for tourism investment equal to 50% of its eligible investment.	Act 78 provides 90% exemption on income from eligible tourism activities, including benefits and dividends distributed from the exempt business to his shareholders or partners, as well as distributions in liquidation.	To provide the best economic and social interests of Puerto Rico through fixed income rates of the manufacturing industry.
Abated tax	Individual Tax	Individual Tax	Individual Tax	CorporateTax	CorporateTax
Authorizing statute/ordinance	PR Internal Revenue Code Section 1031.02 (a) 9	PR Internal Revenue Code Section 1051.08(b) (5) & Act 212 of 2002	Art. 5(f) Act 78-1993 Art. 14 Act 225-1995 Schedule B Part II Line 12 & Act 78 of 1993	Art. 5 Act 78 -1993	Act 135-1997
Eligibility requirement	Resident doctor training at a governmental hospital facility	Project certified by the Director of Urbanism of the Department of Transportation	The business must establish a qualified project certified by the PRTC.	Every investor (including a participant) will be entitled to a credit for tourism investment in securities of a fund.	Fixed Income rate decree signed with the favorable recommendation of the Secretary of Treasury and the Executive Director
Type of commitment made by the recipient of the abated tax	Complete internship in a public hospital.	Provide construction services directly related to the revitalization of urban centers.	Invest in the development of the local tourism industry.	Invest in the development of the local tourism industry.	Invest in the development of the local manufacturing industry.
How tax is reduced	Income Tax Credit	Income tax Credit	Income tax Credit	Credit for tourism investment equal to 50% of their eligible investment or their investment in securities of a fund, to be taken in 2 terms: The first half of said credit in the year in which the exemption is obtained and the balance of said credit, in the following year.	Reduction of Tax
Determination of abated tax	Abated tax amount determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	\$ 2,800,000	\$ 700,000	\$ 25,500,000	\$ 59,200,000	\$ 16,081,200

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Name of program	Act 225 - 1995, Law on Agricultural Contributive Incentives of PR	Act 22 - 2012 Transfers of Investors to Puerto Rico	Credit for purchases of products manufactured in Puerto Rico	Credit for investment in film industry development (Act 27-2011 & Act 60-2019).	Act 20 - 2012, Export Services & Act 60 - 2019, Subtitle B Chapter 3
Purpose of program	The Act establishes the requirements to qualify the "bona fide" farmers and exempt them from the payment of all kinds of taxes on personal and real property, municipal license tax, taxes, income taxes, excise taxes and all municipal and/or state taxes or fees.	To attract new residents to Puerto Rico by providing a total exemption from Puerto Rico income taxes on all passive income realized or accrued after such individuals become bona fide residents of Puerto Rico.	Incentivize the manufacturing industry and local suppliers	To encourage the use of the state as a site for filming, for the digital production of films, and to develop and sustain the workforce and infrastructure for film, digital media, and entertainment production.	Act to promote the exportation of services, provides attractive tax incentives for companies that establish and expand their export services businesses in the island. In addition, the law promotes investments on research and development and initiatives from the academic and private sectors by granting credits and exemptions for these activities.
Abated tax	Corporate Tax	Corporate Tax	Corporate Tax	Individual Tax	Individual Tax
Authorizing statute/ordinance	Act 225 - 1995	Act 22 -2012	Section 5(a)(1), Act 73 - 2008	Section 7.3 Act 27-2011, Act 60-2019	Act 20-2012, Act 60-2019
Eligibility requirement	Certification of Agricultural Bonafide Operation by the Department of Agriculture	Relocation to Puerto Rico and a full-time resident as defined by law.	Exempt business that has a decree granted under this Act or under the previous incentive laws, must buy products manufactured in Puerto Rico, including components and accessories.	Investment certified by the Auditor as disbursed in relation to Production Expenses of Puerto Rico, not including payments made to Non-Resident Talent	Relocate operations to Puerto Rico
Type of commitment made by the recipient of the abated tax	50% or more of its income must derive from the agriculture industry.	Transfer operations to Puerto Rico.	Purchase raw materials from local businesses.	Invest in the development of the local film industry.	Maintain operations and export services operating from Puerto Rico
How tax is reduced	Reduction of Tax	Reduction of Tax	Twenty-five percent (25%) of the purchases of such products, during the taxable year in which the referred credit is taken, up to a maximum of fifty percent (50%) of the aforementioned contribution.	Reduction of Tax	Reduction of tax rate
Determination of abated tax	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree	Abated tax percentage determined by law	Abated tax determined by law and decree approval
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	\$ 100,000	\$ 636,700,000	\$ 35,800,000	\$ 14,400,000	\$ 263,900,000

(7) Allocated Receivables and Future Revenue

(a) COFINA Revenues

Act No. 91-2006, as amended, establishes that in each fiscal year, the first collections of the 5.5% of the Sales and Use Tax (SUT) ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. Under Act No.91-2006, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year and all legal and equitable rights, title, and interest thereto. Regardless of the level of 5.5% SUT collections, Act No.91-2006 requires that in each fiscal year all collections of the 5.5% SUT be deposited in the COFINA Revenues Fund until an amount equal to the Pledged Sales Tax Base Amount is deposited before any collections of the 5.5% SUT are deposited in the Commonwealth's General Fund. The COFINA Pledged Taxes are the present and future revenues and collections generated by the portion of sales tax that corresponds to a tax rate of five and one-half (5.5) percent and the substituted collateral, if any. The substituted collateral is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the COFINA Bonds.

The Pledged Sales Tax Base Amount in the fiscal year ended June 30, 2023, amounted to approximately \$916.2 million. For fiscal year 2023, debt service paid by COFINA amounted to approximately to \$465.7 million.

(b) The Children's Trust Revenue

The Children's Trust is a public trust ascribed to GDB, created pursuant to Act No. 173-1999. Through Act No. 173-1999, the Commonwealth conditionally allocated and transferred to the Children's Trust all of its rights, title, and interest in a settlement agreement entered into by and among the Commonwealth, 46 states and several cigarette manufacturers (the Tobacco Settlement Agreement), including the

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Commonwealth's right to receive certain annual payments from such cigarette manufacturers (the TSRs). The TSRs, otherwise deliverable to the General Fund, were conditionally allocated to the Children's Trust in consideration of the issuance of bonds by the Children's Trust and the application of the proceeds thereof to fund certain social programs.

(8) Interfund and Intraentity Activity

Interfund receivables and payables as of June 30, 2023, are summarized as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Nonmajor governmental	COFINA Debt Service	\$	159,657
Nonmajor proprietary	General		51,786
General	Nonmajor governmental		47,318
Nonmajor governmental	General		42,900
PRHIA	General		32,428
General	COFINA Special Revenue		16,363
PRMeSA	General		9,453
General	Nonmajor proprietary		9,044
PRMeSA	PRHIA		4,881
Nonmajor proprietary	Nonmajor governmental		4,038
General	PRMeSA		6,106
		\$	<u>383,974</u>

Transfers from (to) other funds for the year ended June 30, 2023, are summarized as follows (in thousands):

<u>Transferee fund</u>	<u>Transferor fund</u>		
PRHIA (a)	General	\$	882,774
Debt Service (b)	General		717,399
Nonmajor governmental (c)	General		433,149
General (d)	Nonmajor proprietary		230,802
PRMeSA (e)	General		110,572
General (f)	Unemployment Insurance		49,033
Nonmajor proprietary (g)	General		16,934
General (h)	COFINA Special Revenue		16,363
COFINA Special Revenue (i)	COFINA Debt Service		6,932
		\$	<u>2,463,958</u>

The principal purposes of the interfund transfers are to (in thousands):

- (a) Transfer of (\$882,774) from the General Fund to PRHIA, a blended component unit of the Commonwealth, to provide funds to cover operational expenditures.
- (b) Transfer of (\$717,399) from the General Fund to the Debt Service Fund to provide resources to cover debt service payments.
- (c) Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by the PBA, a blended component unit of the Commonwealth, (\$219,816); (\$75,321) related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit of the Commonwealth; (\$2,725) to PRIFA, a blended component unit of the Commonwealth, to provide funds to cover operational expenditures and debt service payments; (\$1,899) to PRMSA, a blended to component unit of the Commonwealth, to provide funds for debt service payments; (\$3,236) to the Commonwealth Capital Projects Fund to provide funds for capital projects; (\$36,065) to UPRCCC, (\$54,990) to FAFAA, (\$14,117) to PRPPPA, (\$7,001) to ERS, (\$17,695) to TRS,

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- (\$73) to JRS and (\$211) to PA, blended components unit of the Commonwealth, to provide funds to cover operational expenditures.
- (d) Transfer from the Lotteries, a nonmajor proprietary fund, to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation (\$223,625); and to reimburse the General Fund for expenses assistance provided on emergency calls services from 9-1-1 Services, a nonmajor proprietary fund, (\$7,177).
 - (e) Transfer of (\$110,572) from the General Fund to PRMeSA, a major proprietary fund, to make funds available for debt service payments, capital projects and operational expenditures.
 - (f) Transfer of (\$49,033) from the Unemployment Insurance Fund, a major proprietary fund, related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses.
 - (g) Transfer of (\$7,546) to PRSDWTRLF, (\$5,898) to Disability Insurance Fund, (\$2,761) to Driver's Insurance Fund and (\$729) to PPA, nonmajor proprietary funds, from the General Fund to make funds available for operational expenditures.
 - (h) Transfer of (\$16,363) from the COFINA Special Revenue Fund, a blended component unit of the Commonwealth, to reimburse the General Fund for excess collections of sales and use tax transferred to COFINA.
 - (i) Transfer of (\$6,932) from the COFINA Debt Service Fund to the COFINA Special Revenue Fund, a blended component unit of the Commonwealth, to reimburse for excess collections of sales and use tax.

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Amounts due to the Primary Government from discretely presented component units were as follows (in thousands):

Payable entity	Receivable entity			Total due from component units
	General fund	Nonmajor governmental	Nonmajor proprietary	
Major component units:				
PRASA	\$ 7,400	—	611,491	618,891
PREPA	1,197,400	—	17,988	1,215,388
GDB	63,350	—	—	63,350
PRHTA	359,636	—	—	359,636
UPR	29,727	—	—	29,727
Nonmajor component units	245,589	—	—	245,589
Subtotal due from component units	1,903,102	—	629,479	2,532,581
Allowance for uncollectible balances	(1,348,997)	—	—	(1,348,997)
	\$ 554,105	—	629,479	1,183,584

The amount owed by PRASA and PREPA of approximately \$629.5 million represents construction loans granted by the PWPCRF and the PRSDWTRLF, nonmajor proprietary funds, to finance the construction of capital assets for PRASA and PREPA.

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The amount owed by PRHTA of approximately \$360 million represents a liquidity loan provided in accordance with Commonwealth Plan of Adjustment.

On May 11, 2021, pursuant to Joint Resolution RCC039, the Commonwealth transferred approximately \$750 million to the PREPA in order to fund the reserve accounts for operations, capital investment, and other purposes as required for the operation and maintenance of the electric power transmission and distribution infrastructure in Puerto Rico. Such funds are to be returned to the Commonwealth as established in said resolution, which states that will occur upon the termination of the qualified Operations and Maintenance Agreement (O&M) entered into between PREPA and LUMA Energy, LLC (LUMA) by either expiration or termination for any reason. As further discussed in notes 2, 3, 20 of these basic financial statements and the stand alone-financial statement of PREPA, the debt restructuring process of PREPA are currently undergoing along with the O&M.

On July 1, 2023, GeneraPR assumed the Legacy Generation Assets' operational control and management. On June 16, 2023, PREPA and the Commonwealth entered into a loan agreement of approximately \$447 million to establish and fund the service accounts in accordance with the Generation Contract. PREPA agreed to pay interest, 2.5% per annum, in respect of the unpaid principal amount of the loan from July 1, 2059, until its maturity date, stated as 2067.

As of the date of these basic financial statements, no conditions for the return of the transferred or loaned funds had been triggered. However, given the uncertainty of PREPA's debt restructuring process, the continued deterioration of its financial condition and liquidity in recent years and the uncertainty of their ability to properly implement its energy transformation plan, we believe that it is probable that the funds will not be eventually collected therefore an allowance for uncollectible accounts amounting to approximately \$1.2 billion had been provided for.

Amounts due to discretely presented component units from the Primary Government were as follows (in thousands):

Receivable entity	Payable entity					Total due to component units (net)
	General fund	Nonmajor governmental funds	PRMeSA	Total due to component units	Allowance for uncollectible balances	
Major component units:						
PREPA	\$ 55,747	—	2,586	58,333	(5,945)	52,388
PRASA	34,899	—	2,299	37,198	(2,299)	34,899
UPR	12,303	6,753	3,498	22,554	(22,554)	—
GDB	76,154	6,262	—	82,416	(82,416)	—
PRHTA	26,882	—	—	26,882	—	26,882
SIFC	—	—	7,279	7,279	(7,279)	—
Nonmajor component units	82,040	—	—	82,040	(12,384)	69,656
Total due to component units	\$ 288,025	13,015	15,662	316,702	(132,877)	183,825

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Amounts due from (to) discretely presented component units were as follows (in thousands):

Payable entity	Receivable entity Major component units					Nonmajor component units	Total due to component units
	GDB	PRHTA	PREPA	PRASA	SIFC		
Major component units:							
GDB	\$ —	—	—	—	—	19,910	19,910
PRHTA	—	—	2,010	—	—	4,123	6,133
UPR	—	—	13,692	—	—	1,358	15,050
PRASA	—	—	9,408	—	—	—	9,408
PREPA	—	—	—	1,503	—	—	1,503
SIFC	—	—	—	—	—	—	—
Nonmajor component units	42,494	30,492	13,435	7,641	18,044	510,143	622,249
Subtotal due from component units	42,494	30,492	38,545	9,144	18,044	535,534	674,253
Allowance for uncollectible balances	(42,494)	(30,492)	(8,820)	(4,659)	(18,044)	(489,797)	(594,306)
Total due from component units (net)	\$ —	—	29,725	4,485	—	45,737	79,947

The amount due from discretely presented component units presented by GDB of approximately \$42.5 million (before allowance for uncollectible accounts) represents loan balances owed to GDB by other Commonwealth's discretely presented component units. The rest of the loans receivable reported by the GDB consists of the following (in thousands):

Primary government – governmental activities	\$ 531,061
Primary government – business-type activities	485,403
Private sector, net of allowance for loan losses	<u>166,943</u>
Total loans receivable reported by GDB	1,183,407
Less allowance for public sector loans	<u>(840,370)</u>
	<u>\$ 343,037</u>

The loans to the Primary Government are presented by the Commonwealth within notes payable to component units in the statement of net position.

Expenses of the Primary Government include capital and operational contributions made by the Primary Government to the discretely presented component units during the year ended June 30, 2023, were as follows (in thousands):

UPR	\$ 554,748
PRHTA	298,595
GDB	8,431
Nonmajor components units	<u>341,684</u>
Total contributions made by primary government to component units	<u>\$ 1,203,458</u>

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(9) Capital Assets

Capital assets activity for the year ended June 30, 2023, was as follows (in thousands):

Primary Government

	Beginning Balance (as restated)	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Other capital assets:</i>				
Land	\$ 987,141	2,457	2,822	986,776
Construction in progress	980,047	109,753	50,101	1,039,699
Total nondepreciable capital assets	<u>1,967,188</u>	<u>112,210</u>	<u>52,923</u>	<u>2,026,475</u>
<i>Other capital assets:</i>				
Buildings and buildings improvements	10,685,755	117,614	73,883	10,729,486
Equipment, furniture, fixtures, and vehicles	1,158,736	147,757	5,861	1,300,632
Infrastructure	615,224	-	-	615,224
Total other capital assets, being depreciated	<u>12,459,715</u>	<u>265,371</u>	<u>79,744</u>	<u>12,645,342</u>
<i>Less accumulated depreciation:</i>				
Buildings and buildings improvements	5,735,521	259,990	50,071	5,945,440
Equipment, furniture, fixtures, and vehicles	934,162	57,737	4,744	987,155
Infrastructure	258,680	13,111	-	271,791
Total accumulated depreciation:	<u>6,928,363</u>	<u>330,838</u>	<u>54,815</u>	<u>7,204,386</u>
Total other capital assets, being depreciated, net	<u>5,531,352</u>	<u>(65,467)</u>	<u>24,929</u>	<u>5,440,956</u>
<i>Lease assets:</i>				
Buildings and buildings improvements	234,535	40,463	-	274,998
Equipment, furniture, fixtures, and vehicles	13,285	4,747	-	18,032
Total lease assets, being depreciated	<u>247,820</u>	<u>45,210</u>	<u>-</u>	<u>293,030</u>
<i>Less accumulated amortization:</i>				
Buildings and buildings improvements	54,939	66,272	-	121,211
Equipment, furniture, fixtures, and vehicles	3,945	5,153	-	9,098
Total accumulated amortization:	<u>58,884</u>	<u>71,425</u>	<u>-</u>	<u>130,309</u>
Total lease assets, being amortized, net:	<u>188,936</u>	<u>(26,215)</u>	<u>-</u>	<u>162,721</u>
<i>Subscription-based information technology assets</i>	-	195,366	-	195,366
<i>Less accumulated amortization</i>	-	43,272	-	43,272
Total subscription-based information technology assets being amortized, net	<u>-</u>	<u>152,094</u>	<u>-</u>	<u>152,094</u>
Total depreciable capital assets, net	<u>5,720,288</u>	<u>60,412</u>	<u>24,929</u>	<u>5,755,771</u>
Governmental activities- Total capital assets, net	\$ <u>7,687,476</u>	<u>172,622</u>	<u>77,852</u>	<u>7,782,246</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2023

	<u>Beginning balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Land and other nondepreciable assets:				
Land	\$ 36,005	—	—	36,005
Total capital assets, not being depreciated	<u>36,005</u>	<u>—</u>	<u>—</u>	<u>36,005</u>
Other capital assets:				
Building and building improvements	126,904	5,118	514	131,508
Equipment	<u>122,954</u>	<u>10,975</u>	<u>1,405</u>	<u>132,524</u>
Total other capital assets being depreciated	<u>249,858</u>	<u>16,093</u>	<u>1,919</u>	<u>264,032</u>
Less accumulated depreciation				
Building and building improvements	81,952	4,272	—	86,224
Equipment	<u>99,158</u>	<u>4,657</u>	<u>1,746</u>	<u>102,069</u>
Total accumulated depreciation	<u>181,110</u>	<u>8,929</u>	<u>1,746</u>	<u>188,293</u>
Total business-type activities other capital assets, net of depreciation	<u>68,748</u>	<u>7,164</u>	<u>173</u>	<u>75,739</u>
Lease assets				
Building and building improvements	7,075	108	—	7,183
Equipment	<u>843</u>	<u>—</u>	<u>—</u>	<u>843</u>
Total lease assets being amortized	<u>7,918</u>	<u>108</u>	<u>—</u>	<u>8,026</u>
Less accumulated amortization				
Building and building improvements	1,179	1,167	—	2,346
Equipment	<u>470</u>	<u>179</u>	<u>—</u>	<u>649</u>
Total accumulated amortization	<u>1,649</u>	<u>1,346</u>	<u>—</u>	<u>2,995</u>
Total business-type activities lease assets, net of amortization	<u>6,269</u>	<u>(1,238)</u>	<u>—</u>	<u>5,031</u>
Subscription-base information				
technology assets	<u>—</u>	<u>7,537</u>	<u>—</u>	<u>7,537</u>
Less accumulated amortization				
Total business-type activities subscription-based information technology assets, net of amortization	<u>—</u>	<u>1,311</u>	<u>—</u>	<u>1,311</u>
Total business-type activities subscription-based information technology assets, net of amortization	<u>—</u>	<u>6,226</u>	<u>—</u>	<u>6,226</u>
Total depreciable capital assets, net	<u>75,017</u>	<u>12,152</u>	<u>173</u>	<u>86,996</u>
Total business-type activities capital assets, net	\$ <u>111,022</u>	<u>12,152</u>	<u>173</u>	<u>123,001</u>

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Depreciation and amortization expense were charged to functions/programs of the Primary Government for the year ended June 30, 2023, as follows (in thousands):

Governmental activities:	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
General government	\$ 105,972	7,502	113,474
Public safety	41,214	19,628	60,842
Health	16,797	13,497	30,294
Public housing and welfare	111,812	24,989	136,801
Education	34,109	13,571	47,680
Economic development	<u>20,934</u>	<u>35,510</u>	<u>56,444</u>
Total depreciation and amortization expense – governmental activities	<u>\$ 330,838</u>	<u>114,697</u>	<u>445,535</u>

General infrastructure assets include approximately \$427 million representing costs of assets transferred to the DNER of the Commonwealth (at cost) in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues River and Bucana River Projects (the Cerrillos Dam and Reservoir Project) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within Governmental Activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to approximately \$214 million. On March 21, 2014, the debt agreement with the U.S. Army Corps of Engineers was modified to reduce the interest rate and the annual payment for the remaining term of the debt. (see Note 11(m)).

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2023, PRIFA incurred approximately \$10.6 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

The Commonwealth evaluated its capital assets as required by GASB Statement No. 42 and identified no impairments at the Primary Government level during the year ended June 30, 2023.

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Discretely Presented Component Units

Capital assets activity for discretely presented component units for the year ended June 30, 2023, is as follows (in thousands):

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Land and other nondepreciable assets:				
Land	\$ 2,249,062	10,577	4,507	2,255,132
Construction in progress	1,340,536	1,012,158	513,331	1,839,363
Total capital assets, not being depreciated	<u>3,589,598</u>	<u>1,022,735</u>	<u>517,838</u>	<u>4,094,495</u>
Lease assets				
Land	1,284	478	—	1,762
Total nonamortizable capital assets	<u>3,590,882</u>	<u>1,023,213</u>	<u>517,838</u>	<u>4,096,257</u>
Other capital assets:				
Building and building improvements	1,726,613	19,900	6,165	1,740,348
Equipment	1,574,408	56,451	10,959	1,619,900
Infrastructure	43,859,695	414,166	129,941	44,143,920
Total other capital assets being depreciated	<u>47,160,716</u>	<u>490,517</u>	<u>147,065</u>	<u>47,504,168</u>
Less accumulated depreciation				
Building and building improvements	5,153,545	205,222	—	5,358,767
Equipment	858,562	25,631	10,001	874,192
Infrastructure	22,209,382	697,320	113,410	22,793,292
Total accumulated depreciation	<u>28,221,489</u>	<u>928,173</u>	<u>123,411</u>	<u>29,026,251</u>
Total other capital assets, net of depreciation	<u>18,939,227</u>	<u>(437,656)</u>	<u>23,654</u>	<u>18,477,917</u>
Lease assets				
Building and building improvements	69,696	5,281	1,995	72,982
Equipment	25,959	5,484	5,461	25,982
Total lease assets being amortized	<u>95,655</u>	<u>10,765</u>	<u>7,456</u>	<u>98,964</u>
Less accumulated amortization				
Building and building improvements	16,052	16,251	997	31,306
Equipment	6,631	6,150	1,849	10,932
Total accumulated amortization	<u>22,683</u>	<u>22,401</u>	<u>2,846</u>	<u>42,238</u>
Total lease assets, net of amortization	<u>72,972</u>	<u>(11,636)</u>	<u>4,610</u>	<u>56,726</u>
Subscription-based information technology asset	1,883	21,746	—	23,629
Less accumulated amortization:	—	5,847	—	5,847
Total subscription-based information technology assets being amortized	<u>1,883</u>	<u>15,899</u>	<u>—</u>	<u>17,782</u>
Total capital assets, net	22,604,964	589,820	546,102	22,648,682
Nonmajor component units	2,834,277	56,736	32,279	2,858,734
Capital Assets (net)	\$ <u>25,439,241</u>	<u>646,556</u>	<u>578,381</u>	<u>25,507,416</u>

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The discretely presented component units evaluated its capital assets as required by GASB Statement No. 42 and identified at the major component units impairments of approximately \$104.1 million.

(10) Short-term Obligations

Short-term obligations as of June 30, 2023, and changes for the year then ended were as follows (in thousands):

	<u>Balance at June 30, 2022</u>	<u>Debt issued</u>	<u>Debt paid</u>	<u>Balance at June 30, 2023</u>
Governmental activities:				
Notes payable to DRA	\$ 1,700	—	—	1,700
Tax revenue anticipation notes	400,000	—	—	400,000
	<u>\$ 401,700</u>	<u>—</u>	<u>—</u>	<u>401,700</u>

(a) Notes Payable to DRA

The Commonwealth has entered into a short-term line of credit agreements with GDB (all within Governmental Activities), which obligation was then transferred to the DRA pursuant to the GDB Qualifying Modification. During the year ended June 30, 2023, PA has not received the required funds for the debt service of the line of credit and the bond purchase agreements. The balance of the short-term line of credit agreements with DRA consist of the following as of June 30, 2023 (in thousands):

<u>Agency</u>	<u>Purpose</u>	<u>Interest rate</u>	<u>Line of credit</u>	<u>Outstanding balance</u>
PA	To finance terms of consent decree agreement	150 bp over PRIME with floor of 6% and ceiling of 12%	\$ 1,700	1,700
			<u>\$ 1,700</u>	<u>1,700</u>

(b) Tax Revenue Anticipation Notes

Act No. 1-1987, authorizes the Secretary of the DOT to issue notes to either private or governmental institutions, in anticipation of taxes and revenue (Tax Revenue Anticipation Notes or TRANs) as an alternate means of providing liquidity to cover any temporary cash shortages projected for a fiscal year. Act No. 139-2005, amended Section 2(g) of Act No. 1-1987 to provide that the total principal amount of notes issued under the provisions of Act No. 1-1987 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenue of the General Fund for the fiscal year preceding the fiscal year in which the notes are issued or \$1.5 billion.

On September 6, 2016, the Commonwealth renewed the “intra governmental” TRANs for fiscal year 2017, in the aggregate principal amount of \$400 million with the SIFC, AACA and the Disability Insurance Fund, also at the interest rate of 6%. On April 28, 2017, the Commonwealth acknowledged that it would be unable to pay the principal and interest payments on the TRANs notes as they become due and entered into a forbearance agreement with SIFC, AACA, and Disability Insurance Fund. The forbearance period expired on June 30, 2018. The repayment has not been made, and the forbearance period has not been extended.

FAFAA, as fiscal agent of the Government of Puerto Rico, has indicated that activities related to the TRANs should continue to be reported in the normal course of business. TRANs remain enforceable

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obligations of the Commonwealth; therefore, its principal balance plus accrued interest continue to be reported as liabilities in the accompanying financial statements until a final determination about its repayment is reached.

(11) Long-term Obligations

Primary Government

Long-term obligations as of June 30, 2023, and changes for the year then ended were as follows (in thousands):

	Balance at June 30, 2022 (as restated)	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2023	Due within one year
Governmental activities:							
Commonwealth appropriation bonds \$	576,220	—	—	—	(576,220)	—	—
General obligation and revenue bonds	21,419,887	—	(550,495)	285,281	—	21,154,673	543,150
Contingent value instrument	8,716,423	—	(361,806)	—	—	8,354,617	388,770
Notes payable to component units:							
DRA and GDB	619,092	—	(30,800)	—	(6,994)	581,298	64,307
Other	102,843	—	—	—	—	102,843	2,843
Lease liability	192,080	45,210	(68,748)	—	—	168,542	64,346
Suspension liability	—	195,367	(39,556)	—	—	155,811	54,455
Compensated absences	547,969	—	—	367,580	(305,974)	609,575	392,907
Voluntary termination benefits payable	460,004	—	—	—	(71,227)	388,777	66,916
Total pension liability	41,225,007	—	—	—	(9,075,518)	32,149,489	1,976,362
Total other postemployment benefit liability	1,126,080	—	—	—	(145,793)	980,287	86,102
Other long-term liabilities	1,290,930	141,475	(261,131)	26,375	(9,305)	1,188,344	260,826
Total governmental activities	76,276,535	382,052	(1,312,536)	679,236	(10,191,031)	65,834,256	3,900,984
Business-type activities:							
Notes payable to component units	485,403	—	—	—	—	485,403	182,196
Lease liability	6,350	—	(730)	201	(657)	5,164	1,433
Suspension liability	—	7,537	(1,211)	—	—	6,326	2,649
Compensated absences	16,245	—	—	9,218	(9,448)	16,015	8,717
Obligation for unpaid lottery prizes	157,346	—	—	393,389	(392,827)	157,908	127,372
Voluntary termination benefits payable	12,382	—	—	24	(3,214)	9,192	2,958
Total pension liability	616,518	—	—	—	(68,414)	548,104	31,043
Total other postemployment benefit liability	17,806	—	—	—	(4,513)	13,293	1,358
Other long-term liabilities	4,148	—	—	3,649	(2,221)	5,576	3,809
Total business-type activities	1,316,198	7,537	(1,941)	406,481	(481,294)	1,246,981	361,535
Total primary government \$	77,592,733	389,589	(1,314,477)	1,085,717	(10,672,325)	67,081,237	4,262,519

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the table above. The balance paid includes principal paid the first of July of each year, which was accrued as of June 30, 2023, as a fund liability. U.S. GAAP allows accrual of debt service liabilities and expenditures if a government has provided financial resources to a debt service fund for payment of liabilities that will mature within a month in the following fiscal year.

Accrual adjustments for fiscal year 2023 were made to reconcile various obligations with the new estimated balances as of June 30, 2023, and other decreases resulting from payments on these obligations made

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during the fiscal year. These obligations include compensated absences, net pension liabilities, other postemployment benefit obligation, voluntary termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits. These payments, as pertaining to Governmental Activities, are included not as principal payments in the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds, but as expenses within their corresponding function.

(a) Debt Limitation and Arbitrage

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee so long as the Commonwealth is in compliance with this 15% limitation at the time of issuance of such guaranteed debt.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, requiring a rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five-years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2023.

On August 12, 2020, Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act" was enacted to impose further controls on the debt-issuance capacity of the Commonwealth and its instrumentalities to prevent any additional hardships.

On March 9, 2022, The Commonwealth adopted the Debt Management Policy (the DMP). The DMP established procedures and limitations to ensure the prudent use and management of debt instruments by the Commonwealth. Specifically, the DMP provides for the following:

- (a) Article II: Comprehensive Cap on All Net Tax-Supported Debt. Establishes Primary Debt Limit and Secured Debt Sub-Limit levels to ensure any new issuance of Net Tax-Supported Debt and Secured Debt is within acceptable levels, as determined in the DMP.
- (b) Article III: Additional Restrictions on the Issuance of Tax-Supported Debt. Establishes the requirements and parameters for the issuance of Tax-Supported Debt.
- (c) Article IV: Restrictions on the Issuance of Debt by Public Corporations. Establishes the requirements and parameters for the issuance of debt by all Government Entities, except PRASA, PREPA and HTA.
- (d) Article V: Limitations on Short-Term Borrowing and Advance Funding. Restrictions limitations on the issuance of Tax and Revenue Anticipation Notes and Bond or Grant Anticipation Notes.
- (e) Article VI: Debt Affordability Report. Requires periodic reviews by AAFAF of the affordability of all Tax-Supported Debt.

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On September 9, 2022, The Commonwealth adopted the Government's Interest Rate Derivatives Policy (the Derivatives Policy). The purpose of the Derivatives Policy is to provide general procedural direction regarding the future use, procurement and execution of all interest rate management tools, including, but not limited to, interest rate swaps, swaptions, caps, collars and floors. The Derivatives Policy assists the Commonwealth in determining the appropriate uses and structures for hedging strategies, as well as establish sound hedge administration guidelines in conjunction with the management of debt issued.

(b) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligation bonds and debt guaranteed by the Commonwealth. The full faith, credit, and taxing power of the Commonwealth is irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83-1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The levy is made by CRIM, a municipal corporation, not a discretely presented component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected by the Commonwealth to pay debt service on general obligation bonds. For fiscal year 2023, the total revenue reported by the Commonwealth amounted to approximately \$154.4 million which is included in the general fund. There was no deferred inflow of resources for the current year since all the collections complied with the 180-day period.

The Commonwealth is subject to continuing disclosure requirements for certain bond issuances, including those issued under the Plan of Adjustment. Accordingly, the Commonwealth files continuing disclosure notices through EMMA, including notices regarding the availability and timing of audited financial information, in accordance with applicable Continuing Disclosure Agreements and related requirements.

For financial reporting purposes, the outstanding amount of bonds represents the total principal amount outstanding, plus unamortized premiums and interest accreted on capital appreciation bonds, less unamortized discount. Bonds payable outstanding as of June 30, 2023, including accreted interest on capital appreciation bonds, were as follows (in thousands):

	<u>General obligation bonds</u>	<u>Revenue bonds</u>	<u>Total</u>
Serial bonds payable through 2040; interest payable monthly or semiannually at rates varying from 4.00% to 5.750%	\$ 6,320,455	—	6,320,455
Current Interest Bonds from July 1, 2033 to July 1, 2058 payable semiannually at rates varying from 4.329% to 5%	—	9,119,420	9,119,420
Capital appreciation bonds payable through 2051; no interest rate, yield ranging from 4.250% to 5.625%. (1)	697,653	3,629,628	4,327,281
The Children's Trust Fund Tobacco Settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 5.5% to 8.375%	—	1,559,178	1,559,178
Total	<u>7,018,108</u>	<u>14,308,226</u>	<u>21,326,334</u>
Unamortized discount	<u>—</u>	<u>(12,004)</u>	<u>(12,004)</u>
Subtotal bonds payable	<u>7,018,108</u>	<u>14,296,222</u>	<u>21,314,330</u>
Elimination entry COFINA bonds issued to PRIFA and ERS	<u>—</u>	<u>(159,657)</u>	<u>(159,657)</u>
Total bonds payable	<u>\$ 7,018,108</u>	<u>14,136,565</u>	<u>21,154,673</u>

(1) Revenue bonds include \$3.6 billion capital appreciation bonds fixed interest due from July 1, 2019 to July 1, 2051.

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As of June 30, 2023, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (in thousands):

<u>Year ending June 30</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$	543,150	757,126	1,300,276
2025		563,000	737,860	1,300,860
2026		477,321	718,410	1,195,731
2027		497,595	698,586	1,196,181
2028		518,710	678,415	1,197,125
2029-2033		3,356,953	3,097,293	6,454,246
2034-2038		4,006,425	2,554,680	6,561,105
2039-2043		4,522,347	1,780,200	6,302,547
2044-2048		4,121,662	1,457,537	5,579,199
2049-2053		3,577,337	1,376,559	4,953,896
2054-2058		12,986,227	660,463	13,646,690
Total	\$	<u>35,170,727</u>	<u>14,517,129</u>	<u>49,687,856</u>
Less unaccreted interest		(13,844,393)		
Less unamortized discount		<u>(12,004)</u>		
Subtotal		21,314,330		
Elimination of COFINA				
bonds issued to PRIFA and ERS		<u>(159,657)</u>		
Total	\$	<u>21,154,673</u>		

As of June 30, 2023, COFINA's bonds payable consists of the following (in thousands):

<u>Description</u>	<u>Face / Effective interest</u>	<u>Amount</u>
COFINA Bonds, Series 2019A-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	\$ 5,412,723
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	3,583,731
COFINA Bonds, Series 2019A-2, 2019A-2A, 2019A-2B:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–5.00%	3,591,809
COFINA Bonds, Series 2019B-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	69,318
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	45,896
COFINA Bonds, Series 2019B-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–4.784%	<u>45,571</u>
Bonds payable – net		<u>\$ 12,749,048</u>

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COFINA bonds payable activity for the year ended June 30, 2023, is as follows (in thousands):

Description	June 30, 2022	Debt Issued	Debt Retired	June 30, 2023	Due within one year
Bonds payable	\$ 9,119,420	-	-	9,119,420	-
Capital appreciation bonds – principal	9,601,164	-	(35,659)	9,565,505	74,225
Discount on capital appreciation bonds	(6,113,382)	177,505	-	(5,935,877)	-
Bonds payable – net	\$ 12,607,202	177,505	(35,659)	12,749,048	74,225

The COFINA Bonds are secured by a statutory lien on the COFINA Pledged Taxes subject to the Commonwealth’s right to substitute “New Collateral” (as defined) in accordance with the terms of the COFINA Plan of Adjustment. The “New Collateral” is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the COFINA Plan of Adjustment.

The COFINA Bonds include (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. Interest on the COFINA Bonds commenced to accrue or accrete, as the case may be, as of August 1, 2018. Interest payments and interest accretion terms for CIBs and CABs, respectively, are as follows:

- (a) The CIBs will bear interest from August 1, 2018, until paid (whether at maturity, prior to redemption or after maturity following payment default by COFINA), payable on the effective date and semiannually thereafter on each payment date at the corresponding interest rates. Interest on the CIBs will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will accrue on overdue interest and principal at the corresponding interest rate and will compound on each interest payment date. All overdue interest and principal (and any interest accruing thereon) will remain due and payable until paid.
- (b) Interest on the CABs will accrue and accrete from August 1, 2018, until paid (whether at maturity, prior to redemption or after maturity following payment default by COFINA). Interest on the CABs will not be paid on a current basis but will be added to the principal thereof in the form of accretion on the effective date and semiannually thereafter on each valuation date and will be treated as if accruing on the basis of a 360-day year consisting of twelve 30-day months between valuation dates, until paid (whether at maturity, prior to redemption or after maturity following payment default following payment default by COFINA).

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The COFINA Bonds will be subject to redemption at the option of COFINA, in whole or in part, in any order of maturity, at par plus accrued interest thereon or accreted value as applicable, upon thirty (30) days prior to written notice as follows:

Current Interest Bonds (CIBs)

Maturity	<i>Optional Redemption</i>
2034	Redeemable at Par commencing July 1, 2025
2040	Redeemable at Par commencing July 1, 2028
2053	Redeemable at Par commencing July 1, 2028
2058	Redeemable at Par commencing July 1, 2028

Capital Appreciation Bonds (CABs)

Maturity	<i>Optional Redemption</i>
2024 & 2027	Not subject to redemption prior to maturity
2029	Redeemable at 103% of Accreted Value ("AV") commencing July 1, 2028
2031	Redeemable at 105% of AV commencing July 1, 2028 and at 103% of AV commencing on July 1, 2029
2033	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2031 and 103% of AV commencing July 1, 2032
2046 & 2051	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2038, at 103% of AV commencing July 1, 2038 and at 100% of AV commencing July 1, 2043

The COFINA Bonds are also subject to mandatory redemption prior to their respective maturity dates from sinking fund installments. All such mandatory redemptions of CIBs will be at a redemption price equal to par and mandatory redemptions of CABs will be at a redemption price equal to 100% of the then current accreted value.

The COFINA Bonds will not have a debt service reserve fund nor have rights of acceleration. As of June 30, 2023, debt service requirements for bonds outstanding were as follows (in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 74,225	430,056	504,281
2025	94,675	430,056	524,731
2026	115,941	430,056	545,997
2027	138,060	430,056	568,116
2028	161,065	430,056	591,121
2029-2033	1,183,861	2,150,280	3,334,141
2034-2038	2,092,715	1,975,440	4,068,155
2039-2043	3,351,727	1,492,013	4,843,740
2044-2048	3,543,672	1,410,165	4,953,837
2049-2053	3,577,337	1,376,559	4,953,896
2054-2058	4,351,646	660,463	5,012,109
Total	\$ 18,684,924	11,215,200	29,900,124
Less unaccreted interest	(5,935,876)		
Total	\$ 12,749,048		

The first collections of the 5.5% SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. The Fixed Income Amount for the fiscal year ended June 30, 2023, was \$916,230,008. Under Act No. 91, as amended, as of June 30, 2021, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first

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funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year is as follows:

	Amount
Year ending June 30:	
2024	\$ 511,220
2025	531,668
2026	552,935
2027	575,052
2028	598,055
2029-2033	3,368,828
2034-2038	4,098,694
2039-2043	4,855,758
2044-2048	4,962,625
2049-2053	4,962,625
2054-2058	4,962,625
Total	\$ 29,980,085

(c) Contingent Value Instrument

On March 15, 2022, the Commonwealth executed its Plan of Adjustment under Title III of PROMESA. The Commonwealth Plan of Adjustment provided for the issuance of Contingent Value Instruments (CVIs), a note payable instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric is measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. The Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs were deemed issued on July 1, 2021.

The CVIs are divided into two categories: (i) general obligation debt CVIs (GO CVIs), which were allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which were allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual

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payment waterfall in which the first \$100 million will be paid to GO CVIs and the next approximately \$11.1 billion will be paid to Clawback CVIs.

The CVIs are subject to mandatory redemption at a redemption price equal par on November 1st of each year if certain sales and compensating use taxes (the 5.5% SUT) received in the preceding fiscal year exceed, or outperform, the 5.5% SUT baseline for the preceding fiscal year as reflected in the Trust Agreement (in each case, an "SUT Outperformance Condition"). In addition, the Clawback CVIs – Allowed CW/PRIFA Rum Tax Claims Sub-Series are further subject to additional mandatory redemption at par on November 1st of each year if the rum tax (the Rum Tax) received in the preceding fiscal year exceeds, or outperforms, the Rum Tax baseline for the preceding Fiscal Year as reflected in the Trust Agreement (in each case, a Rum Tax Outperformance Condition).

The CVIs do not bear interest and there is no pledge or lien established under the Trust Agreement on the 5.5% SUT or the Rum Tax. The 5.5% SUT is used solely to determine if an SUT Outperformance Condition has occurred and, if it has, the amount by which actual receipts exceeded projections in the prior Fiscal Year. The Rum Tax is used solely to determine if a Rum Tax Outperformance Condition has occurred and, if it has, the amount by which actual receipts exceeded projections in the prior Fiscal Year. As of June 30, 2023, approximately \$8.4 billion were outstanding. The amount due within one year was determined based on the payment made on November 1, 2023.

The Commonwealth entered into an agreement (the "Calculation Agent Agreement") with the Trustee and AlixPartners, LLP, as calculation agent (the "Calculation Agent"), whereby the Calculation Agent determines whether a SUT Outperformance Condition and/or a Rum Tax Outperformance Condition has occurred and the amount, if any, of any mandatory redemption of the notes.

The GO CVIs Final Maturity Date will occur on the earlier of (a) the date when the Holders of the GO CVIs have been paid in an amount equal to the GO CVI Lifetime Cap, and (b) (1) September 15, 2043, in the event an SUT Outperformance Condition did not occur in the Fiscal Year ending on June 30, 2043, and (2) November 1, 2043, in the event an SUT Outperformance Condition did occur in the Fiscal Year ending on June 30, 2043, whether or not the Holders of all GO CVIs have been paid in the aggregate an amount equal to the GO CVI Lifetime Cap, and no further payments shall thereafter be payable to the Holders of the notes.

The Clawback CVIs Final Maturity Date will occur on the earlier of (a) the date when the Holders of the Clawback CVIs have been paid in an amount equal to the Clawback CVI Lifetime Cap, and (b) (1) September 15, 2051, in the event an SUT Outperformance Condition [or a Rum Tax Outperformance Condition] did not occur in the Fiscal Year ending on June 30, 2051, and (2) November 1, 2051, in the event an SUT Outperformance Condition [or a Rum Tax Outperformance Condition] did occur in the Fiscal Year ending on June 30, 2051, whether or not the Holders of all Clawback CVIs have been paid in the aggregate an amount equal to the Clawback CVI Lifetime Cap, and no further payments shall thereafter be payable to the Holders of the notes.

For further information on the GO CVIs and Clawback CVIs, refer to the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

The CVI's are considered debt instruments, therefore are accounted for by the Commonwealth as long-term debt.

The Commonwealth is subject to continuing disclosure requirements for certain bond issuances, including those issued under the Plan of Adjustment. Accordingly, the Commonwealth files continuing disclosure notices through EMMA, including notices regarding the availability and timing of audited

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financial information, in accordance with applicable Continuing Disclosure Agreements and related requirements.

(d) Commonwealth Appropriation Bonds

On January 20, 2022, the FAFAA, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA provided for a restructuring and discharge of the PFC Bonds under a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification further provided that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds would be cancelled and extinguished and such entities would be discharged from any liability arising from or related to such promissory notes.

On October 25, 2022, FAFAA, on behalf of PFC, filed a first amendment to the PFC RSA. The amendment contemplated that upon consummation of the Qualifying Modification participating bondholders would receive the PFC distribution made up of \$13.8 million in cash and \$47.7 million in face amount of GDB Debt Recovery Authority's Bonds (DRA bonds), to the extent issued, minus the PFC bond trustee's fees.

On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The PFC Qualifying Modification became effective on January 12, 2023.

The net effect of the PFC Qualifying Modification was recognized as an extraordinary gain of approximately \$702.8 million in the fund financial statements and statement of activities for the year ended June 30, 2023, as detailed in Note 3.

(e) Notes Payable to Discretely Presented Component Units and Financial Institution

The Commonwealth financed certain long-term liabilities through its discretely presented component units, within both Governmental and Business-type Activities. The outstanding balance as of June 30, 2023, on the financing provided by the discretely presented component units presented within notes payable in the statement of net position-Governmental Activities, comprises the following (in thousands):

Notes payable to DRA:	
DNR	\$ <u>50,237</u>
	<u>50,237</u>
Notes payable to GDB:	
SCPT	234,692
PRPHA	176,094
UPRCCC	<u>120,275</u>
	<u>531,061</u>
Notes payable to component units:	
SIFC	100,000
AACA	2,000
LAPR	<u>843</u>
	\$ <u>102,843</u>

On January 4, 2000, the DNR entered into a loan agreement with GDB for a non-revolving line of credit in an amount not to exceed \$112,000,000 for the development of infrastructure projects. Infrastructure project costs incurred were historically disbursed by the GDB to the DNR. The interest, based on the

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lender's cost of funding for tax exempt variable rate loan transactions or the cost of any similar obligations to fund the loan, is payable quarterly. The credit line was due originally and payable on June 30, 2006. On December 4, 2007, the availability of the credit line was extended to June 30, 2009. On November 23, 2009, it was extended to June 30, 2012. On June 27, 2012, it was extended to June 30, 2040. The outstanding balance as of June 30, 2023, amounted to approximately \$19.5 million. On May 5, 2003, the DNR entered into a loan agreement related to another non-revolving line of credit in an amount not to exceed \$75,000,000 with GDB for the acquisition of building facilities. The credit line carries interest based on quarterly variable LIBOR rate plus 1.25% with a minimum annual interest rate of five percent (5%). On June 26, 2008, the availability of the credit line was extended to June 30, 2011. To temper the terms and conditions of the line of credit to economic facts of the Commonwealth of Puerto Rico, on January 29, 2010, the availability was extended to June 30, 2012. On June 19, 2012, it was extended to June 30, 2040. The outstanding balance as of June 30, 2023, amounted to approximately \$30.7 million.

On November 21, 2002, Resolution No. 1028 from the Legislature authorized a line of credit financing for \$500 million to the SCPT for the construction and rehabilitation of housing, construction and improvements of electric, water and sewage systems; repair and improvements of streets and sidewalks; construction and improvement of recreational facilities, and to develop initiatives for economic self-sufficiency for the residents of a selected group of displaced and economically disadvantaged communities, all encompassed within the Special Communities Program initiated with the creation of the SCPT by Act No. 271-2002. This non-revolving line of credit, originally for a ten-year term, was extended on June 30, 2012, to a maturity date of June 30, 2040. Effective October 2009, the interest rate on this line was set at 7%. Annual payments on the line are determined using a 30-year amortization table based on the principal and interest balance as of December 31 of each year, and a 4% interest penalty is carried on late payments. Legislative Resolution No. 1762 of September 18, 2004, established that the principal plus accrued interest of this line would be repaid from Commonwealth's legislative appropriations as established by the PROMB. The outstanding balance of this line as of June 30, 2023, amounted to approximately \$234.7 million.

On October 1, 2020, PRPHA entered into a loan agreement amounting to \$249.2 million at a premium of \$36.9 million to modernize certain public housing projects. To pay the debt service, the Administration pledged future revenues derived from Capital Fund Grants received from HUD. The loan bears interest at a fixed rate of 5%. As of June 30, 2023, approximately \$176.1 million remains outstanding.

On August 22, 2007, UPRCCC entered into an \$18 million non-revolving line of credit to build the UPRCCC's administrative offices and research facilities. On May 29, 2008, the agreement was amended, mainly to increase the maximum borrowing amount to \$75 million, to extend the maturity date up to October 31, 2021, and to finance the construction of the hospital and radiotherapy facilities. The balance will be repaid commencing in fiscal year 2015. The non-revolving line bears interest at a fixed rate of 6%. As of June 30, 2023, approximately \$31.9 million was outstanding. On November 18, 2013, the UPRCCC entered into another non-revolving line of credit to an aggregate principal amount not to exceed \$196 million, for the construction and development of a ninety-six-bed hospital, a multi-disciplinary outpatient clinic, a diagnostic imaging center and a medical oncology infusion unit in a land lot property of the UPRCCC located in San Juan. The line of credit, including interest at a fixed rate of 6.5%, is payable in 28 consecutive annual installments, commencing on the last business day of December 2016. As of June 30, 2023, approximately \$88.4 million was outstanding. Both lines of credit for the aggregate outstanding balance of approximately \$120.3 million are payable from Commonwealth's legislative appropriations.

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Notes Payable to Discretely Presented Component Units

Act No. 80-2015 was approved with the objective of addressing the Commonwealth’s projected cash flow deficiencies for fiscal year 2015. This Act, among other provisions, specifically authorized the SIFC, PRTC, AACA, EDB, PRIDCO and the DEDC to grant loans and/or special contributions to the DOT, in the aggregate amount of \$125 million. On June 5 and 9, 2015, SIFC and AACA granted loans to the DOT under the provisions of this Act in the amounts of \$100 million and \$2 million, respectively, which are payable from the Commonwealth’s legislative appropriations. These loans bear interest at a rate of 1%, and principal and interest will be payable on an annual basis, effective July 31, 2017. The loan granted by AACA matures on July 31, 2022, and that granted by SIFC matures on July 31, 2032. As of June 30, 2023, approximately \$102.8 million remained outstanding.

Revolving line of credit of \$7.8 million and \$11.8 million with the “Fondo Integral para el Desarrollo Agrícola de Puerto Rico” with a mature date of June 24, 2014, and June 30, 2016 respectively, at a fixed annual interest rate of 6.50%. As of June 30, 2023, \$843.3 thousands remains outstanding.

Business-type Activities – As of June 30, 2023, the following comprised the notes payable to discretely presented component units (in thousands):

PRMeSA	\$	282,445
PRHIA		182,196
PPA		<u>20,762</u>
Total	\$	<u><u>485,403</u></u>

On October 14, 2010, the Legislature approved a new article 9A to Act No. 66-1978, by which it authorized PRMeSA, a blended component unit, to incur on an obligation of up to \$285 million to be deposited in a special GDB account and to be used for payment of debts to suppliers, agencies, and a reserve fund for self-insurance of PRMeSA, and to provide operational liquidity to ease PRMeSA’s fiscal situation. GDB was named fiscal agent to administer and monitor the use of these funds. The Commonwealth is required to honor the payment of this obligation with future legislative appropriations to be made every year until fiscal year 2041–2042. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate. No legislative appropriations have been made since 2015 to cover the principal payments as they have become due. As of June 30, 2023, approximately \$282.4 million was outstanding.

On March 14, 2011, PRHIA, a blended component unit, entered into a credit agreement with GDB in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2010. The aggregate principal amount of the non-revolving line of credit was \$186 million. This line is payable in nine payments of \$20.7 million each due on March 14 of the years 2015 through 2023, through future Commonwealth annual legislative appropriations. Interest is accrued at a fluctuating annual rate of interest equal to the greater of 150 basis points over the prime rate or 6%. No legislative appropriations have been made since 2016 to cover the principal payments scheduled. As of June 30, 2023, the outstanding principal balance amounted to approximately \$182.2 million.

On August 29, 2014, the PPA, a blended component unit, entered into an \$60 million line of credit agreement with GDB (now owed to the DRA) 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. 240-2011, which created the PPA (assets are owned by PA 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

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basis provided, however, that the interest may never be less than 7% nor greater than 12%. Interest during fiscal year 2023 was 8.25%. The line of credit has a maturity of June 30, 2044, and its principal and interest payments are payable through annual legislative appropriations. As of June 30, 2023, the outstanding principal balance was approximately \$20.8 million, which is payable from future Commonwealth's legislative appropriations.

(f) Lease Liability

The Commonwealth's Governmental Activities are obligated under lease agreements with third parties that expire through 2032 for land, buildings, and equipment. These leases are accounted for under GASB Statement No. 87 and usually have terms of five years. Principal and interest requirements as of June 30, 2023, reported in the accompanying government-wide statement of net position was as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 64,346	7,960	72,306
2025	50,371	2,686	53,057
2026	34,388	2,134	36,522
2027	13,337	731	14,068
2028	5,174	197	5,371
2029-2032	926	129	1,055
Total	\$ <u>168,542</u>	<u>13,837</u>	<u>182,379</u>

(g) Subscription Liability

The Commonwealth's Governmental Activities are obligated under subscription-based information technology arrangements with third parties that expire through fiscal year 2028. These arrangements are accounted for under GASB Statement No. 96 and usually have terms of five years. Principal and interest requirements as of June 30, 2023, reported in the accompanying government-wide statement of net position was as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 54,455	8,104	62,559
2025	45,770	4,960	50,730
2026	40,856	2,290	43,146
2027	13,838	524	14,362
2028	892	22	914
Total	\$ <u>155,811</u>	<u>15,900</u>	<u>171,711</u>

(h) Total Pension Liability

The amount reported as total pension liability in the government-wide financial statements of approximately \$32.7 billion of which approximately \$2 billion is due within one year as of June 30, 2023, represents the Primary Government's proportionate share of the ERS calculation of the total pension liability measured, plus the sum of the full TRS and JRS measure of its total pension liability (see Note 16).

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(i) Total Other Postemployment Benefit Liability

The amount reported as total other postemployment benefit liability in the government-wide financial statements of approximately \$993.6 million as of June 30, 2023, represents the Primary Government's proportionate share of the ERS calculation of the total other postemployment benefit liability, plus the sum of the full TRS and JRS measure of its total other postemployment benefit liability (see Note 17).

(j) Compensated Absences

Long-term liabilities include approximately \$609.6 million and \$16 million of accrued compensated absences recorded as Governmental and Business-type Activities, respectively, as of June 30, 2023.

(k) Obligation for Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lotteries as of June 30, 2023. The minimum annual payments related to unpaid awards of both lotteries were as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 127,372	5,532	132,904
2025	5,774	4,758	10,532
2026	5,075	4,107	9,182
2027	4,097	3,009	7,106
2028	3,428	2,404	5,832
2029-2033	11,181	8,103	19,284
2034-2038	582	351	933
2039-2043	214	194	408
2044-2048	185	223	408
Total	<u>\$ 157,908</u>	<u>28,681</u>	<u>186,589</u>

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability (not lapsed) of approximately \$5.8 million as of June 30, 2023, which is reported as prizes payable – current portion.

The liability for unpaid lottery prizes is reported in Business-type Activities of the accompanying statement of net position and statement of net position of the proprietary funds.

(l) Voluntary Termination Benefits Payable

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70-2010 established that early retirement benefits (early retirement program) will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70-2010, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for early retirement, until both the years of service and age requirements for full

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vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and who have the age for retirement (incentivized retirement program). Economic incentives will consist of a lump sum payment ranging from one month to six months' salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same as provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five-year period.

On December 8, 2015, Act 211 was signed, called the "Voluntary Pre-Retirement Program" (the "Program"). It was created to establish a program that identifies eligible employees, who can be separated voluntarily and incentivized from their employment before they meet the requirements to retire.

The purpose of this program is to offer incentives for personnel who have been contributing to the Retirement System (the "System") before April 1, 1990, under the Act No. 447-1951 or who began to contribute at a later date, and have made all the corresponding payments before April 1, 1990, without having received a refund of their contributions and who at least have 20 years of service registered.

To ensure that this program does not affect the services to the citizenship or the operation of the agencies, only career employees who occupy positions which do not provide direct services, that are not essential for the operation of the agency or whose positions could be occupied by transfers within and between agencies may participate in the program. Essential service positions are those positions whose functions are specialized, essential, or indispensable to the effective operation of the agency, so that it can serve the public purpose for which it was created as a governmental body.

As of June 30, 2023, unpaid long-term benefits granted in Act No. 70-2010 and Act. No. 211-2015 were discounted at interest rates that ranged from 2.03% to 4.16% at the Primary Government level and from 1% to 3.54% at the discretely presented component unit's level. At June 30, 2023, voluntary termination benefits payable amount to approximately \$388.8 million, of which approximately \$66.9 million are due within one year.

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(m) Other Long-Term Liabilities

The remaining long-term liabilities of Governmental Activities as of June 30, 2023, include (in thousands):

Liability for legal claims and judgments (note 15)	\$	225,147
Liability to U.S. Army Corps of Engineers (note 9)		177,368
Plan of adjustment unsecured claim debt		275,000
Financed purchase		243,450
FEMA payment plan		112,766
Accrued employees' Christmas bonus		60,787
Liability for federal cost disallowances (note 15)		61,574
Other		<u>32,252</u>
Total	\$	<u><u>1,188,344</u></u>

As described in Note 9, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to \$214 million, excluding those costs for items built for recreational purposes. On October 10, 2012, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (the Offset Program) until May 2013 (the month in which the Offset Program was stopped). On March 21, 2014, the U.S. Army Corps of Engineers granted certain concessions on this obligation of the Commonwealth by forgiving the balance already due and payable in the amount of \$35.4 million and approving a new payment plan proposed by the Secretary of the DOT for the remaining debt obligation. This new payment plan reduced the interest rate from 6.063% to 1.50% and waived all cumulative penalty interest and fees, which reduced the annual payment from approximately \$12.9 million to approximately \$7.1 million for the remaining term of the debt. The new payment plan consists of 33 annual payments of \$7.1 million, including interest, from June 7, 2014, until June 7, 2046. These concessions qualified as a troubled debt restructuring, where the total future cash payments specified by the new terms exceeded the carrying value of the old debt, including the accrued balance matured and payable of \$35.4 million. Under such circumstances, the effects of the new terms are accounted for prospectively without modifying the carrying amount of the debt in the statement of net position.

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The unpaid allocated share of the construction costs associated with the Cerrillos Project amounted to approximately \$136.8 million as of June 30, 2023. Debt service requirements on this debt obligation as of June 30, 2023, were as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 5,025	2,052	7,077
2025	5,100	1,977	7,077
2026	5,177	1,900	7,077
2027	5,254	1,822	7,076
2028	5,333	1,744	7,077
2029–2033	27,890	7,494	35,384
2034–2038	30,045	5,339	35,384
2039–2043	32,367	3,017	35,384
2044–2046	20,608	621	21,229
Total	\$ <u>136,799</u>	<u>25,966</u>	<u>162,765</u>

In addition, the Commonwealth has a debt obligation of approximately \$19.8 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of approximately \$20.8 million, as of June 30, 2023. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable in annual installment payments over a 35-year period. However, the debt has been presented as a long-term liability payable after one year in the accompanying statement of net position since the commencement date of repayment has not yet been determined.

Under the Commonwealth's Plan of Adjustment (POA), holders of unresolved General Unsecured Claims (GUCs) are entitled to receive a pro rata distribution from the General Unsecured Creditor Reserve (the GUC Reserve), together with amounts received by the Avoidance Actions Trust, up to an aggregate recovery of 40% of the allowed amount of their claims in full settlement. The GUC Reserve was funded with \$200 million on the Commonwealth Effective Date and is scheduled to receive an additional aggregate \$375 million through December 31, 2025, including a \$100 million contribution made during fiscal year 2023; as of June 30, 2023, \$275 million of the committed funding remained unfunded. Management believes the GUC Reserve is sufficient to satisfy the expected final settlement of GUCs in accordance with the POA, although this estimate may change as outstanding claims are resolved.

The Commonwealth enters into financed purchase agreements to acquire capital assets in exchange for making fixed payments with third parties that expire through 2044. These agreements contain provisions that transfer ownership of the underlying asset to the Commonwealth by the end of the contract term and, accordingly, are accounted for as financed purchases. As of June 30, 2023, the carrying amount of lease liabilities associated with financed purchase agreements was approximately \$243.5 million. The following schedule presents the future payments to be made under financed purchase agreements as of June 30, 2023:

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<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 9,535	19,131	28,666
2025	10,327	18,340	28,667
2026	11,184	17,483	28,667
2027	12,113	16,555	28,668
2028	13,118	15,549	28,667
2029-2033	62,982	61,379	124,361
2034-2038	46,990	41,058	88,048
2039-2043	70,008	18,040	88,048
2044	7,193	144	7,337
Total	\$ 243,450	207,679	451,129

On May 1, 2023, the Commonwealth entered into a payment plan of approximately \$141.2 million with the Federal Emergency Management Agency (FEMA) to cover the 25% of the state contribution for federal assistance provided by FEMA for Hurricane Fiona. The payment plan bears interest at a 1% rate, with a maturity date of May 1, 2027. During fiscal year 2023 a payment of \$29 millions was made which included interest of approximately \$291 thousands. As of June 30, 2023, approximately \$112.8 million remains outstanding. Debt service requirements on this debt obligation as of June 30, 2023, were as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 27,869	1,131	29,000
2025	28,151	849	29,000
2026	28,433	567	29,000
2027	28,313	283	28,596
Total	\$ 112,766	2,830	115,596

The remaining other long-term liabilities within Business-type Activities on June 30, 2023, are composed of an accrued capital related liabilities and a self-insurance reserve for approximately \$5.6 million, corresponding to PRMeSA.

Discretely Presented Component Units

Appropriations bonds, bonds, and notes payable are those liabilities that are paid out of the discretely presented component units' own resources. These obligations do not constitute a liability or debt of the Primary Government.

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(a) Commonwealth Appropriation Bonds

Commonwealth appropriation bonds payable outstanding as of June 30, 2023, were as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2023</u>	<u>Amounts Due within one year</u>
Major component units:							
PRASA	3.10% – 6.50%	2032	\$ 414,452	—	414,452	—	—
GDB	6.00%	2032	3,349	—	3,349	—	—
Sub-total			417,801	—	417,801	—	—
Nonmajor component units	3.10% – 6.50%	2032	101,232	—	101,232	—	—
Total			\$ 519,033	—	519,033	—	—

The PFC Qualifying Modification, further described in Note 3(b)(V), provided that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds were cancelled and extinguished and such entities were discharged from any liability arising from or related to such promissory notes.

(b) Revenue Bonds

Revenue bonds outstanding as of June 30, 2023, were as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2023</u>	<u>Due within one year</u>
Major component units:							
GDB	2.96%–6.56%	2031	\$ 241,882	717	44,133	198,466	40,490
PREPA	4.50%–10.00%	2043	8,317,857	123,270	130,539	8,310,588	2,647,983
PRHTA	5.00%	2062	4,239,564	1,279,072	4,174,300	1,344,336	14,085
PRASA	2.75%-6.125%	2048	3,353,273	—	117,911	3,235,362	84,770
UPR	5.00%	2036	348,141	46	32,456	315,731	32,835
Sub-total			16,500,717	1,403,105	4,499,339	13,404,483	2,820,163
Nonmajor component units	3.00%-7.50%,	2041					
	Variable		2,253,568	21	314,795	1,938,794	146,154
Total			\$ 18,754,285	1,403,126	4,814,134	15,343,277	2,966,317

PREPA, a major discretely presented component unit, and PRIDCO, a nonmajor discretely presented component unit, have bonds that may have acceleration provisions contained in the Trust Agreements. Due to the fact that PREPA is currently a debtor in a Title III proceeding under PROMESA any action that would be taken to accelerate the bonds is subject to the automatic stay in that proceeding. Therefore, the acceleration provision is not relevant despite the fact that an event of default arguably exists under the Trust Agreement. As for PRIDCO, the Trustee has not sent a default notice or declared the defaulted principal on all bonds outstanding due and payable immediately subject to the applicable acceleration provisions.

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Debt service requirements on discretely presented component units' revenue bonds with fixed maturities as of June 30, 2023, were as follows (in thousands):

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 2,966,317	3,095,891	6,062,208
2025	560,113	515,302	1,075,415
2026	595,654	491,517	1,087,171
2027	597,546	467,905	1,065,451
2028	719,476	485,898	1,205,374
2029-2033	2,702,196	2,015,777	4,717,973
2034-2038	2,258,301	1,593,290	3,851,591
2039-2043	3,845,428	820,104	4,665,532
2044-2048	753,025	93,240	846,265
Total	\$ 14,998,056	<u>9,578,924</u>	<u>24,576,980</u>
Premium	347,345		
Discount	<u>(2,124)</u>		
	\$ <u>15,343,277</u>		

The above schedule has been presented in accordance with original terms of the revenue bonds and do not reflect the effects, if any, that may result from cases under PROMESA Title III or any other debt restructuring proceeding. Accordingly, the effects of PROMESA Title III, as the case may be, or any other debt restructuring proceeding may impact the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information.

Changes in deferred outflows of resources related to losses on the refunding of some of the bonds referred to in the table above follow (in thousands):

<u>Component unit</u>	<u>Balance at June 30, 2022</u>	<u>Additions (Reductions)</u>	<u>Balance at June 30, 2023</u>
Major component units:			
PRHTA	\$ 58,315	(58,315)	—
PREPA	14,388	(4,339)	10,049
PRASA	48,132	(12,493)	35,639
UPR	749	(179)	570
GDB	1,042	(216)	826
Nonmajor component units	<u>1,099</u>	<u>(801)</u>	<u>298</u>
Total	\$ <u>123,725</u>	<u>(76,343)</u>	<u>47,382</u>

The table that follows presents debt service payments on PREPA's variable rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2023. Such variable rate bonds are included within bonds payable in the discretely presented component units column. Although interest rates on variable rate debt and the current reference rate of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and

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the current reference rate of the hedging derivative instrument as of June 30, 2023, will remain the same for their term (in thousands).

<u>Year ending June 30:</u>	<u>Variable-Rate Bonds</u>		<u>Hedging derivative instruments, net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2024	\$ —	14,023	(3,706)	10,317
2025	—	14,023	(3,706)	10,317
2026	—	14,023	(3,706)	10,317
2027	—	14,023	(3,706)	10,317
2028	—	14,023	(3,706)	10,317
2029	252,875	14,023	(3,706)	263,192
Total	\$ 252,875	84,138	(22,236)	314,777

(c) Notes Payable to Financial Institutions

The outstanding balance of notes payable to financial institutions as of June 30, 2023, is as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2023</u>	<u>Due within one year</u>
Major component units:							
GDB	6.95%-7%	2042	\$ 60,121	—	3,412	56,709	1,553
PREPA	2.00-8.32%	2033	751,413	—	16,532	734,881	706,074
UPR	0.00%-12.00%	2030	682	—	307	375	109
PRASA	2.00%	2060	396,537	—	2,061	394,476	2,103
Sub-total			1,208,753	—	22,312	1,186,441	709,839
Nonmajor component units	0.00%-7.50%, Variable	2047	90,231	15,348	29,232	76,347	43,958
Total			\$ 1,298,984	15,348	51,544	1,262,788	753,797

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Debt service requirements on discretely presented component units' notes payable with fixed maturities as of June 30, 2023, were as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	753,797	480,167	1,233,964
2025	18,437	15,040	33,477
2026	17,671	13,998	31,669
2027	9,075	13,209	22,284
2028	18,864	13,546	32,410
2029-2033	59,064	53,408	112,472
2034-2038	71,513	42,953	114,466
2039-2043	76,435	30,292	106,727
2044-2048	65,503	21,154	86,657
2049-2053	70,519	14,218	84,737
Thereafter	101,910	7,340	109,250
Total	\$ 1,262,788	705,325	1,968,113

The above schedule has been presented in accordance with original terms of the notes payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceedings; however, the table above includes the GDB Qualifying Modification proceedings. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information

(12) Appropriation Debt and Other Guarantees

(a) Debt Supported by Commonwealth Appropriations

On January 12, 2023, the PFC obligations were discharged under a Title VI Qualifying modification (the PFC Qualifying Modification) provides that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds will be cancelled and extinguished and such entities will be discharged from any liability arising from or related to such promissory notes.

As a result of the Commonwealth Plan of Adjustment there will not be future appropriations related to loans that were to be paid from legislative appropriations.

(b) Other Guarantees

Mortgage Loan Insurance – The Puerto Rico Housing Finance Authority (PRHFA), a blended component unit of GDB, provides mortgage credit insurance to low and moderate-income families through its mortgage loan insurance program. The Commonwealth guarantees up to \$75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2023, the mortgage loan insurance program covered loans aggregating to approximately \$388 million. PRHFA recorded a liability of approximately \$1.3 million as of June 30, 2023, and determined on the basis of the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the loan insurance guarantee. The regulations adopted by the PRHFA require the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance Fund. As of June 30, 2023, the PRHFA had a

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restricted net position for such purposes of approximately \$10.9 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees and there are no triggering events indicating that it is more likely than not that it will be required to make payments on these guarantees.

(13) Conduit Debt Obligations and No Commitment Debt

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to the citizens of Puerto Rico. These bonds are supported by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any of its political subdivisions or its component unit thereof is obligated in any manner for the repayment of these bonds. Accordingly, the bonds are not reported as long-term liabilities in the stand-alone audited basic financial statements of the issuing entities. As of June 30, 2023, conduit debt obligations consisted of the following bonds issued by several Commonwealth's discretely presented component units (in thousands):

Issuing entity	Issued since inception to date	Amount outstanding
Major component units:		
PRHTA	\$ 270,000	66,688
Sub-total	270,000	66,688
Nonmajor component units	1,176,858	518,462
Total	\$ 1,446,858	585,150

(a) PRHTA

In March 1992, the PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B, and C for approximately \$117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by the PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. (Autopistas), pursuant to a signed concession agreement for the design, construction, operation, and maintenance of the bridge. On October 30, 2003, the PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately \$153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and the PRHTA. The bonds should be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and the PRHTA is then obligated to assume Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenue of the use and operation of the bridge. The PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) as of June 30, 2023, amounted to approximately \$66.7 million.

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(14) Risk Management

Primary Government

The risk management policies of the Primary Government are addressed on Note 1(y).

Discretely Presented Component Units

The following describes the risk management programs separately administered by certain discretely presented component units, including all the major discretely presented component units and certain nonmajor discretely presented component units carrying self-funded risk reserves:

(a) GDB

To minimize the risk of loss, GDB purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen's compensation insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury of the Commonwealth. Insurance coverage was updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(b) PRHTA

PRHTA carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. PRHTA has not settled any claims in excess of its insurance coverage for fiscal year 2023.

(c) PREPA

PREPA purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (excluding transmission and distribution lines), boiler and machinery, general liability, aviation, and financial lines programs. In addition, PREPA is self-insured in regard to damages related to its transmission and distribution lines.

PREPA has a cost-plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program (self-insurance risks) during fiscal year 2023 were as follows (in thousands):

Claims payable – July 1	\$	615
Incurred claims		8,496
Claim payments		<u>(8,436)</u>
Claims payable – June 30	\$	<u>675</u>

These claims payable is presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

(d) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood, and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program under which commercial general liability, excess general liability, builder's risk, and contractors' pollution liability

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coverage are procured or provided on a project “wrap up” basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage for fiscal year 2023.

(e) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

UPR was insured through January 1993 under claims-made insurance policies with respect to medical malpractice risks for \$250,000 per occurrence up to an annual aggregate of \$500,000. UPR has been a self-insured for such risks since that date. Under Law Number 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount, because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount for medical malpractice in fiscal year 2023 were as follows (in thousands):

Claims payable – July 1	\$	8,102
Incurred claims and changes in estimates		1,122
Payments for claims and adjustments expenses		<u>(1,854)</u>
Claims payable – June 30	\$	<u><u>7,370</u></u>

In addition, UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately \$304 thousands as of June 30, 2023, to cover claims and lawsuits that may be assessed against UPR. UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

(f) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported.

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The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the fiscal year 2023 (in thousands):

Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	\$	644,446
Total incurred benefits		269,924
Total benefit payments		<u>(140,076)</u>
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	\$	<u><u>774,294</u></u>

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.19% in 2023. SIFC's management believes that discounting such liability results in a better matching of costs and revenue since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined as of June 30, 2023, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for insurance benefits in the accompanying combining statement of net position – discretely presented component units.

(15) Commitments and Contingencies

Primary Government

Legal Contingencies

(a) *Litigation Prior to Commencement of Title III Cases Related to Governmental Operations*

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104-1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9-1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments. To the extent claims arose prior to the commencement of the Commonwealth's Title III case, their status and priority may be affected by the Title III case.

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With respect to pending and threatened litigation involving the Commonwealth's Governmental Activities, the Commonwealth reported approximately \$225.1 million as an amount to cover for awarded and anticipated unfavorable judgments as of June 30, 2023. This amount was included as other long-term liabilities in the accompanying statement of net position, and represents the amount estimated as a probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

Of the total liability for legal claims and judgments recognized in the Governmental Activities, approximately \$57.6 million is considered payable within one year, based on the payments made subsequent to June 30, 2023.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. On June 26, 2016, the court ordered the publication of a public edict that would describe in detail the process to be followed to submit claims for damages suffered. Such edict was published and opened a claims period effective August 14, 2016, through October 31, 2016. The Commonwealth plans to vigorously defend each individual case. The Commonwealth accrued in previous years approximately \$650 million for this legal contingency. However, this case was included as a part of the General Unsecured Claims (GUC) in the Commonwealth's Plan of Adjustment and no final payment amount has been established since these claims are still being evaluated. For additional information of the treatment of this claim refer to Note 11(m).

On December 21, 2012, the federal government, through the U.S. Department of Justice (USDOJ), filed a lawsuit in order to demand from the Commonwealth and its PRPOB, compliance with the action and remediation plan submitted on September 8, 2011, by the Civil Rights Division of the USDOJ pursuant to an investigation which revealed a pattern of civil rights violations by the PRPOB. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its PRPOB to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The federal government was seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its PRPOB to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and to prevent the police officers from depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately \$600 million, which is expected to be incurred over a period of 10 years, starting with fiscal year 2015. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the PRPOB in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the USDOJ and the Commonwealth. Under the settlement agreement, the court dismissed the claim, but retained jurisdiction to ensure compliance with the agreement, through the appointment of a Technical Compliance Advisor. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs are incurred during the execution of the remediation plan, which began in fiscal year 2015.

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The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Final Rule (Uniform Guidance), usually referred to as OMB "Super Circular" all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. As of June 30, 2023, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately \$61.6 million as other long-term liabilities in the accompanying statement of net position. Expenditures that are still subject to audit could be disallowed, but management believes any such future disallowances would not be material to the basic financial statements.

The Commonwealth received approximately \$2.1 billion in FEMA grants during the fiscal year ending June 30, 2023, of which approximately \$1.4 billion was disbursed as pass-through grants to subrecipients. The Commonwealth recognized approximately \$607.6 million as recipients and used approximately \$110.9 million for administrative expenses. The Commonwealth disbursed pass-through grants of approximately \$648.3 million to PREPA, approximately \$259.4 million to PRASA, approximately \$81.2 million to UPR, approximately \$74.4 million to other discretely presented component units, and approximately \$344 million to municipalities and not-for-profit organizations. The Commonwealth continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, under FEMA's PA Program. The program provides funding for emergency assistance to save lives and protect property and assists with funding for permanently restoring community infrastructure affected by a federally declared incident, including the continued recovery following Hurricanes Irma and María. As of June 30, 2023, approximately \$35.2 billion has been committed by federal agencies for distribution and approximately \$8.2 billion has been disbursed. The cost share for the Commonwealth is approximately \$2.8 billion.

On June 28, 2019, the United States Department of Education (USDOE) issued a letter to the DOE imposing special conditions on all grants awarded to the DOE by the USDOE. The intent of these conditions was to guarantee the implementation of federal programs through appropriate fiscal management and accountability, while the DOE developed adequate internal controls that ensure the administrative requirements of the grants. In accordance with the above conditions, the DOE was asked to hire the services of a Third Fiduciary Party Agent (TPFA) who would assume the functions required in the conditions document, specifically regarding the processes that affect the management of federal funds.

Pursuant to the TPFA contract executed March 24, 2021 the third-party fiduciary agent is to provide support to the DOE in the performance of the following: (i) assist in the financial management of the grants funds awarded to the DOE by the USDOE; (ii) assist in any improvements needed in the processes and systems related to DOE's procurement, award and administration of contracts with funds awarded to DOE by the USDOE; (iii) assist in any improvements needed in DOE's grant management system and related processes and controls; (iv) assist in developing and implementing the Comprehensive Corrective Action Plan (CCAP); and, (v) assist and provide feedback on DOE's progress in meeting the objectives of its CCAP. The TPFA will remain executing the aforementioned responsibilities until the USDOE determines that the DOE is capable of managing the related federal programs in compliance with the guidelines imposed by the USDOE. The DOE has developed a CCAP and is complying with the plan to create the environment for an eventual exit of the TPFA.

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Commitments and Other Contingencies

On November 23, 1998, a global settlement agreement (the Global Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025, amount to approximately \$884 million. After 2025, the tobacco companies will continue making contributions in perpetuity. Pursuant to Act No. 173-1999, which created the Children's Trust (a blended component unit), the Commonwealth conditionally allocated and transferred to the Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2023, amounted to approximately \$75.3 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures is pledged as collateral for the Tobacco Settlement Asset Backed Bonds, Series 2002, 2005, and 2008. As of June 30, 2023, the approximate amount of the pledge is \$1.5 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenue is not available for other purposes.

The healthcare industry, under which PRMeSA operates, is subject to numerous laws and regulations, which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of PRMeSA believes its policies, procedures, and practices comply with governmental regulations, no assurance can be given that PRMeSA will not be subject to governmental inquiries or actions.

As of June 30, 2023, the Primary Government, including one of its blended component units, maintained various unspent construction and assistance commitments amounting to approximately \$112.6 million.

Environmental Commitments and Contingencies

The Commonwealth accounts for pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.

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- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

Liability for Unemployment, Disability and Health Insurance

The Commonwealth provides unemployment compensation, occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the DLHR. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as a consequence of their employment.

Also, the Commonwealth, through PRHIA (a blended component unit), is responsible for implementing, administering, and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105-2002, which amends Act No. 72-1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006, through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro north region. As of June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, San Juan, the northeast, and the virtual regions under a new arrangement with a new insurance underwriter as third-party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of a disease management program for respiratory conditions, modification of provider fees, and better coordination of benefits for members of the population that have other medical insurance.

PRHIA establishes a liability to cover the estimated amount to be paid to providers based on experience and accumulated statistical data. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments, and other relevant factors.

The liability for benefits claims is reported as a liability for insurance benefits in the Business-type Activities of the accompanying statement of net position and in the statement of net position of the proprietary funds. The liability for insurance benefits as of June 30, 2023, amounts to approximately \$413.6 million.

Discretely Presented Component Units

In the normal course of their operations, various discretely presented component units are also subject to guarantees and other actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the major discretely presented component units. With respect to commitments related to guarantees, these commitments and guarantees are summarized below:

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(a) GDB

Other Risks Related to Mortgage Loans Servicing and Insurance Activities:

The PRHFA acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2023, the principal balance of the mortgage loans serviced for others is approximately as follows (in thousands):

<u>Entiy</u>	<u>Amount</u>
Puerto Rico Community Development Fund I	\$ 23,025
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	<u>5</u>
Total	\$ <u><u>23,030</u></u>

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

PRHTA 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 PRHTA 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. Based on the advice of legal counsel, no accrual for losses, if any, has been provided in the financial statements.

(c) PREPA

PREPA is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of PREPA and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of PREPA. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies that are approximately \$272.6 million as of June 30, 2023.

(d) PRASA

PRASA is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of PRASA and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of PRASA. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies that are approximately \$71.8 million as of June 30, 2023.

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(e) UPR

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact, beyond any amount accrued as of June 30, 2023, will not be material to the University’s financial statements.

Servicios Médicos Universitarios, Inc. (SMU) a blended component unit of the UPR, responsibility for claim losses is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. As of June 30, 2023, SMU has recorded an accrual of approximately \$2.4 million to cover potential claims and lawsuits.

Environmental Commitments and Contingencies

The following discretely presented component units’ operations are the ones carrying and involved in specific activities that are subject to state and federal environmental regulations:

(a) PREPA

PREPA’s facilities and operations are subject to regulation under federal and Commonwealth environmental laws and regulations (including laws governing air emissions, water discharges, oil pollution, hazardous waste, and remediation, such as CERCLA). PREPA monitors its compliance with applicable requirements and evaluates potential remediation obligations on an ongoing basis.

(i) Consent Decree and related compliance Obligations

In 1999, the U.S. District Court for the District of Puerto Rico entered an environmental consent decree involving PREPA (as modified in 2004), which requires PREPA to implement and maintain specified compliance programs and operational measures relating primarily to air and water requirements at certain generation facilities. PREPA continues discussions with the U.S. Department of Justice and the U.S. Environmental Protection Agency (EPA) regarding a potential modification and/or partial termination of certain completed programs/provisions, which would be subject to court filing and a public notice and comment process prior to approval. PREPA reported that it has not identified costs related to the consent decree that would be recorded as a contingent liability as of June 30, 2023. PREPA paid stipulated penalties of approximately \$129 thousand during fiscal year 2023.

(ii) Air quality regulatory matters and enforcement

PREPA has disclosed periods of noncompliance with EPA’s Mercury and Air Toxics Standards (MATS) applicable to certain oil-fired electric generating units. PREPA has indicated that any settlement related to MATS matters could require compliance expenditures and could include civil penalties; however, PREPA has not identified contingent losses considered probable as of fiscal year 2023.

In addition, Puerto Rico has two sulfur dioxide (SO₂) nonattainment areas (San Juan and Guayama-Salinas). The Puerto Rico Department of Natural and Environmental Resources (DNER) adopted a State Implementation Plan (SIP) and related regulatory amendments, and EPA has deemed the SIP submission administratively and technically complete and is reviewing it for approvability. PREPA has described actions associated with SIP-related requirements

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(including fuel switching to ultra-low sulfur diesel for certain units) and has not identified contingent losses considered probable as of fiscal year 2023.

On December 8, 2023, EPA issued a Notice of Violation to PREPA and GeneraPR regarding alleged Clean Air Act and permit-related matters associated with the operation of certain MobilePac turbines at the Palo Seco facility. As of the issuance date of PREPA's financial statements, PREPA did not expect material penalties, fines, or material restrictions on operations from this enforcement action.

(iii) Pollution remediation obligations

PREPA records pollution remediation obligations (PRO) when an obligating event occurs and remediation costs can be reasonably estimated in accordance with GASB Statement No. 49.

PREPA has environmental matters at multiple sites, including the Proteco Site (Peñuelas), Vega Baja Solid Waste Disposal Superfund Site, and Ochoa Fertilizer Co. Superfund Site (Guánica). As of fiscal year 2023, PREPA reported the following:

- a. Proteco Site (Peñuelas): PREPA participates in a PRP group that entered into an administrative settlement agreement and order on consent with EPA to perform a remedial investigation/feasibility study. PREPA accrued approximately \$1.5 million as the portion of costs reasonably estimable at the time; PREPA has made disbursements of approximately \$800 thousand between 2020 and 2024 related to this matter.
- b. Vega Baja Site: PREPA is identified as a potentially responsible party along with other entities. An Environmental Escrow Agreement provides financial assurance, including an escrow deposit of approximately \$400 thousand and a requirement that PREPA, PRLA, and PRHD maintain performance guarantee(s) if the escrow balance falls below \$250 thousand. Future costs are generally limited to ongoing assessments and that no corrective actions had been identified as of the issuance of PREPA's financial statements; PREPA reported no PRO recorded for this site as of fiscal year 2023.
- c. Ochoa Site (Guánica): EPA has issued information requests and a special notice identifying PREPA as a potentially responsible party and seeking to initiate settlement discussions regarding remedial investigation/feasibility study work. The outcome and potential for loss are uncertain and that it has not concluded an unfavorable outcome is either probable or remote as of the issuance of PREPA's financial statements.

(b) PRASA

In December 2006, PRASA entered into a comprehensive settlement agreement with the PRDOH (the 2006 Drinking Water Settlement Agreement) to resolve litigation seeking enforcement of approximately 180 administrative orders and alleged violations of prior consent agreements related to the Safe Drinking Water Act (SDWA). The agreement was filed on December 15, 2006, approved by the Court of First Instance (San Juan Superior Court) on March 15, 2007, amended on June 16, 2008, and remains in effect. The 2006 Drinking Water Settlement Agreement supersedes prior PRDOH administrative orders and consent agreements and requires PRASA to complete remedial and compliance actions at its water treatment plants under established schedules and to pay stipulated penalties for noncompliance. PRASA paid an approximately \$1 million civil penalty to the Commonwealth and submits quarterly compliance progress reports and self-assesses stipulated penalties as applicable. Certain stipulated penalties may be returned to PRASA under specified circumstances to finance actions directed at achieving or maintaining compliance.

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The agreement includes short-, mid-, and long-term remedial measures. As of June 30, 2021, PRASA had completed all short-term and mid-term remedial measures. Long-term measures were organized into three terms. All Term 1 measures were completed, thirteen of eighteen Term 2 measures were completed, and eight of sixteen Term 3 projects were completed. PRASA has negotiated modifications to certain due dates related to remaining Term 3 measures, which were submitted to and approved by the supervising court. Following the 2017 hurricanes, PRASA invoked force majeure provisions and indicated potential delays in certain project and program deadlines. PRASA has been required to pay stipulated penalties under the agreement, including for certain primary standard compliance matters (primarily disinfection byproducts) and for certain missing or late deliverables; however, management indicates PRASA has substantially complied with applicable capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement as of the issuance date of PRASA's financial statements.

On September 15, 2015, the U.S. Department of Justice, at the request of the U.S. Environmental Protection Agency (EPA), filed a complaint against PRASA (with the Government of Puerto Rico as a required party) alleging violations of the Clean Water Act (CWA) and National Pollutant Discharge Elimination System (NPDES) permit requirements, including alleged unauthorized discharges and operation and maintenance deficiencies at certain facilities. Concurrently, the parties executed a consolidated consent decree (the 2015 EPA Consent Decree), which the U.S. District Court for the District of Puerto Rico approved on May 23, 2016, dismissing the complaint with prejudice. The 2015 EPA Consent Decree includes requirements to implement a system-wide NPDES compliance plan, continue operational and maintenance plans across facilities, and implement remedial measures related to certain wastewater system matters.

Following the 2017 hurricanes, PRASA invoked force majeure provisions under the 2015 EPA Consent Decree and requested extensions for certain obligations and related stipulated penalties. PRASA, USDOJ, and EPA commenced negotiations to amend the 2015 EPA Consent Decree to revise compliance deadlines for certain programs and projects. In February 2023, USDOJ and PRASA reached agreement on proposed amendments, which were approved by PRASA's Governing Board in February 2023. PRASA has negotiated, on a case-by-case basis, the stoppage of certain imposed penalties and established new compliance dates for some remedial measures. PRASA expects it will continue to incur additional capital expenditures and may continue to pay stipulated penalties in the future.

Construction Commitments

As of June 30, 2023, the following discretely presented component units maintained various unspent construction agreements as follows (in thousands):

	<u>Amount</u>
Major:	
PREPA	\$ 980,000
PRHTA	506,600
UPR	<u>44,500</u>
Sub-total	1,531,100
Nonmajor	<u>25,900</u>
	<u>\$ 1,557,000</u>

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Service Concession Arrangements (SCA)

(c) PRHTA

On September 22, 2011, PRHTA entered into the Toll Road Service Concession Agreement with Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas), in which PRHTA granted to Metropistas 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.

PRHTA received an upfront concession fee payment of approximately \$1.1 billion, of which approximately \$873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

PRHTA recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of approximately \$1.1 billion that is being amortized and recognized as revenue over the 40 years term of the agreement. 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, 2023, the total aggregate amount of the Toll Roads capital assets was approximately \$149.6 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 PRHTA in their original or an enhanced condition.

On April 19, 2016, PRHTA entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bidirectional tolling points on the Toll Roads. PRHTA received an upfront concession fee payment of \$100 million, which was used to pay \$18.2 million of PRHTA current debt and \$79.8 million was transferred to the Commonwealth in fiscal year 2016. Also, in June 2017, PRHTA received an additional \$15 million payment concurrently with the commencement of the bidirectional system described above.

During the fiscal year ended June 30, 2023, PRHTA capitalized and considered as a deferred inflow of resources approximately \$4.9 million for improvements made by Metropistas to the Toll Roads.

On December 14, 2023, PRHTA signed an additional Toll Road Service Concession Agreement with Puerto Rico TollRoads LLC for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. This agreement involves a concession fee payment of approximately \$2.9 billion.

Toll Roads and Bridge Concessions under the Service Concession Agreements, as of June 30, 2023, consisted of (in thousands):

Toll roads concession	\$	310,363
Toll roads concession improvements		58,878
Bridge concession		109,500
Total		<u>478,741</u>
Less accumulated depreciation		<u>(278,232)</u>
Total	\$	<u><u>200,509</u></u>

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(16) Retirement Plans

The Commonwealth retirement systems includes ERS, JRS, and the TRS (collectively referred to as the Retirement Systems). ERS is a multi-employer, JRS and TRS are single-employer defined benefit pension plans administered by the Retirement System Board.

Membership as of July 1, 2021

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total</u>
Inactive employees currently receiving benefits payments	122,253	48,103	495	170,851
Inactive employees entitled to but not yet receiving benefits payments	-	1,205	59	1,264
Active employees	<u>37,439</u>	<u>21,671</u>	<u>370</u>	<u>59,480</u>
Total	<u>159,692</u>	<u>70,979</u>	<u>924</u>	<u>231,595</u>

The Commonwealth accounts for the pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2022). The Commonwealth retirement plans are not administered as trusts and follow the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68:

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

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees at ERS, TRS, and JRS. However, upon the Effective Date of the Commonwealth Plan of Adjustment, pension benefits at TRS and JRS were frozen and cost-of-living adjustments eliminated, among other things. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(a) ERS

Plan Description – Prior to Act No. 106-2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (the Commonwealth, municipalities, and public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Act No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

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

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, participant employees of previous programs as of June 30, 2013, became part of the Contributory Hybrid Program on July 1, 2013. In addition, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013, under the defined benefit program and thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants. Pursuant to a settlement incorporated into the Commonwealth Plan of Adjustment, on the Effective Date of the Commonwealth Plan of Adjustment, all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program were discharged.

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

(i) *Service Retirements*

- (a) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013, would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; and (4) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013, would be eligible to retire at any time.

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

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

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- (b) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; and (3) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service.

- (c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013, would be eligible to retire upon attainment of the retirement eligibility age shown in the table below.

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

System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from ERS based on the provision of the 2022 Plan of Adjustment.

- (d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 67. Act No. 3-2013 members who were not in payment status as of March 15, 2022, are no longer entitled to future benefits from ERS based on the provisions of the 2022 Plan of Adjustment.
- (e) *Eligibility for Public Officers in High Risk Positions:* Public officers in high risk positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-year extensions (delaying retirement until age 62) may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable. Public officers in high risk positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable law.

(ii) *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement benefit is not available.

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

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

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013, or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the PRPOB policemen and Commonwealth Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

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

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 65% of average

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compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

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

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(iii) Termination Benefits

(a) Lump Sum Withdrawal

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

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

(b) Deferred Retirement

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

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

(iv) Death Benefits

(a) Pre-retirement Death Benefit

Eligibility: Any current nonretired member was eligible.

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

(b) High Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended. Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022, are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

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

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for

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a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

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

Post death Increases: Effective July 1, 1996, and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years. Future cost of living adjustments were eliminated effective March 15, 2022.

The cost of these benefits was paid by the Commonwealth.

(c) *Postretirement Death Benefit for Members Who Retired prior to July 1, 2013*

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

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

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

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

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

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

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

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

(v) *Disability Benefits*

(a) *Disability*

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

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and

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Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

(b) *High Risk Disability under Act No. 127-1958*

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022, are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years. Future COLAs were eliminated March 15, 2022 (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

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

(vi) *Special Benefits*

(a) *Minimum Benefits*

- i. *Past Ad hoc Increases:* The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013):* The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).
- iii. *Coordination Plan Minimum Benefit:* A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

(b) *Cost of Living Adjustments (COLA) to Pension Benefits:* The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007). Future COLAs were eliminated effective March 15, 2022.

(c) *Special "Bonus" Benefits*

- (i) *Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013):* An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.

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(ii) *Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013)*: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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

(vii) *Early Retirement Programs*

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65 for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

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

(b) *JRS*

Plan Description – JRS was a pension trust fund created by the Legislature under Act No 12-1954, as amended, to provide pension and other benefits to retirees judges of the Judiciary Branch of the Commonwealth of Puerto Rico. During this time, the Trust administered a single-employer defined-benefit pension plan, and a hybrid defined contribution plan for its participants.

JRS consisted of two benefit structures pursuant to Act No. 12-1954, as amended by Act No. 162-2013. Benefit provisions vary depending on member's date of hire as follows:

- Judges hired on or before June 30, 2014, with certain distinctions for judges hired December 24, 2013, to June 30, 2014 (the defined benefit plan).
- Judges hired between July 1, 2014, and March 15, 2022, (contributory, hybrid program).

All judges of the Judiciary Branch of the Commonwealth are members of JRS. Members include all persons holding a position as Judge of the Puerto Rico Supreme Court, Judge of the Court of Appeals, Superior and Municipal Judges of the Court of First Instance in the Commonwealth.

The benefits provided to members of JRS are statutorily established by the Commonwealth and may be amended only by the Legislature with the Governor's approval.

The following summary of the JRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit

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amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017. In addition, the Commonwealth Plan of Adjustment freezes pension benefits and eliminate all COLAs from and after of the Effective Date in accordance with the terms and provisions of the Commonwealth Plan of Adjustment. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

Pension Plan Provisions Applicable to Judges Hired on or before June 30, 2014 (Pre-Act No. 162-2013 Members)

(i) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) For judges who serve without a fixed tenure and were appointed on or before June 28, 2007

Basic Eligibility: 10 years of credited service.

Basic Benefit: 25% of the salary corresponding to the office during the retirement period, plus 5% of such salary for each year of credited service in excess of 10 years, subject to a maximum of 100% of such salary. If the judge has served in a position without a fixed tenure for a total of at least 8 years, the 25% increases to 50% in the preceding formula. Future increases due to increases in salary corresponding to the office were eliminated effective March 15, 2022.

Enhanced Eligibility: Any judge who has served without a fixed tenure for at least 3 years and has at least 25 years of credited service. This enhanced benefit is not available to judges who are appointed after June 28, 2007, to an unlimited term.

Enhanced Benefit: 75% of the salary earned at the time of retirement.

(b) For all other judges

Eligibility: Judges who were eligible to retire as of March 15, 2022, would continue to be eligible to retire at any time. In addition, judges who would be eligible to retire within the next six months (by September 15, 2022) would be eligible to retire at any time. Prior to March 15, 2022, judges could retire upon (i) basic retirement eligibility of age 60 with 10 years of creditable service, (ii) optional retirement eligibility of any age with 30 years of service or age 55 with 82 combined years of age plus creditable service, provided at least 8 years of creditable service was earned as a judge, and (iii) any age with 20 years of creditable service.

Judges who were not eligible to retire as of March 15, 2022, and would not be eligible to retire by September 15, 2022, would be eligible to retire upon attainment of the retirement eligibility age shown in the following table with 10 years of creditable service.

Date of birth	Attained age as of March 15, 2022	Retirement eligibility age
Before March 16, 1965	57 and over	61
March 16, 1965 to March, 15, 1966	56	62
March 16, 1966 or later	55 and under	63

Benefit: The retirement benefit varies by the retirement eligibility condition satisfied as summarized in the following table.

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<u>Eligibility Condition</u>	<u>Benefit</u>
Optional retirement eligibility by September 15, 2022	75% of Highest Salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014
Basic retirement eligibility (but not optional retirement eligibility) by September 15, 2022	25% of highest salary, plus 5% of highest salary for each year of creditable service in excess of 10 years, subject to a maximum of 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014
Any age with 20 years of creditable service (but not basic or optional retirement eligibility) by September 15, 2022 with at least 7.5 years of creditable service as of judge as of March 15, 2022	75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014, actuarially reduced to current retirement age from the earlier of age 60 or the optional retirement eligibility age based on service as of March 15, 2022
Any age with 20 years of creditable Service (but not basic or optional retirement eligibility) by September 15, 2022 with less than 7.5 years of creditable service as of judge as of March 15, 2022	75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014, actuarially reduced to current retirement age from age 60
At least 10 years of creditable service as of March 15, 2022, but not more than 20 years of creditable service as of September 15, 2022	25% of highest salary, plus 5% of highest salary for each year of creditable service in excess of 10 years, subject to a maximum of 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014
Less than 10 years of creditable service as of March 15, 2022	25% of highest salary, prorated for each year of creditable service less than 10

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 10 years of credited service, the judge can elect a refund of accumulated contributions, or a proportional part of the basic benefit based on completed years and months of credited service.

(ii) *Termination Benefits*

(a) *Lump Sum Withdrawal*

Eligibility: A member is eligible upon termination of service.

Benefit: The benefit equals a refund of accumulated contributions.

(b) *Deferred Retirement*

Eligibility: A member is eligible upon termination of service prior to age 60 and after 10 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 60, is equal to the benefit payable upon Normal Retirement.

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(iii) Death Benefits

(a) Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of accumulated contributions.

(b) Post-retirement Death Benefit for members who retired prior to March 16, 2022

Eligibility: Any retiree or disabled member receiving a monthly benefit whose benefits commenced prior to March 16, 2022.

Benefit:

- (i) For those married or with dependent children at the time of death, an annual income equal to 60% of the retirement benefit at time of death, payable for life for a surviving spouse and/or disabled children, and payable until age 18 or completion of studies, if later, for non-disabled children.
- (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000.

(c) Post-retirement Death Benefit for members who retired after March 15, 2022

Eligibility: Any retiree or disabled member receiving a monthly benefit whose benefits commenced after March 15, 2022.

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

For all members, the excess, if any, of the Accumulated Contributions at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

(iv) Special Benefits

(a) Special "Bonus" Benefits

- (i) *Christmas Bonus (Act No. 144-2005):* An annual bonus of \$600 for each retiree, beneficiary, and disabled member paid in December provided the judge was hired before December 24, 2013, and retired prior to March 16, 2022.
- (ii) *Summer Bonus (Act No. 37-2001):* An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid in July provided the judge was hired before December 24, 2013, and retired prior to March 16, 2022. The amount is prorated if there are multiple beneficiaries.
- (i) *Medication Bonus (Act No. 155-2003):* An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the judge was hired before December 24, 2013, and retired prior to March 16, 2022. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Judges hired on December 24, 2013, and thereafter are not eligible for these special "bonus" benefits.

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Before July 1, 2017, the Commonwealth made contributions to the JRS for the special benefits granted by special laws. The funding of the special benefits was provided to the JRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 12-1954 participants are being paid by the Commonwealth as they become due since July 1, 2017.

Pension Plan Provisions Applicable to Judges Hired between July 1, 2014, and March 15, 2022 (Act No. 162-2013 Members)

Prior to August 23, 2017, members hired on or after July 1, 2014, were covered by a contributory, hybrid plan with defined benefit and defined contribution components as follows:

(i) *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) *Retirement Benefits*

Eligibility: Age 65 with 12 years of credited service.

Basic Benefit: 1.5% of average compensation, as defined, for each year of credited service, plus the annualized value of the balance in the hybrid program contribution account at the time of retirement. The benefit is payable for the member's lifetime.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 12 years of credited service, the judge will receive a refund of the hybrid program contribution account.

(ii) *Termination Benefits*

(a) *Lump Sum Withdrawal*

Eligibility: A member is eligible upon termination of service with less than 12 years of credited service.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) *Deferred Retirement*

Eligibility: A member is eligible upon termination of service prior to age 65 and after 12 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 65, is equal to the benefit payable upon retirement.

(iii) *Death Benefits*

(a) *Pre-retirement Death Benefit*

Eligibility: Any current non-retired member is eligible.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) *Post-retirement Death Benefit*

Eligibility: Any retiree or disabled member.

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

For all members, the excess, if any, of the hybrid program contribution account at the time of retirement over the total hybrid program annuity payments paid to the member and any beneficiary per the terms of the optional form of payment is payable to a beneficiary or the member's estate.

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(c) TRS

Plan Description – TRS administered two benefit structures pursuant to Act No. 160-2013 (which amended Act 91-2004), as modified by the April 11, 2014, decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on a member's date of hire as follows:

- Members hired on or before July 31, 2014, with certain distinctions for members who retired August 1, 2014, or later (the Defined Benefits Plan).
- Members hired August 1, 2014, or later (the Contributory Hybrid Program).

All active teachers of the Department of Education and the employees of TRS became plan members of TRS at their date of employment. Licensed teachers working in private schools or other educational organizations had the option to become members of TRS so long as the required employer and employee contributions were satisfied.

The benefits provided to members of TRS were statutorily established by the Commonwealth and could be amended only through legislation.

The following of the TRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017.

As part of the plan description information, the most important aspects of Act No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows: (i) active participants as of July 31, 2014 continued to participate in the Defined Benefit Program; (ii) starting August 1, 2014, the Defined Benefit Program was closed to future participants, who enrolled and contributed to the Contributory Hybrid Program; (iii) the retirement age for new employees hired on or after August 1, 2014 was increased to age 62; (iv) the employee contributions for new employees hired on or after August 1, 2014 was increased to 10% from August 1, 2014 to June 30, 2017, 13.12% from July 1, 2017 to June 30, 2020, and 14.02% from July 2020 and thereafter; (v) Special benefits payable to active participants that retired on or before July 31, 2014 was reduced, and (vi) special benefits postemployment were eliminated for future retirees.

In addition, the Commonwealth Plan of Adjustment implemented a pension benefit freeze as of the Effective Date for any additional pension benefits for service on or after May 4, 2017 (excluding teachers hired on or after August 1, 2014, who will not be subject to any freeze or benefit reduction) in accordance with the terms and provisions of the Commonwealth Plan of Adjustment. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

Defined Benefit Pension Program

Effective July 1, 2017, TRS implemented Act 106-2017, under which the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers. As of July 1, 2017, the TRS stopped making pension payments to retirees. Since July 1, 2017, the TRS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned benefits under the Defined Benefit Program and Contributory Hybrid Program had been paid by the TRS until June 30, 2017. The following section describes

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the Defined Benefit Program that continues in effect after the implementation of Act 106-2017 for certain beneficiaries who have not opted into the New Defined Contribution Plan.

The members of the TRS hired on or before July 31, 2014, are eligible for the benefits described below under the Defined Benefit Program:

(i) Retirement Annuity

(a) Eligibility: Members who were eligible to retire as of March 15, 2022 would continue to be eligible to retire at any time. Prior to March 16, 2022, members could retire upon (i) attainment of age 60 with 10 years of creditable service or (ii) attainment of age 47 with 25 years of creditable service.

(b) Benefit: The retirement benefit varies by member's age and service as of March 15, 2022, as summarized in the following table.

Members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of creditable services	Retirement annuity compensation
50	30 or more	75% of average compensation
Under 50	30 or more	65% of average compensation
50	Less than 30	1.8% of average compensation times years of service
Under 50	Less than 30	95% of 1.8% of average compensation times years of service

(ii) Termination Benefits

(b) Lump Sum Withdrawal

Eligibility: A member is eligible upon termination of service.

Benefit: The benefit equals a refund of accumulated contributions, plus compound interest accumulated at 2% per annum for a period no longer than 6 months following separation of service or, if earlier, through March 15, 2022.

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service prior to age 63 and after 10 years of creditable service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 63, is equal to 1.8% of average compensation multiplied by years of creditable service at date of termination.

(iii) Death Benefits

(a) Pre-retirement death benefit

Eligibility: Any current non-retired member is eligible.

Benefit: The benefit is as follows:

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- (i) While in active service, the benefit equals a refund of accumulated contributions, plus interest accumulated at 2% per annum until the earlier of March 15, 2022, or the date of death, plus, if death occurred on or before July 31, 2014, an amount equal to one year of compensation in effect at the time of death.
- (ii) While not in active service, the benefit equals a refund of accumulated contributions, plus interest accumulated at 2% per annum up to separation of service or, if earlier, March 15, 2022.

(c) *Post-retirement death benefits for members who retired on or before July 31, 2014*

Eligibility: Any retiree or disable member receiving a monthly benefit who retired on or before July 31, 2014.

Benefit: The benefit is as follow:

- (i) Full pension for the month in which the pensioner died plus an additional fifteen-day pay period payable to the member's eligible beneficiaries. In no case shall the benefit be less than \$1,000. Prior to July 1, 2017, the General Fund paid up to \$500 and TRS paid for the rest.
- (ii) For those married at the time of death, the lifetime annual income to a widow or widower is equal to 50% of the retirement benefit at time of death, payable for life.
- (iii) For those with children at the time of death, the total lifetime annual income to all children is equal to 50% of the retirement benefit at the time of death. The benefit is payable while the children are under 6 or are currently enrolled in a regular public or private school or college program until the age of 22, and it is payable for life while they are disabled.
- (iv) The benefits when there is no relation as stated above, is equal to the remaining balance of accumulated contributions with interest (interest is determined as of the date of retirement if retired directly from active service or as of separation of service otherwise) after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate.

(c) *Post-retirement death benefit for members who retired August 1, 2014, or later*

Eligibility: Any retiree or disabled member receiving a monthly benefit whose retirement occurred August 1, 2014, or later.

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

For all members, the excess, if any, of the accumulated contributions with interest (interest is determined as of the date of retirement if retired directly from active service or as of separation of service otherwise) after the deduction of lifetime annual income paid and is payable to a beneficiary or the member's estate. Beneficiaries may elect to receive the remaining accumulated contributions as a lump sum payment or a monthly payment of the pension amount until the depletion of the contributed amount.

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Special Benefits (*previous Act 106-2017*)

The following section represents the special benefits program that TRS administered prior to July 1, 2017.

Act No. 160-2013 provides for a reduction in the special laws for pensioners as of July 31, 2014, and the elimination of special laws for future pensioners who retire on or after August 1, 2014. Special benefits include the following:

(i) *Christmas Bonus*

An annual bonus of \$600 for each retiree and disabled member paid each December. TRS paid \$150 per retiree and disabled member, and the remaining bonus was paid by the Commonwealth. After August 1, 2014, for active participants that were retired on or before July 31, 2014, the bonus was \$200 and paid by the Commonwealth.

(ii) *Medication Bonus*

An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid each July to cover health costs; evidence of coverage was not required. This benefit was paid by the Commonwealth. Act No. 160-2013 kept this benefit for active participants that were retired on or before July 31, 2014.

(iii) *Death Benefit*

Act No. 272 of March 29, 2004, increased the death benefit from \$500 to \$1,000. This \$500 increase was paid by the Commonwealth. As per Act No. 160-2013, this benefit only applied to pensioners as of July 31, 2014, that eventually died.

Before July 1, 2017, the Commonwealth made contributions to the TRS for the special benefits granted by special laws. The funding of the special benefits was provided to the TRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 91-2004 participants are being paid by the Commonwealth as they become due since July 1, 2017.

(d) New Defined Contribution Plan

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

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

- All active participants of the Retirement Systems as of July 1, 2017; except for members of TRS and JRS that will keep vesting benefits under the provisions of Act No. 91-2004, as amended and Act No. 12-1954, as amended.
- New hires entering the public service workforce after July, 1 2017.
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan.

Enrollment in the New Defined Contribution Plan is optional for the Governor, secretaries and chiefs of agencies and public corporations; assistants and advisors of the Governor; members of commissions and boards appointed by the Governor; members of the Legislature; and employees and officials of the Legislature, the Office of Legislative Services, the Superintendence of the Capitol

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Building and the Office of the Comptroller of Puerto Rico. Also, enrollment will be optional for employees of departments, divisions, bureaus, offices, dependencies, public corporations, and instrumentalities of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

(i) *Contributions*

Contributions by members consists, as a minimum, of an 8.5% of their compensation directly deposited by the DOT in the individual member accounts under the New Defined Contribution Plan created pursuant to Act No. 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS. However, Act 71-2019 states that in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447-1951, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

(e) Total Pension Liability

The Commonwealth's total pension liability as of June 30, 2023, was measured as of June 30, 2022, and was determined using census data collection date of July 1, 2021 for one year using roll-forward methods to June 30, 2022, assuming no gains or losses.

(i) *Actuarial Methods and Assumptions*

The total pension liabilities in the June 30, 2022, actuarial valuations were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Actuarial assumptions:			
Inflation	Not applicable	Not applicable	Not applicable
Projected Salary Increases per annum	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	2.5% per annum general wage inflation plus service-based merit increases. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66-2014 and the current general economy
Cost-of-living adjustments	None assumed	None assumed	None assumed

The mortality tables used in the June 30, 2022; actuarial valuations were as follows:

- *Pre-Retirement Mortality:* For ERS general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For ERS members covered under Act No. 127-1958, PubS-2010 employees rates for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

For TRS members, thePubG2010(A) employee rates, adjusted by 104% and 90% for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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For JRS members, PubG-2010(A) employee rates, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

For ERS, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127-1958. For JRS, among deaths while in active service, 50% are assumed to be occupational and 50% are assumed to be nonoccupational.

- *Post-Retirement Healthy Mortality:* For ERS, 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.

For TRS, the PubG-2010(A) healthy retiree rates, adjusted by 104% and 90% for males and females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

For JRS, the PubG-2010(A) healthy rates, adjusted by 100% for males and 90% 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:* For ERS, the PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

For TRS, the PubG2010 disable retiree rates, setback 5 years, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Based on a study of plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements.

For JRS, the pubG-2010 disable retiree rates, set back 5 years, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

(ii) *Discount Rate*

The discount rate for June 30, 2022, was 3.54%. 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.

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(iii) *Changes in Total Pension Liability*

Changes in the Commonwealth's total pension liability of ERS, TRS, and JRS, as of June 30, 2023 (using a June 30, 2022, measurement date) were as follows (in thousands):

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total Pension liability as restated</u>
	<u>Total Pension liability as restated</u>	<u>Total Pension liability</u>	<u>Total Pension liability</u>	<u>Total Pension liability as restated</u>
Balance at July 1, 2021	\$ 27,133,127	20,606,764	754,745	48,494,636
Changes for the year:				
Service cost	89,641	245,096	29,450	364,187
Interest on total pension liability	575,974	440,610	16,623	1,033,207
Effect of plan changes	(1,698,799)	(2,503,044)	(128,575)	(4,330,418)
Effect of economic/demographics gains or losses	498,947	(56,304)	10,891	453,534
Changes in assumptions	(3,170,789)	(2,844,635)	(103,373)	(6,118,797)
Benefit payments	(1,331,988)	(911,403)	(29,360)	(2,272,751)
Net changes	<u>(5,037,014)</u>	<u>(5,629,680)</u>	<u>(204,344)</u>	<u>(10,871,038)</u>
Balance at June 30, 2022	\$ <u>22,096,113</u>	<u>14,977,084</u>	<u>550,401</u>	<u>37,623,598</u>

(iv) *Sensitivity of Total Pension Liability to Changes in Discount Rate*

The following presents the liability as of June 30, 2022, calculated using the discount rate of 3.54%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.54%) or 1-percentage point higher (4.54%) than current rate (in thousands):

	<u>At 1% decrease (2.54%)</u>	<u>At current discount rate (3.54%)</u>	<u>At 1% increase (4.54%)</u>
ERS	\$ 24,726,239	22,096,113	19,909,721
TRS	16,947,987	14,977,084	13,372,387
JRS	622,284	550,401	491,694

(v) *Changes in Assumptions*

Actuarial assumptions are revised periodically to more closely reflect both actual and 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 experience, which arise from differences in termination and retirement activity and mortality versus expectations.

The discount rate increased from 2.16% as of June 30, 2021, to 3.54% as of June 30, 2022.

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(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

Pension expense and total pension liability recognized by the Commonwealth for the year ended June 30, 2023, related to the Retirement Systems were as follows (in thousands):

	Governmental activities		Business-type		Discretely presented component units		Total	
	Liability	Expense	Liability	Expense	Liability	Expense	Liability	Expense
ERS	\$ 16,622,004	(1,279,809)	548,104	(20,449)	4,926,005	(560,091)	22,096,113	(1,860,349)
TRS	14,977,084	(1,297,420)	-	-	-	-	14,977,084	(1,297,420)
JRS	550,401	(66,415)	-	-	-	-	550,401	(66,415)
	<u>\$ 32,149,489</u>	<u>(2,643,644)</u>	<u>548,104</u>	<u>(20,449)</u>	<u>4,926,005</u>	<u>(560,091)</u>	<u>37,623,598</u>	<u>(3,224,184)</u>

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Commonwealth in the statement of net position as of June 30, 2023, for each of the Retirement Systems were as follows (in thousands):

Retirement system	Source	Governmental activities		Business-type activities		Discretely presented component units	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
ERS	Differences between expected and actual experience in measuring total pension liability	\$ 208,524	352,445	6,876	11,621	61,799	104,464
	Changes in assumptions	1,341,583	1,307,638	44,238	43,119	397,582	387,583
	Changes in proportion	247,666	144,763	31,767	4,484	126,552	266,485
	Benefits payments made subsequent to the measurement date	1,006,752	—	29,156	—	311,482	—
	Total ERS	<u>2,804,525</u>	<u>1,804,846</u>	<u>112,037</u>	<u>59,224</u>	<u>897,415</u>	<u>758,532</u>
TRS	Differences between expected and actual experience in measuring total pension liability	238,578	—	—	—	—	—
	Changes in assumptions	1,086,249	2,320,751	—	—	—	—
	Benefits payments made subsequent to the measurement date	940,235	—	—	—	—	—
	Total TRS	<u>2,265,062</u>	<u>2,320,751</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
JRS	Differences between expected and actual experience in measuring total pension liability	14,202	84,374	—	—	—	—
	Changes in assumptions	32,699	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	29,374	—	—	—	—	—
	Total JRS	<u>76,275</u>	<u>84,374</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	Differences between expected and actual experience	461,304	436,819	6,876	11,621	61,799	104,464
	Changes in assumptions	2,460,531	3,628,389	44,238	43,119	397,582	387,583
	Changes in proportion and differences between actual contributions and proportionate share	247,666	144,763	31,767	4,484	126,552	266,485
	Benefits payments made subsequent to the measurement date	1,976,361	—	29,156	—	311,482	—
	Total	<u>\$ 5,145,862</u>	<u>4,209,971</u>	<u>112,037</u>	<u>59,224</u>	<u>897,415</u>	<u>758,532</u>

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date were approximately \$1.3 billion, \$940.2 million, and \$29.4 million as of June 30, 2023, for the corresponding proportionate share of ERS, for TRS and for JRS, respectively, and will be recognized as a reduction of the total pension liability in the year ended June 30, 2024. Other amounts

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reported as deferred outflows/inflows of resources from pension activities are schedule to be recognized in pension expense as follow (in thousands):

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>
Year ended June 30:			
2024	\$ (877,757)	618,161	13,437
2025	721,742	(453,710)	(13,917)
2026	-	(580,188)	(18,496)
2027	-	(580,188)	(18,496)
Total	\$ <u>(156,015)</u>	<u>(995,924)</u>	<u>(37,473)</u>

(g) Net Pension Liability Information for Discretely Presented Component Units

(i) Plan Description and Membership

University of Puerto Rico Retirement System

The University of Puerto Rico Retirement System (UPR Retirement System) is a single-employer, defined benefit pension plan that covers all employees of UPR with the exception of hourly, temporary, part-time, contract, and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The UPR Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

Puerto Rico Electric Power Authority Retirement System

The Puerto Rico Electric Power Authority Retirement System (PREPA Retirement System) is a single-employer, defined benefit pension plan that covers all permanent full-time employees of PREPA administered by Employees' Retirement System of the Puerto Rico Electric Power Authority. It is qualified and exempt from Puerto Rico and United States income taxes. The PREPA Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The PREPA Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the Retirement System of the Puerto Rico Electric Power Authority, PO Box 13978, San Juan, Puerto Rico 00908-3978.

(17) Other Postemployment Benefits

As further described in Note 1(t), the Commonwealth provides postemployment healthcare benefits through the following defined benefit plans:

- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement Plan (ERS-OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Judiciary's Retirement Plan (JRS-OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Teachers' Retirement Plan (TRS-OPEB)

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(a) Plans Descriptions

ERS–OPEB, TRS–OPEB, and JRS–OPEB are unfunded single employer defined benefit other postemployment (OPEB) plans sponsored by the Commonwealth that are administered on a pay-as-you-go basis. Accordingly, there are no assets accumulated in a qualifying trust for these OPEB plans (collectively referred to as the “OPEB Plans”) that meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*. The OPEB Plans were 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–OPEB covers substantially all full-time employees of (1) the Primary Government and (2) those component units of the Commonwealth not having their own postemployment benefit plans. JRS–OPEB covers all judges of the Judiciary Branch of the Commonwealth. TRS–OPEB covers all active teachers of the DOE and employees of the TRS Administration.

For ERS–OPEB and TRS–OPEB, Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS–OPEB members retired after June 30, 2013. Act No. 160-2013 eliminated this healthcare benefit to TRS–OPEB members retired after July 31, 2014.

For JRS–OPEB, judges of the Judiciary Branch of the Commonwealth become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the age of 60 with 10 years of service.

Funding Policy – The contribution requirement of the OPEB Plans is established by Act No. 95-1963. The OPEB benefit consists of a maximum of \$100 per month per retiree or disabled member. Each of the OPEB Plans is financed by the Commonwealth and its public corporations on a pay-as-you-go basis. The funding of the OPEB benefits are provided through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made for the healthcare benefits throughout the year. There is no contribution requirement for plan members during active employment.

(b) Membership as of July 1, 2021

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total</u>
Inactive employees currently receiving benefits payments	88,700	33,398	466	122,564
Inactive employees entitled to but not yet receiving benefits payments	-	-	-	-
Active employees	-	-	-	-
Total	<u>88,700</u>	<u>33,398</u>	<u>466</u>	<u>122,564</u>

(c) Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2023, was determined by the actuarial valuation as of July 1, 2021, which was updated to roll forward the total OPEB liability to June 30, 2022.

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

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ERS-OPEB

Measurement Date	June 30, 2022
Actuarial cost method	Entry age normal
Discount rate	3.54%
Mortality Assumption	<p>Pre-retirement Mortality: For general employees not covered under Act 127-1958, the PubG-2010 employees rate, adjusted by 100% for males and 110% for females, projected using MP-2021 on generational basis. For members covered under Act 127-1958 the PubS-2010 employee rates for males and females using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.</p> <p>Post-retirement Healthy Mortality: 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. This assumption is also used for beneficiaries prior to the member's death.</p> <p>Post-retirement Disabled Mortality: The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for female, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

JRS-OPEB and TRS-OPEB

Measurement Date	June 30, 2022
Actuarial cost method	Entry age normal
Discount rate	3.54%
Mortality Assumption	<p>Pre-retirement Mortality: PubG-2010(A) employee rates, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p> <p>Post-retirement Healthy Mortality: The PubG-2010(A) healthy retiree, adjusted by 104% for males and 90% for females, projected using MP-2021 on a generational basis. As a general table, it reflects mortality improvements both before and after the measurement date.</p> <p>Post-retirement Disabled Mortality: The PubG-2010 disable retiree rates, set back 5 years, projected using MP-2021. As generational table, it reflects mortality improvements both before and after the measurement date.</p>

The discount rate for June 30, 2022, was 3.54%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index.

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(d) Changes in Total OPEB Liability of OPEB Plans

Changes in the Commonwealth's total OPEB liability of ERS-OPEB, TRS-OPEB, JRS-OPEB, and Other-OPEB plans as of June 30, 2023 (using a June 30, 2022, measurement date) were as follows (in thousands):

	<u>ERS</u> <u>Total OPEB</u> <u>liability</u>	<u>TRS</u> <u>Total OPEB</u> <u>liability</u>	<u>JRS</u> <u>Total OPEB</u> <u>liability</u>	<u>Other</u> <u>Total OPEB</u> <u>liability</u> <u>as restated</u>	<u>Total OPEB</u> <u>liability</u> <u>as restated</u>
Balance at July 1, 2021, as restated	\$ 796,926	456,714	7,977	670,478	1,932,095
Changes for the year:					
Service cost	—	—	337	8,832	9,169
Interest on total OPEB liability	16,807	9,517	176	15,473	41,973
Difference between expected and actual experience	—	—	—	(44,100)	(44,100)
Effect of plan changes	—	—	(2,768)	259	(2,509)
Effect of economic/demographics gains or losses	34,435	796	186	—	35,417
Changes in assumptions	(89,002)	(51,401)	(690)	(95,932)	(237,025)
Benefit payments	(65,139)	(32,371)	(362)	(19,680)	(117,552)
Net changes	<u>(102,899)</u>	<u>(73,459)</u>	<u>(3,121)</u>	<u>(135,148)</u>	<u>(314,627)</u>
Balance at June 30, 2022	\$ <u>694,027</u>	<u>383,255</u>	<u>4,856</u>	<u>535,330</u>	<u>1,617,468</u>

(e) Retiree Healthcare OPEB Liability, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

As of June 30, 2023, the OPEB liability and expense for the year ended June 30, 2023, amounted to (in thousands):

	<u>Governmental activities</u>		<u>Business-type</u>		<u>Discretely presented component units</u>		<u>Total</u>	
	<u>Liability</u>	<u>Expense</u>	<u>Liability</u>	<u>Expense</u>	<u>Liability</u>	<u>Expense</u>	<u>Liability</u>	<u>Expense</u>
ERS-OPEB	\$ 579,246	(22,559)	13,293	(3,215)	101,488	(11,856)	694,027	(37,630)
TRS-OPEB	383,255	(41,087)	-	-	-	-	383,255	(41,087)
JRS-OPEB	4,856	(2,433)	-	-	-	-	4,856	(2,433)
Other-OPEB	12,930	(152)	-	-	522,400	(19,266)	535,330	(19,418)
	\$ <u>980,287</u>	<u>(66,231)</u>	<u>13,293</u>	<u>(3,215)</u>	<u>623,888</u>	<u>(31,122)</u>	<u>1,617,468</u>	<u>(100,568)</u>

Because all participants of ERS-OPEB are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

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As of June 30, 2023, OPEB Plans reported deferred outflows of resources, and the deferred inflows of resources related to OPEB from the following sources (in thousands):

OPEB	Source	Governmental activities		Business-type activities		Discretely presented component units	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
ERS	Benefits payments made subsequent to the measurement date	\$ 52,141	—	1,353	—	9,486	—
	Total ERS	52,141	—	1,353	—	9,486	—
TRS	Benefits payments made subsequent to the measurement date	30,446	—	—	—	—	—
	Total TRS	30,446	—	—	—	—	—
JRS	Differences between expected and actual experience in measuring total OPEB liability	—	22	—	—	—	—
	Changes in assumptions	330	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	384	—	—	—	—	—
	Total JRS	714	22	—	—	—	—
Other	Differences between expected and actual experience in measuring total OPEB liability	866	4,449	—	—	7,964	71,453
	Changes in assumptions	1,935	2,995	—	—	31,058	91,272
	Benefits payments made subsequent to the measurement date	—	—	—	—	16,948	—
	Total JRS	2,801	7,444	—	—	55,970	162,725
Total	Differences between expected and actual experience	866	4,471	—	—	7,964	71,453
	Changes in assumptions	2,265	2,995	—	—	31,058	91,272
	Net difference between projected and actual earnings on OPEB plan investments	—	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	82,971	—	1,353	—	26,434	—
	Total	\$ 86,102	7,466	1,353	—	65,456	162,725

Deferred outflows of resources related to OPEB resulting from the payment of benefits subsequent to the measurement date were approximately \$63.3 million, \$30.4 million, \$384 thousand, and \$16.9 million, as of June 30, 2023 for the ERS-OPEB, for TRS-OPEB, for JRS-OPEB, and Other-OPEB, respectively, and will be recognized as a reduction of the total other postemployment benefits liability in the year ended June 30, 2024. Other amounts currently reported by JRS-OPEB and Other-OPEB as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits are schedule to be recognized in OPEB expense as follows (in thousands):

	<u>JRS-OPEB</u>	<u>Other-OPEB</u>
Year ended June 30:		
2024	\$ 299	(42,654)
2025	9	(38,672)
2026	-	(24,654)
2027	-	(9,468)
2028	-	(7,245)
Thereafter*	-	(5,653)
Total	\$ <u>308</u>	<u>(128,346)</u>

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(f) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability as of June 30, 2023, calculated using the discount rate of 3.54%, as well as what the OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.54%) or 1-percentage point higher (4.54%) than current rate (in thousands):

		At 1% decrease (2.54%)	At current discount rate (3.54%)	At 1% increase (4.54%)
ERS-OPEB	\$	755,418	694,027	641,252
TRS-OPEB		419,346	383,255	352,340
JRS-OPEB		5,339	4,856	4,446

The following presents the Other-OPEB liability as of June 30, 2023, calculated using a discount rate range of 3.54% to 4.09%, as well as what the Other-OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.54% - 3.09%) or 1-percentage point higher (4.54% - 5.09%) than current rate (in thousands):

		At 1% decrease (2.54% - 3.09%)	At current discount rate (3.54% - 4.09%)	At 1% increase (4.54% - 5.09%)
PBA	\$	14,919	12,930	11,279
PREPA		287,842	256,285	230,167
PRASA		75,719	67,327	60,267
UPR		222,597	198,788	178,804

(g) Total Other Postemployment Benefits Liability for Blended and Discretely Presented Component Units Other-OPEB

(i) Plan Description and Membership

Public Buildings Authority

PBA provides retirement healthcare benefits covered by a collective bargain agreement and is considered a single-employer plan. The benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Participants groups covered are (i) employees under a Collective Labor Agreement with the "Union Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and (ii) PBA's management employees.

Puerto Rico Electric Power Authority Other Postemployment Benefits Plan

The Puerto Rico Electric Power Authority Retired Employees Healthcare Plan is a single-employer defined benefit healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" and which is administered by PREPA. Benefit provisions under the OPEB Plan are established and may be amended by PREPA's Governing Board.

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Puerto Rico Aqueduct and Sewer Authority Other Postemployment Benefits Plan

PRASA provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees pursuant to collective bargain agreements. The Plan is administered by PRASA. The benefit consists of a fixed maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single-employer defined benefit healthcare plan. Participants groups covered are employees under the Collective Labor Agreement with "Unión Independiente Auténtica" ("UIA"), employees under the Collective Labor Agreement with "Hermandad Independiente de Empleados Profesionales de la Autoridad de Acueductos y Alcantarillados" ("HIEPAAA") and employees under the Managers' Regulation, all of which are PRASA's employees. All employees with more than twenty (20) years of rendered service within PRASA are eligible for the healthcare benefit upon retirement age. Act No.3 of April 4, 2013, an amendment to Act No. 447, established a new retirement age.

University of Puerto Rico Retirement System

UPR provides postemployment benefits other than pension for its retired employees. Substantially all of the employees may become eligible for these benefits if they are eligible to retire under the University of Puerto Rico Retirement System (30 years of service, age 58 with 10 years of service or age 55 with 25 years of service). Employees are also eligible on disability with 10 years of service. The cost of providing such benefits is recognized when paid. The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

(ii) Recognition of Total Other Postemployment Liability Amounts

For those discretely presented component units that administer Other-OPEB plans, the following consists of the Total Other Postemployment Benefits Liability and Other Postemployment Benefits Expense recognized in their audited basic financial statements within the discretely presented component units (in thousands):

	<u>Total OPEB liability</u>	<u>OPEB expense (benefit)</u>
Blended component units:		
PBA	\$ 12,930	(152)
Major component units:		
PREPA	256,285	(24,149)
PRASA	67,327	(617)
UPR	198,788	5,500
	<u>\$ 535,330</u>	<u>(19,418)</u>

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The following consists of the deferred outflows and deferred inflows of resources from other postemployment benefits activities by source reported as of June 30, 2023, by those discretely presented component units referred to above (in thousands):

Other OPEB plans	Source	Deferred outflows of resources	Deferred inflows of resources
PBA	Differences between expected and actual experience in measuring the total pension liability	\$ 866	4,449
	Changes in assumptions	<u>1,935</u>	<u>2,995</u>
	Total GDB	<u>2,801</u>	<u>7,444</u>
PREPA	Benefits payments made subsequent to the measurement date	6,751	—
	Differences between expected and actual experience in measuring the total OPEB liability	—	62,646
	Changes in assumptions	<u>10,183</u>	<u>32,908</u>
Total PREPA		<u>16,934</u>	<u>95,554</u>
PRASA	Differences between expected and actual experience in measuring the total OPEB liability	7,964	5,967
	Changes in assumptions	<u>5,366</u>	<u>17,623</u>
	Total PRASA	<u>13,330</u>	<u>23,590</u>
UPR	Benefits payments made subsequent to the measurement date	10,197	—
	Differences between expected and actual experience in measuring the total pension liability	—	2,840
	Changes in assumptions	<u>15,509</u>	<u>40,741</u>
Total UPR		<u>25,706</u>	<u>43,581</u>
Total	Benefits payments made subsequent to the measurement date	16,948	—
	Differences between expected and actual experience in measuring the total OPEB liability	8,830	75,902
	Changes in assumptions	<u>32,993</u>	<u>94,267</u>
Total		<u>\$ 58,771</u>	<u>170,169</u>

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(18) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds as of June 30, 2023 (in thousands):

	<u>General</u>	<u>Debt service</u>	<u>COFINA Special revenue</u>	<u>COFINA Debt service</u>	<u>Nonmajor governmental</u>	<u>Total governmental</u>
Spendable:						
Restricted for:						
General government	\$ 2,380,125	—	—	—	419,799	2,799,924
Public housing and welfare	124,985	—	—	—	—	124,985
Education	—	—	—	—	143,619	143,619
Economic development	91,416	—	—	—	—	91,416
Public safety	—	—	—	—	237	237
Capital projects	—	—	—	—	15,417	15,417
Debt service	—	71,276	—	245,764	105,177	422,217
Subtotal	<u>2,596,526</u>	<u>71,276</u>	<u>—</u>	<u>245,764</u>	<u>684,249</u>	<u>3,597,815</u>
Committed to:						
Public housing and welfare	—	—	—	—	10,644	10,644
Capital projects	—	—	—	—	2,260	2,260
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,904</u>	<u>12,904</u>
Assigned to:						
General government	—	—	6,009	—	111,405	117,414
Public housing and welfare	6,864	—	—	—	—	6,864
Economic Development	—	—	—	—	33,646	33,646
Capital Project	—	—	—	—	328,088	328,088
Subtotal	<u>6,864</u>	<u>—</u>	<u>6,009</u>	<u>—</u>	<u>473,139</u>	<u>486,012</u>
Unassigned	<u>6,620,293</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(97,052)</u>	<u>6,523,241</u>
Total fund balance (deficit)	<u>\$ 9,223,683</u>	<u>71,276</u>	<u>6,009</u>	<u>245,764</u>	<u>1,073,240</u>	<u>10,619,972</u>

The following table presents individual information of deficit fund balance and net position of nonmajor governmental and proprietary funds (in thousands):

<u>Nonmajor governmental</u>	<u>Fund balance</u>	<u>Nonmajor proprietary</u>	<u>Net position</u>
PA Special Revenue Fund	\$ (5,365)	Lotteries	\$ <u>(27,590)</u>
SCPT Special Revenue Fund	(19,074)		
UPRCC Special Revenue Fund	(70,345)		
PRMSA Debt Service Fund	<u>(8)</u>		
Total	<u>\$ (94,792)</u>		

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(19) Subsequent Events

Subsequent events were evaluated through July 3, 2026, to determine if any such events should either be recognized or disclosed in the 2023 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events, other revenue and/or budget related matters and fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

Primary Government

(i) Tropical Storm Ernesto

On August 14, 2024, Puerto Rico was affected by the passage of tropical storm Ernesto leaving in its path up to 25 roads temporarily closed, landslides, rivers out of flow, and knocking power to most of the residents. Against this backdrop, the President of the United States, approved that the Federal Emergency Management Agency (FEMA) provide emergency assistance to cover up to 75% of the infrastructure damage reported by municipalities, if they comply with the requirements.

(ii) FEMA Mission Assignment Cost-Share Obligation – Hurricane Fiona

COR3, acting as the Governor's Authorized Representative of the Commonwealth, received FEMA Notice and Demand Letters dated January 2, 2024, and August 12, 2024, requesting payment of cost-share obligations totaling approximately \$105.5 million related to Mission Assignments for direct federal assistance provided in response to Hurricane Fiona. Based on this information, the Commonwealth recognized a liability in the General Fund as of June 30, 2023, presented within the balance due to other governmental entities.

On October 15, 2024, FEMA approved the Commonwealth's request for a compromise and payment plan and waived accrued penalty fees of approximately \$50.7 thousand. On October 24, 2024, the Commonwealth executed a promissory note providing for repayment over five years totaling approximately \$115.1 million, including approximately \$9.6 million of interest. The promissory note converted the obligation from a demand obligation into a long-term payment arrangement, which is expected to require reclassification of the liability in the Commonwealth's financial statements for the year ending June 30, 2025.

(iii) Federal Expenditure Cuts and Potential Reduction in Federal Funding

Developments at the federal level have created uncertainty regarding potential reductions in federal funding available to state-administered programs. These developments are linked to policy changes initiated under the current administration of President Donald J. Trump, which included proposed cuts to certain federal expenditures. While the full extent of these cuts has not yet been finalized, they could significantly impact the level of federal financial support available to the Commonwealth for various federally funded programs.

The federal government has historically provided substantial financial assistance to the Commonwealth to support programs such as healthcare, transportation infrastructure, education, and social services. However, recent legislative proposals and budgetary actions by the U.S. government suggest that certain programs may face reduced federal funding. While specific details remain uncertain, the Commonwealth anticipates that these cuts could result in reduced reimbursements, the elimination of grants, and an increased burden on the state.

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The Commonwealth is actively monitoring developments at the federal level and engaging with federal agencies and stakeholders to assess the potential impact of these proposed cuts. Additionally, contingency planning efforts are underway to identify strategies for mitigating the effects of reduced federal funding, including potential reallocation of resources, identification of alternative revenue sources, and prioritization of critical services.

(iv) *Severe Weather Event*

During the end of April and early May 2025, Puerto Rico experienced significant rainfall and flooding, which caused widespread damage to public infrastructure, particularly in the transportation sector. Preliminary assessments by government officials estimate that the damage to roads, bridges, and related infrastructure could exceed \$70 million.

As of the date of these financial statements, ten municipalities including Aguas Buenas, Corozal, Naranjito, Orocovis, Ciales, Cidra, Utuado, Caguas, Lares and Vega Alta have been declared in a state of emergency. Emergency funding advances of \$100,000 each have been requested or approved for several of these municipalities to address immediate mitigation and recovery efforts.

The Commonwealth is working in coordination with municipal governments and federal oversight entities to evaluate and address the impact. Damages include road washouts, landslides, loss of potable water access in some areas due to pump station failures, and property damage affecting businesses and residents.

(v) *Federal Government Shutdown*

In late 2025, the U.S. federal government experienced a prolonged shutdown that disrupted certain federal operations and funding administration until a funding measure was enacted in mid-November 2025. This disruption may affect the timing of federal grant processing, reimbursements, and administrative actions relevant to the Commonwealth, including disaster recovery activities. The Commonwealth continues to monitor these impacts; however, as of the date of issuance of these financial statements, the related financial statement effects (if any) are not reasonably estimable.

(vi) *American Federation of State, County and Municipal Employees Litigation*

On January 28, 2025, the American Federation of State, County and Municipal Employees filed an adversary proceeding against the Commonwealth of Puerto Rico and other parties in connection with the calculation of the “excess cash surplus” under the Commonwealth Plan of Adjustment and the related employee bonus provisions for fiscal year 2024. The complaint seeks declaratory and injunctive relief and alleges monetary exposure of no less than approximately \$160.1 million, plus interest, costs, and attorneys’ fees. The matter remains in litigation and is subject to ongoing judicial proceedings.

(vii) *Tax Relief Appropriation*

On February 9, 2026, the Commonwealth announced that Joint Resolution 06-2026 had been signed, appropriating \$554 million from the General Fund to provide a tax-relief payment to eligible taxpayers. The Department of Treasury indicated that the measure could affect approximately 700,000 taxpayers and that the relief payment would be calculated following completion of the 2025 income-tax filing cycle.

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Discretely Presented Component Units

Further specific subsequent events for major discretely presented component units follow:

(a) PRHTA

On October 17, 2023, the PRHTA announced the selection of a private entity for the management, maintenance, improvements, and financing of various toll roads. The public-partnership agreement contemplated an initial payment of approximately \$2.9 billion to the PRHTA that will allow for the payments of the PRHTA debts. In addition, the agreement includes a private capital investment of approximately \$2.4 billion to modernize and improve the infrastructure, quality, and safety of the toll roads.

On December 1, 2023, the Oversight Board approved a fiscal plan (the PRHTA Fiscal Plan) to provide a roadmap for transforming not only PRHTA, but also infrastructure across Puerto Rico to catalyze economic growth. PRHTA has four objectives aligned with this goal: (a) transit security and safety projects; (b) improvement of existing transportation infrastructure; (c) completing highway systems; and (d) traffic reduction.

On December 14, 2023, the PRPPPA reached financial close (PRPPPA transaction) with respect to a long-term concession granted by PRHTA to Spanish infrastructure operator Abertis Infraestructuras, S.A (Abertis), pursuant to a concession agreement under which Abertis will have the responsibility for operating, maintaining, and improving four existing toll roads extending across the Commonwealth for the next 40 years and, in exchange, Abertis will have the right to retain most toll revenues generated by the public usage of the roads over the same period (subject to toll rate caps prescribed under the concession agreement). The roads, known as PR-20, PR-52, PR-53, and PR-66, cover an aggregate of 119 miles and were previously developed and operated by the PRHTA.

Abertis' winning bid includes an upfront payment to the PRHTA of approximately \$2.9 billion. The PRHTA applied approximately \$1.7 billion of such payment to pay off all its outstanding debt and to establish certain reserves, and the balance will be available to the Commonwealth for other governmental purposes. Further, it is expected that Abertis will also invest an additional \$2.3 billion over the first twelve years of the concession, in order to upgrade and maintain the roads at standards established by the concession agreement.

(b) PREPA

(i) Fiscal Plan

On February 6, 2025, the Oversight Board approved the Certified 2025 Fiscal Plan for PREPA, and on June 6, 2024, the Oversight Board certified the latest Commonwealth Fiscal Plan. Even though PREPA has its own Fiscal Plan, the Commonwealth Fiscal Plan includes a discussion of energy reform and PREPA's transformation. The Commonwealth Fiscal Plan provides that, in the coming years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from Fiscal Plan projections. Pursuant to the Commonwealth Fiscal Plan, the successful transformation of Puerto Rico's power sector depends on: (i) long-term capital planning that delineates and coordinates the investments required to improve the generation fleet and the electric grid, establishes clear priorities, details the assigned funding sources and timelines for major works and improvements, and specifies the anticipated benefits for each initiative., (ii) vegetation management to combat overgrown and hazardous vegetation (iii) service reliability for a more dependable, resilient, customer-centric, and environmentally friendly energy system, (iv) further

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achievement on the renewable generation capacity targets for Puerto Rico in a cost-effective manner.

On June 30, 2026, the Oversight Board publicly disclosed that it had presented to the Lead Mediator a settlement proposal for PREPA Bondholders. The proposal is for the payment of cash or issuance of new bonds, or a combination of both, in the amount of \$3 billion, in exchange for the release of the Authority's prepetition bond obligations. The Oversight Board has not determined the source of the funds for any proposed payment. The offer states that any debt to be issued would be comprised of collateralized bonds with terms still to be determined. The Oversight Board also indicated that it is willing to negotiate a contingent value instrument for the Bondholders.

(ii) *Loan for PREPA Obligations*

On December 1, 2023, the Oversight Board certified a jointly developed budget resolution approving the Commonwealth's amended annual budget for fiscal year 2024 (the FY24 Amended Budget Resolution). The FY24 Amended Budget Resolution provided for a new appropriation in the amount of three hundred million dollars (\$300 million) to be loaned to PREPA for (i) funding PREPA pension obligations, and (ii) accrued benefit withdrawal requests from certain former PREPA employees no longer able to accrue service in the PREPA Employees' Retirement System after their employment at PREPA ceased as a result of the PREPA's agreements with LUMA Energy and GeneraPR (the Rollover Requests).

After all requisite approvals, in accordance with the FY24 Amended Budget Resolution, on December 15, 2023, the Commonwealth, as lender, and PREPA, as borrower, executed the \$300 million loan agreement. In accordance with the terms of such loan agreement, on December 18, 2023, PREPA requested the Commonwealth to deliver the initial \$115 million, which were received on December 19, 2023. PREPA received subsequent amounts of \$35 million on April 11, 2024, and three payments of \$50 million each on June 6, 2024, September 11, 2024, and October 23, 2024.

In December 2024, PREPA stated it would use \$74 million in FEMA reimbursements to cover pension obligations through March 2025, subject to PREB and Oversight Board approvals. On December 26, 2024, PREB authorized the use of \$74 million, and on January 10, 2025, the Oversight Board approved a revised fiscal year 2025 budget for PREPA, reflecting the \$74 million in FEMA reimbursements earmarked to cover several months of pension payments.

The Commonwealth agreed to additional loan advances in the following months, as additional \$25 million loans were approved for funding in April, May, June, July, August, September, and October 2025. These subsequent loans were intended to continue supporting pension payments during those months. The total current Commonwealth loan outstanding balance is \$475 million. As of the date of these financial statements, a total of \$457.1 million has been disbursed by the Commonwealth.

(iii) *Lien Challenge*

On July 1, 2019, PREPA, the Oversight Board, and FAFAA filed a complaint against the 1974 Trustee asking the Title III Court to (a)(i) declare that the 1974 Trustee's security interest in the PREPA's property is limited to funds deposited to the credit of the "Sinking Fund" and certain other funds under the 1974 Agreement; (ii) declare the 1974 Trustee has not perfected any security interest in any of PREPA's property other than cash deposited to the credit of the Sinking Fund; (iii) avoid any security interest granted to the 1974 Trustee in any of PREPA's property other than cash deposited to the credit of the Sinking Fund, preserving all avoided liens for the benefit of PREPA; (b)(i) declare that contractual covenants and remedies set forth in the 1974 Agreement are obligations of PREPA, not PREPA's property, and do not and cannot constitute collateral in which PREPA has granted a

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security interest to secure PREPA's bonds; (ii) declare the 1974 Trustee has not perfected any security interest in any such covenants and remedies and that PREPA's interest in such is entitled to priority over any interest of the 1974 Trustee under Puerto Rico law; (iii) avoid any security interest in such covenants and remedies, preserving all avoided liens for the benefit of PREPA; and (c) disallow all claims asserting security interests either not granted under the 1974 Agreement or that are unperfected. On July 16, 2019, the Title III Court entered an order staying this proceeding.

On September 17, 2022, the Oversight Board, on behalf of PREPA, filed a motion requesting the Court lift the stay on this proceeding and approve a proposed litigation schedule. After the matter was fully briefed, on September 29, 2022, the Court entered an order terminating the stay and entering a litigation schedule for the adversary proceeding. On October 2, 2022, the Oversight Board filed an amended complaint. The amended complaint asserts seven counts and broadly requests disallowance of the bondholders' claims to the extent it: (i) seeks to assert a security interest in property other than the revenues actually deposited to the credit of the Sinking Fund and subordinating the trustee's security interest against that property to PREPA's interest; (ii) asserts a security interest in the covenants and remedies; and (iii) asserts an unsecured claim against PREPA. While the Amended Complaint eliminated FAFAA as a plaintiff, on October 17, 2022, the Court approved a stipulation between the Oversight Board and FAFAA to allow FAFAA to intervene as a plaintiff. The Court approved numerous stipulations allowing parties on both plaintiff and defendant side to intervene. PREPA's bondholders and monoline insurers intervened as defendants.

On October 24, 2022, both the Oversight Board and the defendants filed cross-motions for summary judgment. The cross-motions for summary judgment were fully briefed as of December 20, 2022.

On March 22, 2023, the Court ruled on the Oversight Board and the Bondholders' pending motions for summary judgment. The Court held that: (i) the Trust Agreement granted the Bondholders security interests only in moneys actually deposited to the Sinking Fund, Self-insurance Fund, Capital Improvement Fund, Reserve Maintenance Fund, and Construction Fund (as defined in the Trust Agreement); (ii) Bondholders have perfected their liens in the Sinking Fund, Self-insurance Fund, and Reserve Maintenance Fund, over which the Trustee has established control; (iii) Bondholders have no security interest in the covenants and remedies provided for by the Trust Agreement; and (iv) based on PREPA's payment and equitable relief covenants in the Trust Agreement, Bondholders have an unsecured claim to be liquidated by reference to the value of future Net Revenues (as defined in the Trust Agreement) that would, under the waterfall provisions of the Trust Agreement and applicable nonbankruptcy law, have become collateral upon being deposited in the specified funds and payable to the Bondholders over the remainder of the term of the Bonds (the Unsecured Net Revenue Claim).

Thereafter, the Court ruled that it would hold an estimation hearing for the Bondholders' Unsecured Net Revenue Claim the week of June 5, 2023. On May 9, 2023, the Oversight Board, FAFAA, the Unsecured Creditors' Committee, PREPA ERS, UTIER, and the PREPA's bondholders filed their opening briefs regarding the estimation. On May 22, 2023, the same parties, along with the Fuel Line Lenders, filed responsive briefs.

After the Title III Court held the estimation hearing, on June 26, 2023, the Court issued its opinion rejecting PREPA's bondholders' contention that their Unsecured Net Revenue Claim should be valued at the face value of the bonds (roughly \$8.5 billion) and, instead, valued the claim at \$2.4 billion.

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On November 29, 2023, the Title III Court dismissed the remaining counterclaims asserted by the PREPA bondholders. Thereafter, the Oversight Board, multiple PREPA bondholder parties, FAFAA, and the Unsecured Creditors' Committee filed cross appeals of certain provisions of the dismissal order, judgment, or the interlocutory orders merged into the judgment (e.g., the summary judgment order and the estimation order).

On June 12, 2024, the United States Court of Appeals for the First Circuit (the First Circuit) issued its decision on the matter, affirming in part and reversing in part the Title III Court. The First Circuit held Bondholders have a non-recourse claim for the principal amount of the bonds, plus matured interest secured by PREPA's Net Revenues and by liens on certain funds created by the Trust Agreement. The First Circuit did not decide what effect, if any, confirmation of a Plan of Adjustment will have on the Bondholders' security interest, nor did it attempt to estimate the economic value of that security interest. Lastly, the First Circuit affirmed the Title III Court's dismissal of the Bondholders' breach of trust claim and reversed the dismissal of the Bondholders' accounting claim, further discussed in (v) below.

On June 26, 2024, the Oversight Board filed a petition for panel rehearing on the single issue of perfection of the Net Revenues under the uniform commercial code. On November 13, 2024, the First Circuit issued an order (i) granting in part the petition for panel rehearing and (ii) withdrawing the opinion issued on June 12, 2024, and replacing it with a revised opinion. In the revised opinion, the First Circuit concludes that PREPA's net revenues are more accurately classified as general intangibles. This determination does not alter the Court's prior conclusion from the June 12, 2024, opinion, which recognized that the bondholders hold a nonrecourse claim of approximately \$8.5 billion.

On November 27, 2024, the Oversight Board filed another petition for panel rehearing arguing that the Court misclassified PREPA's net revenues as "general intangibles" under the Uniform Commercial Code, instead of recognizing them as currency or deposit accounts. FAFAA and the Unsecured Creditors' Committee joined the Oversight Board's petition. On December 31, 2024, the First Circuit denied the petitions for panel rehearing of its revised opinion dated November 13, 2024.

(iv) *Classification Motion*

On April 7, 2025, the Oversight Board filed the "Classification Motion" arguing that the PREPA Bond Trustee's claim in the Commonwealth Title III Case is properly classified as a Section 510(b) Subordinated Claim as defined by the Commonwealth Title III confirmed plan of adjustment. On April 11, 2025, the claims reconciliation monitors filed a response in support of the Oversight Board's Classification Motion. On April 28, 2025, certain bondholders filed an objection to the Classification Motion asserting that Section 510(b) of the Bankruptcy Code, which governs subordination of certain claims, does not apply to their claims because these claims are based on statutory and constitutional violations, not on the purchase or sale of securities. On May 16, 2025, the Oversight Board filed a reply in support of the Classification Motion.

On July 22, 2025, the Title III Court issued a memorandum opinion and order granting the Classification Motion. In August 2025, several parties, including the PREPA Bond Trustee, appealed the Title III Court's decision to the U.S. Court of Appeals for the First Circuit. The appeal has been fully briefed and is pending adjudication.

(v) *PREPA Bondholders' Equitable Accounting Counterclaim*

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On April 13, 2026, the Title III Court issued an order permitting the PREPA Bondholders' equitable accounting counterclaim to go forward, along with related discovery issues. The accounting counterclaim litigation will determine whether PREPA allegedly diverted Net Revenues (as defined in the trust agreement that governs PREPA's bonds) from debt service, which the Oversight Board denies. The PREPA Bondholders believe there was a wrongful diversion and assert that they are entitled to an information remedy and a disgorgement remedy.

On May 12, 2026, following a hearing, the Court entered an order setting a discovery and briefing schedule.

Discovery is currently ongoing. Under the discovery scheduling order, briefing on motions for summary judgment will conclude on November 6, 2026, and oral argument on cross-motions for summary judgment is scheduled for November 18, 2026.

(vi) *PREPA Rate Case*

On July 3, 2025, LUMA filed the *Motion Submitting Rate Review Petition* in Case No. NEPR-AP-2023-0003 before the PREB ("Rate Case"), whereby it requested both a provisional and a permanent rate increase.

On July 31, 2025, the PREB approved provisional rates, authorizing a \$535.1 million incremental revenue requirement for fiscal year 2026, including full funding of PREPA's \$307.5 million pension costs and \$227.6 million in non-pension costs. The evidentiary hearings concluded on December 19, 2025, and the post-hearing briefing stage concluded on March 20, 2026. A final rate order was issued by PREB on April 15, 2026, setting electric rates for fiscal years 2026, 2027, and 2028. Several parties including LUMA, Genera, and PREPA have filed motions for reconsideration of PREB's final rate order.

(vii) *PREPA Bondholders' Administrative Expense Motion*

On April 7, 2025, PREPA' non-settling bondholders an administrative expense motion seeking allowance of an administrative expense claim for post-petition Net Revenues allegedly consumed by PREPA. The non-settling bondholders argue that since the commencement of the Title III Case, PREPA has consumed \$3.7 billion of dollars in Net Revenues, which they assert are the non-settling bondholders' collateral. On April 28, 2025, the Oversight Board filed an objection to the administrative expense motion asserting, among other things that: (i) the motion fails as a matter of law because the non-settling bondholders' claims have already been rejected by the First Circuit, which held their recovery is limited to Net Revenues, (ii) they are not entitled to administrative expense priority as their claims are nonrecourse and there is no evidence of collateral value decline, and (iii) their Takings Clause argument fails because they cannot reframe a contract claim as a constitutional taking and their rights are limited by the Trust Agreement that governs PREPA's bonds. On May 2, 2025, FAFAA, the Unsecured Creditors' Committee, PREPA ERS, and other interested parties filed joinders to the Oversight Board's objection. On May 16, 2025, the non-settling bondholders filed a reply in support of their administrative expense motion. On May 22, 2025, the Title III Court granted the Oversight Board's request to file a supplemental brief by May 30, 2025, which the Oversight Board submitted on that date. The PREPA bondholders were permitted to file a single reply to the sur-reply by June 6, 2025, and they filed their reply accordingly. The administrative expense motion has been fully briefed, was heard on July 23, 2025, and is currently pending adjudication.

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June 30, 2023

On March 16, 2026, the Title III Court issued an opinion and order denying the PREPA Bondholders' administrative expense motion. The Court found that (i) the PREPA Bondholders did not demonstrate that PREPA's postpetition use of their alleged collateral was an "actual, necessary expense" that would qualify as an administrative expense, (ii) the PREPA Bondholders are not entitled to administrative expense priority under the fundamental fairness doctrine because it does not apply to their claims and they did not allege valid tort claims, and (iii) the PREPA Bondholders have not shown that they are entitled to priority claims under section 922(c) of the Bankruptcy Code because PREPA did not fail to provide any Court-ordered adequate protection payments to the PREPA Bondholders.

The PREPA Bondholders appealed the Title III Court's decision denying their administrative expense claim motion to the First Circuit and filed their opening appellate briefs on May 14, 2026. On May 21, 2026, the States of Iowa, Alabama, Alaska, Florida, Georgia, Kansas, Louisiana, Missouri, Montana, Nebraska, Oklahoma, South Carolina, and Texas filed an amicus curiae brief. Responsive briefs are due on July 10, 2026.

(viii) *Litigation Regarding the PREPA Litigation Stay on Bondholder Claims*

On March 30, 2026, the Oversight Board and PREPA's Bondholders submitted a joint status report in accordance with a Title III Court order. In the joint status report, the Oversight Board argued that a litigation stay imposed on PREPA's Title III case should remain in effect for all PREPA Bondholder claims with the exception of a proceeding valuing the PREPA Bondholders' secured claim. The Oversight Board argued that the other pending litigation would be wasteful and would not move the case forward. FAFAA and the unsecured creditors' committee each sided with the Oversight Board regarding the litigation schedule. The PREPA Bondholders contended that their pending motions to lift the stay, or, in the alternative, dismiss the Title III case should go forward (following supplemental pleading) along with their equitable accounting counterclaim; however, the valuation proceeding should not.

Also on March 30, 2026, the Bondholders filed a motion requesting that the Title III Court lift the litigation stay with regard to (i) their motion to lift the automatic stay, (ii) their motion to lift the automatic stay, or, in the alternative, dismiss the Title III case, and (iii) their equitable accounting counterclaim. The Bondholders argued that the length of these proceedings and inability to protect their collateral warrant lifting the stay.

As mentioned above, on April 13, 2026, the Title III Court issued an order modifying the litigation stay to permit the PREPA Bondholders' equitable accounting counterclaim to go forward. Thereafter, at the May 20, 2026 Omnibus Hearing, the Court heard and denied the bondholders' renewed motion to lift the litigation stay, and on May 26, 2026, entered a written order memorializing that ruling. On June 3, 2026, the PREPA Bondholders appealed the Title III Court order to the First Circuit. No briefing schedule has been set.

(ix) *LUMA O&M Agreement Related Matters & Litigation*

On June 1, 2021, pursuant to the transmission and distribution contract (LUMA O&M) with PREPA and the PRPPPA LUMA Energy, LLC and LUMA Energy Servco, LLC (collectively, LUMA) began managing and operating PREPA's transmission and distribution system (T&D System).

On July 22, 2025, PRPPPA issued a formal notice of disputes to LUMA alleging multiple failures under the LUMA O&M agreement, including matters related to federal funding, budgets, outages, vegetation management, financial reporting, and pole attachments. The notice invoked the agreement's dispute-resolution process and stated that, if the alleged violations are not remedied

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within the required period, PRPPPA may pursue termination of the agreement and recovery of damages.

On August 25, 2025, LUMA filed a complaint against PRPPPA and PREPA alleging that they breached the LUMA O&M agreement by refusing to mediate a dispute regarding whether certain issues should be resolved through mediation or by an independent expert. LUMA also sought provisional relief to prevent PRPPPA and PREPA from proceeding with the technical dispute process. On December 19, 2025, the Title III Court dismissed LUMA's complaint and denied provisional relief, concluding that although the court had subject matter jurisdiction, abstention was appropriate under section 309 of PROMESA because the dispute primarily involved state law issues and the parties had agreed to an exclusive Commonwealth court forum. LUMA appealed the decision, and the appeal is pending before the First Circuit. LUMA filed its opening brief on May 1, 2026, and PRPPPA's opposition brief was due on June 17, 2026.

On July 22, 2025, the Puerto Rico Department of Consumer Affairs (DACO) filed a petition in the Superior Court of San Juan seeking a declaratory judgment invalidating certain liability waivers in the LUMA O&M agreement and a PREB resolution that granted LUMA broad immunity from consumer damage claims. On September 18, 2025, LUMA moved in the Title III Court to enforce the automatic stay against the DACO action. On October 27, 2025, the Title III Court denied LUMA's motion, holding that the police and regulatory power exception to the automatic stay applied. LUMA appealed to the First Circuit; the appeal has been fully briefed, was heard on June 4, 2026, and remains pending. On December 1, 2025, the Supreme Court of Puerto Rico issued a judgment in the DACO case declaring unconstitutional the liability waiver previously authorized by PREB. LUMA did not request reconsideration within the applicable period and, therefore, the Puerto Rico Supreme Court's determination is final.

On December 11, 2025, PRPPPA and PREPA filed an action in the Puerto Rico Court of First Instance seeking a declaration that the November 30, 2022, extension letter, which purported to extend indefinitely the supplemental agreement to the LUMA O&M agreement, is null and without legal effect. The complaint alleges, among other things, that the extension was not properly authorized, certified, or approved as required by applicable law, and seeks a ruling that the interim period under the LUMA O&M agreement expired on November 30, 2022, triggering the applicable transition process. On December 16, 2025, the Government of Puerto Rico, through the Governor, filed a parallel action asserting substantially similar claims and seeking declaratory relief and LUMA's cooperation with the transition process.

LUMA removed both actions to the Title III Court in December 2025. PRPPPA and the Government moved to remand the actions to the Puerto Rico Court of First Instance. On May 8, 2026, the Title III Court entered orders remanding both actions to the Commonwealth court. LUMA appealed and sought a stay pending appeal. On June 1, 2026, the Title III Court denied LUMA's stay request but extended the stay of the remand orders to allow LUMA to seek relief from the First Circuit. On June 3, 2026, LUMA filed emergency motions in the First Circuit seeking a stay pending appeal and expedited relief. PRPPPA and the Commonwealth objected, and the motions remain pending adjudication by the First Circuit.

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(c) PRASA

(i) *Environmental Matters*

The Modification to the Consent Decree was approved by USDOJ, lodged in the District Court, and finally published in the Federal Register on July 6, 2023, for a thirty (30) day period of public comments, which ended on August 7, 2023. Four persons and/or entities commented. USDOJ and the Authority considered those comments and made several additional amendments to the Modification to the Consent Decree. The amended Modification to the Consent Decree was filed in the District Court on February 7, 2024. The District Court approved the Modification to the Consent Decree on March 22, 2024.

(ii) *Rate adjustments*

On July 1, 2022, after following the process required by Act 21-1985, the Authority implemented a new rate structure and charges, simplifying its rate to only two charges, base charge and consumption charge. The revised implemented rate provides for an annual increase for subsequent years of at least 2% but not more than 5% annually, up to a limit of 30% cumulative. On July 1, 2023, and 2024 the 2% rate adjustment for fiscal years 2024 and 2025 were implemented.

(iii) *State Revolving Funds Loan*

After the July 2019 successful debt modification of PRASA's outstanding loans with the State Revolving Funds (SRF), in collaboration and agreement with the EPA, PRASA regained access to funds from the SRFs. Since then, PRASA entered into various financial agreements with the SRFs as follows:

- On June 7, 2024, a financial agreement for PRWPCRF funding for \$41.2 million was executed.
- On October 4, 2024, a financial assistance agreement for DWSRF funding for \$17.7 million was executed.
- On February 27, 2025, a financial assistance agreement for DWSRF funding for \$14.5 million was executed.
- On April 12, 2025, a Financial Assistance Agreement was executed for PRWPCRF funding of approximately \$333 million in subsidies (no loans).
- On September 15, 2025, a Financial Assistance Agreement was executed for PRWPCRF funding for approximately \$38.1 million in loans and approximately \$1.3 million in subsidies.
- On December 10, 2025, two Financial Assistance Agreements were executed for DWSRF funding of approximately (1) \$25.6 million in loans and \$3.1 million in subsidies and (2) \$9.7 million in loans and \$2.4 million in subsidies.
- On January 15, 2026, a Financial Assistance Agreement was executed for DWSRF funding of \$213.4 million in subsidies (no loans).
- On March 31, 2026, a Financial Assistance Agreement was executed for PRWPCRF funding of approximately \$35.1 million in loans and approximately \$11.8 million in subsidies.

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The loan portion of these agreements provide for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans are designated as Senior Indebtedness under PRASA's Master Agreement of Trust.

(d) Qualifying Modification and Debt Settlements

The following Qualifying Modifications agreements were made effective after June 30, 2023:

Entity	Effective Date
GDB (TDF)	December 4, 2023
PRIDCO	December 28, 2023
Ports-DRA	January 23, 2024

Refer to Note 3 for further information about each qualifying modification.

On September 25, 2023, the Oversight Board approved a proposed settlement agreement between the DRA and the following component units: GDB, LAPR, PA, PPA and EDB. The settlement agreement consists of a cash payment amounting to \$29.5 million to resolve \$65.4 million in outstanding principal and interest of loans owed by the component units to DRA.

On October 2, 2023, the settlement agreement was entered by FAFAA and the DRA in which \$50.9 million plus accrued interest in loans owed by the component units to the DRA were settled for a total discounted payment amounting to \$29.5 million. On June 1, 2023, EDB paid to the DRA a total of \$2.8 million and the remaining balance amounting to \$26.7 million was deposited by the component units into a specially designated bank account in FAFAA from which on October 13, 2023, the settlement payment to the DRA was made.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:					
Service cost	\$ 245,096	273,922	202,116	176,718	240,453
Interest	440,610	444,563	580,092	608,212	581,585
Effect of plan changes	(2,503,044)	—	—	—	(23,125)
Effect of economic/demographic gains(losses)	(56,304)	300,075	203,512	188,311	67,795
Effect of assumptions changes or inputs	(2,844,635)	205,834	3,376,117	696,516	(559,013)
Benefit payments	<u>(911,403)</u>	<u>(914,383)</u>	<u>(866,614)</u>	<u>(807,473)</u>	<u>(786,093)</u>
Net change in total pension liability	(5,629,680)	310,011	3,495,223	862,284	(478,398)
Total pension liability – beginning	<u>20,606,764</u>	<u>20,296,753</u>	<u>16,801,530</u>	<u>15,939,246</u>	<u>16,417,644</u>
Total pension liability – ending (a)	\$ <u>14,977,084</u>	<u>20,606,764</u>	<u>20,296,753</u>	<u>16,801,530</u>	<u>15,939,246</u>
Covered-employee payroll	664,678	724,584	783,529	771,280	933,331
Employer's total pension liability as a percentage of covered-employee payroll	2253.28%	2843.94%	2590.43%	2178.40%	1707.78%

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.

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

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

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:					
Service cost	\$ 29,450	28,231	22,700	17,866	20,652
Interest	16,623	16,230	21,131	22,266	22,292
Effect of plan changes	(128,575)	—	—	—	(408)
Effect of economic/demographic gains(losses)	10,891	10,978	(6,700)	(13,977)	(38,268)
Effect of assumptions changes or inputs	(103,373)	7,338	116,119	24,574	(22,787)
Benefit payments	<u>(29,360)</u>	<u>(28,196)</u>	<u>(28,022)</u>	<u>(26,297)</u>	<u>(26,581)</u>
Net change in total pension liability	(204,344)	34,581	125,228	24,432	(45,100)
Total pension liability – beginning	<u>754,745</u>	<u>720,164</u>	<u>594,936</u>	<u>570,504</u>	<u>615,604</u>
Total pension liability – ending (a)	\$ <u>550,401</u>	<u>754,745</u>	<u>720,164</u>	<u>594,936</u>	<u>570,504</u>
Covered-employee payroll	32,323	29,628	30,193	31,335	33,343
Employer's total pension liability as a percentage of covered-employee payroll	1702.82%	2547.40%	2385.20%	1898.63%	1711.02%

Notes:

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

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Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – ERS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:					
Service cost	\$ 89,641	72,910	73,609	65,264	72,938
Interest	575,974	544,699	846,587	922,462	933,698
Effect of plan changes	(1,698,799)	—	(99,730)	—	(1,537,286)
Effect of economic/demographic gains(losses)	498,947	(464,419)	72,136	(311,625)	(891,346)
Effect of assumptions changes or inputs	(3,170,789)	227,436	3,636,383	1,006,069	(966,406)
Benefit payments	<u>(1,331,988)</u>	<u>(1,264,700)</u>	<u>(1,321,794)</u>	<u>(1,323,448)</u>	<u>(1,321,140)</u>
Net change in total pension liability	(5,037,014)	(884,074)	3,207,190	358,721	(3,709,542)
Total pension liability – beginning	<u>27,133,127</u>	<u>28,017,201</u>	<u>24,810,011</u>	<u>24,451,290</u>	<u>28,160,832</u>
Total pension liability – ending (a)	\$ <u>22,096,113</u>	\$ <u>27,133,127</u>	\$ <u>28,017,201</u>	\$ <u>24,810,011</u>	\$ <u>24,451,290</u>
Covered-employee payroll	1,185,854	2,355,084	2,419,975	2,551,657	2,777,507
Employer's total pension liability as a percentage of covered-employee payroll	1863%	1152%	1158%	972%	880%

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.

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

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

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>
Total other postemployment benefits liability:						
Service cost	\$ —	—	—	—	—	—
Interest	9,517	10,207	14,616	16,409	16,166	14,621
Effect of plan changes	—	—	—	—	—	—
Effect of economic/demographic gains(losses)	796	(3,133)	(359)	(1,882)	3,914	(750)
Effect of assumptions changes or inputs	(51,401)	3,985	62,812	12,794	(13,242)	(39,718)
Benefit payments	<u>(32,371)</u>	<u>(32,180)</u>	<u>(33,405)</u>	<u>(33,984)</u>	<u>(34,814)</u>	<u>(36,493)</u>
Net change in total other postemployment benefits liability	(73,459)	(21,121)	43,664	(6,663)	(27,976)	(62,340)
Total other postemployment benefit liability – beginning	<u>456,714</u>	<u>477,835</u>	<u>434,171</u>	<u>440,834</u>	<u>468,810</u>	<u>531,150</u>
Total other postemployment benefits liability – ending (a)	\$ <u><u>383,255</u></u>	<u><u>456,714</u></u>	<u><u>477,835</u></u>	<u><u>434,171</u></u>	<u><u>440,834</u></u>	<u><u>468,810</u></u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

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.

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

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

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>
Total other postemployment benefits liability:						
Service cost	\$ 337	317	257	207	238	290
Interest	176	175	230	244	252	217
Effect of plan changes	(2,768)	—	—	—	—	—
Effect of economic/demographic gains(losses)	186	(32)	(21)	(128)	(622)	(48)
Effect of assumptions changes or inputs	(690)	70	1,177	234	(223)	(665)
Benefit payments	<u>(362)</u>	<u>(341)</u>	<u>(343)</u>	<u>(332)</u>	<u>(337)</u>	<u>(336)</u>
Net change in total other postemployment benefits liability	(3,121)	189	1,300	225	(692)	(542)
Total other postemployment benefits liability – beginning	<u>7,977</u>	<u>7,788</u>	<u>6,488</u>	<u>6,263</u>	<u>6,955</u>	<u>7,497</u>
Total other postemployment benefits liability – ending (a)	\$ <u>4,856</u>	<u>7,977</u>	<u>7,788</u>	<u>6,488</u>	<u>6,263</u>	<u>6,955</u>
Covered-employee payroll	N/A	29,628	30,193	31,335	33,343	31,829
Employer's other postemployment benefits liability as a percentage of covered-employee payroll	N/A	26.90%	25.80%	20.71%	18.78%	21.85%

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.

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

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

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – ERS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) at June 30, 2023:

	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>
Total other postemployment benefits liability:						
Service cost	\$ —	—	—	—	—	—
Interest	16,807	19,372	27,865	31,271	33,689	31,158
Effect of plan changes	—	—	—	—	—	—
Effect of economic/demographic gains(losses)	34,435	(37,318)	(5,821)	4,817	(16,420)	(11,374)
Effect of assumptions changes or inputs	(89,002)	6,768	88,213	22,997	(26,209)	(197,793)
Benefit payments	<u>(65,139)</u>	<u>(65,175)</u>	<u>(68,078)</u>	<u>(68,893)</u>	<u>(69,577)</u>	<u>(73,482)</u>
Net change in total other postemployment benefits liability	(102,899)	(76,353)	42,178	(9,808)	(78,518)	(251,491)
Total other postemployment benefit liability – beginning	<u>796,926</u>	<u>873,279</u>	<u>831,101</u>	<u>840,909</u>	<u>919,427</u>	<u>1,170,918</u>
Total other postemployment benefits liability – ending (a)	\$ <u>694,027</u>	<u>796,926</u>	<u>873,279</u>	<u>831,101</u>	<u>840,909</u>	<u>919,427</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

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.

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

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

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information – Unaudited

Schedule of Revenue and Expenditures – Budget and Actual –

Budgetary Basis – General Fund

Year ended June 30, 2023

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Revenue:			
Income taxes	\$ 5,468,404	6,866,236	7,057,397
Sales and use taxes	2,539,562	2,715,855	2,757,270
Excise taxes	2,622,027	2,587,486	2,245,863
Property taxes	3,387	72,460	102,611
Other taxes	16,111	57,489	82,092
Charges for services	77,767	152,779	125,702
Revenue from component units	10,363	18,807	21,527
Intergovernmental	210,676	206,766	352,713
Other	157,031	111,978	92,275
	<u>11,105,328</u>	<u>12,789,855</u>	<u>12,837,448</u>
Total revenue			
Expenditures – current:			
General government	4,572,643	5,864,524	4,347,317
Public safety	2,160,983	2,337,802	2,226,382
Health	1,444,358	1,568,382	1,586,815
Public housing and welfare	512,104	605,472	548,963
Education	3,067,476	3,268,119	3,209,754
Economic development	526,969	717,426	792,163
Intergovernmental	141,926	162,681	166,177
	<u>12,426,459</u>	<u>14,524,406</u>	<u>12,877,571</u>
Total expenditures			
Excess (deficiency) of revenue			
over expenditures	<u>(1,321,131)</u>	<u>(1,734,551)</u>	<u>(40,123)</u>
Other financing sources:			
Transfer in from Lotteries Fund	39,548	102,143	134,528
	<u>39,548</u>	<u>102,143</u>	<u>134,528</u>
Total other financing sources			
Excess (deficiency) of revenue and other financing sources			
over expenditures.	<u>\$ (1,281,583)</u>	<u>(1,632,408)</u>	<u>94,405</u>

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

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2023

(1) Changes of Benefit Terms and Assumptions

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017, for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

Changes in assumptions

In the revised June 30, 2022, actuarial valuation, there was an increase relating to the discount rate from 2.16% in 2021 to 3.54% in 2022.

In the revised June 30, 2021, actuarial valuation, there was a decrease relating to the discount rate from 2.21% in 2020 to 2.16% in 2021.

In the revised June 30, 2020, actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019, actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

In the revised June 30, 2018, actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017, actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2017 to 3.58% in 2017.

(2) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the PROMB and takes into consideration the advice provided by the PRPB (annual economic growth forecasts and four-year capital improvements plan), the DOT (revenue estimates, accounting records, and the comprehensive annual financial report), FAFAA (the fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law."

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four -year capital improvements plan adopted by the PRPB.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2023 (including other financing sources) amounted to approximately \$12.4 billion, including several special budget

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2023

appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately \$2.9 billion.

The PROMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

PROMESA has significantly changed the approval process for the Commonwealth's general fund budget. After fiscal year 2017 the process to approve the budget is controlled by the Oversight Board. The Oversight Board submits to the Governor a notice delineating a schedule for the development, submission, approval, and certification of proposed budgets to be submitted by the Governor and the Legislature to the Oversight Board for its approval. The Oversight Board, at its discretion, is responsible for determining the number of fiscal years to be covered by the budget submission.

The Oversight Board is responsible for submitting revenue estimates for the period covered by the proposed budgets to the Governor and Legislature for use by the Governor in developing budgets to be submitted for review and approval to the Oversight Board. The bill outlines three means by which a proposed budget could be approved.

- **Budget Submission by Governor.** If the Oversight Board determines that the proposed budget is compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to approve the proposed budget and submit it to the Legislature for approval. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to issue a "notice of violation" which would include recommendations to correct the deficiencies.
- **Oversight Board Budget.** Should the Governor fail to submit a compliant budget then the bill would permit the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory, and only to the Governor in the case of a territorial instrumentality.
- **Budget Adopted by Legislature.** The bill would direct the Legislature to adopt a proposed budget for submission to the Oversight Board. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the Oversight Board may issue a "notice of violation" which includes recommendations to correct the deficiencies.
- **Oversight Board Budget.** Should the Legislature fail to submit a compliant budget then the bill would allow the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory.
- **Certification of Budget as Compliant.** Under provisions of the bill, if the Governor and Legislature approve a territorial budget that is compliant, or if the Governor develops a budget for the Commonwealth that is compliant with the applicable fiscal plan, then the Oversight Board could issue a certificate of compliance. If the Governor and Legislature fail to develop and approve a budget that would be compliant, then the Oversight Board could develop and submit a budget to the Governor and Legislature and such budget would be deemed approved by the Governor and the Legislature. In the case of a territorial instrumentality, only the Governor could submit a proposed budget for review by the Oversight Board.
- **Budget jointly developed by the Oversight Board, the Governor, and Legislature.** The bill would allow the Oversight Board, the Governor, and the Legislature to work collaboratively to develop a consensus budget for the territorial government. In the case of a territorial instrumentality, the bill would allow the Oversight Board and the Governor to work collaboratively to develop a budget.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For U.S. GAAP reporting purposes,

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2023

encumbrances outstanding at year-end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a U.S. GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenue is recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments must give effect to the "priority norms" established by law for the disbursement of public funds in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit, and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare, and retirement systems; and (iv) all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the General Fund.

For these funds, a schedule of revenue and expenditures – budget and actual budgetary basis – General Fund is included. Appropriations for capital projects are made for each bond issue, and the authorization continues for the expected construction period.

The PROMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The PROMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for General Fund expenditures, principal, and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

Notwithstanding the foregoing, the enactment of PROMESA (as discussed in Note 3) created an Oversight Board with the power to review and approve budgets for the Commonwealth and its instrumentalities. Under PROMESA, a fiscal plan for each covered entity must be certified by the Oversight Board before the Commonwealth can propose any fiscal year budgets. All budgets proposed after the enactment of PROMESA must be certified by the Oversight Board as being consistent with the applicable certified fiscal plan. For additional information on the budget certification process under PROMESA, refer to Note 3.

(3) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with U.S. GAAP. Revenue is generally recognized when cash is received. Income tax revenues are reduced for the amount of income tax refunds paid during the year and claimed but unpaid at year end.

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2023

Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123-2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. For a reconciliation of the statement of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenue, expenditures, and changes in fund balances (deficit) for the General Fund, refer to Note 4 to Required Supplemental Information. The Special Revenue Funds do not have a legally mandated budget.

(4) Budget/U.S. GAAP Reconciliation

Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2023, is presented below for the General Fund (in thousands):

Excess of revenue and other financing sources under expenditures and other financing uses – budgetary basis	\$	94,405
Entity differences—excess of revenues and other financing sources over expenditures and other financing uses for:		
Nonbudgeted funds		319,817
Inclusion of agencies with independent treasuries		119,894
Timing differences:		
Adjustment for encumbrances		1,483,416
Current year expenditures against prior year encumbrances		(347,080)
Basis of accounting differences:		
Revenue accrual adjustment		267,310
Expenditures accrual adjustments		<u>(474,585)</u>
Excess of revenue and other financing sources over expenditures, other financing uses and extraordinary item – U.S. GAAP basis	\$	<u>1,463,177</u>

See accompanying independent auditors' report.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2023

(In thousands)

The General Fund is the primary operating fund of the Commonwealth. The General Fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures – budget and actual – General Fund (budgetary basis).

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2023

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Expenditures – Current:			
General government:			
Senate of Puerto Rico	\$ 30,921	33,319	29,531
House of Representatives of Puerto Rico	38,784	41,762	38,525
Comptroller's Office	44,813	46,970	46,680
Governor's Office	15,996	17,259	16,262
Office of Management and Budget (1)	913,392	1,126,048	19,580
Planning Board	12,167	13,895	15,197
Department of State	15,050	15,583	14,643
Department of the Treasury (1)	3,149,037	3,892,536	3,522,320
Office of the Administration and Transformation of Human Resources	6,409	6,893	3,759
Commonwealth Elections Commission	31,567	33,621	30,285
Federal Affairs Administration	2,952	3,157	2,958
General Services Administration	23,177	27,059	23,178
Office of the Commissioner of Insurance of Puerto Rico	—	288	214
Civil Rights Commission	847	880	806
Office of the Citizen's Ombudsman	3,560	3,741	3,133
Government Ethics Board	9,564	10,151	10,007
Legislative Affairs Office	8,767	9,068	8,202
Office of the Superintendent of the Capitol	30,215	30,942	30,352
Legislative Donation Commission	21,358	21,378	21,207
Corporation "Enlace" Caño Martín Peña	29,456	29,567	41,027
Puerto Rico Statistics Institute	2,068	2,563	2,563
Office for the Governmental's Integrity and Efficiency	16,433	16,990	16,674
Retirement Board of the Government of Puerto Rico	59,167	340,479	319,704
Financial Oversight and Management Board for Puerto Rico	59,527	59,527	59,527
Public Buildings Authority	31,036	63,031	58,984
Office of Elections Comptroller	2,482	2,734	2,699
Public Service Regulatory Board	8,377	9,352	3,572
Legislative Assembly Budget Office	3,000	3,000	3,000
Appellate Board of the Personnel System Administration	2,521	2,731	2,728
Total general government	<u>4,572,643</u>	<u>5,864,524</u>	<u>4,347,317</u>
Public safety:			
Puerto Rico General Court of Justice	367,223	384,851	382,966
Civil Defense	7,463	10,407	9,606
Commission of Investigation, Processing and Appeals Board	476	603	501
Department of Justice	126,030	136,999	126,004
Puerto Rico Police Bureau	834,760	876,110	941,274
Puerto Rico Firefighters Bureau	73,009	74,600	71,257
Special Investigations Bureau	4,541	4,624	4,995
Puerto Rico National Guard	18,453	28,060	21,166
Office of Public Safety Affairs	—	26	195
Consumer Affairs Department	12,943	14,879	12,820
Puerto Rico Public Safety Bureau	233,945	244,207	151,208
Automobile Accidents Compensation Administration	—	1,361	1,361
Institutional Trust of the National Guard of Puerto Rico	—	41	41
Department of Correction and Rehabilitation	393,575	457,882	401,787
Parole Board	2,648	3,200	2,689
Forensic Sciences Institute	18,531	21,708	21,138
Special Prosecutor Panel	3,224	3,322	3,321
Bureau of Emergency Services 9-1-1	—	784	784
Correctional Health	43,811	53,578	52,898
Medical Emergencies Service	20,351	20,560	20,371
Total public safety	<u>2,160,983</u>	<u>2,337,802</u>	<u>2,226,382</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2023

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Health:			
Department of Health	\$ 427,314	452,975	441,011
Puerto Rico Medical Services Administration	65,976	71,352	97,458
Mental Health and Drug Addiction Services Administration	115,641	119,723	108,845
Puerto Rico Diabetes Center	636	863	3,116
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	—	1,597	9,805
State Insurance Fund Corporation	—	7,996	7,996
Puerto Rico Health Insurance Administration	814,685	882,774	882,519
University of Puerto Rico Comprehensive Cancer Center	20,106	31,102	36,065
	<u>1,444,358</u>	<u>1,568,382</u>	<u>1,586,815</u>
Public housing and welfare:			
Puerto Rico Office for Socioeconomic and Community Development	15,866	17,387	10,703
Department of Labor and Human Resources	49,827	55,900	40,896
Labor Relations Board	962	1,038	970
Department of Housing	30,995	36,548	37,953
Department of Recreation and Sports	31,618	33,361	35,526
Administration for the Horse Racing Sport and Industry	—	—	16
Women's Affairs Commission	4,304	7,064	6,173
Public Housing Administration	5,579	7,212	5,676
Office of the Veteran's Ombudsman	3,739	3,798	2,535
Department of Family	45,914	56,480	45,578
Family and Children Administration	176,970	206,547	193,676
Minors Support Administration	16,489	21,537	19,360
Vocational Rehabilitation Administration	23,733	31,286	29,395
Social Economic Development Administration	91,018	105,836	102,293
Office of the Disabled Persons Ombudsman	2,230	3,347	2,343
Office for Elderly Affairs	2,771	4,338	4,087
Company for the Integral Development of the Península de Cantera	595	659	659
Patient Ombudsman	2,287	2,451	1,941
Administration for the Care and Development of the Childhood	7,207	10,203	9,048
Office of Protection and Defense for People with Disabilities	—	480	135
	<u>512,104</u>	<u>605,472</u>	<u>548,963</u>
Education:			
Department of Education	2,473,840	2,670,472	2,618,622
Institute of Puerto Rican Culture	18,176	19,382	16,609
Puerto Rico School of Plastics Arts	2,699	2,856	2,748
State Office for Historic Preservation	7,019	7,821	2,798
University of Puerto Rico	551,614	551,614	552,693
Musical Arts Corporation	5,228	5,834	5,721
Fine Arts Center Corporation	4,149	4,419	5,031
Puerto Rico Public Broadcasting Corporation	—	713	670
Puerto Rico Conservatory of Music Corporation	4,751	5,008	4,851
Puerto Rico Council on Education	—	—	11
	<u>3,067,476</u>	<u>3,268,119</u>	<u>3,209,754</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2023

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Economic development:			
Department of Transportation and Public Works	\$ 115,709	135,244	148,200
Department of Natural and Environmental Resources	103,967	130,068	101,088
Department of Agriculture	34,183	35,653	35,908
Cooperative Enterprises Development Administration	2,824	2,932	2,176
Department of Economic Development and Commerce	30,109	108,200	156,472
Agricultural Enterprises Development Administration	53,682	55,224	52,592
Economic Development Bank for Puerto Rico	—	316	316
Environmental Quality Board	—	—	417
Farm Insurance	—	92	92
Information and Technology Communication Office	64,509	61,631	64,716
Land Authority of Puerto Rico	—	409	340
Ponce Ports Authority	714	730	730
Puerto Rico Gaming Commission	2,329	3,322	2,998
Puerto Rico Infrastructure Financing Authority	2,187	5,625	37,529
Puerto Rico Highway and Transportation Authority	—	—	16,268
Innovation Fund for Agricultural Development	—	48	48
Puerto Rico Industrial Commission	—	572	572
Puerto Rico Housing Finance Authority	7,900	8,375	8,375
Puerto Rico Integrated Transportation Authority	42,224	84,974	76,456
Puerto Rico Land Administration	—	159	159
Puerto Rico Ports Authority	—	2,449	2,386
Puerto Rico Fiscal Agency and Financial Advisory Authority	51,696	55,077	64,378
Puerto Rico Acueduct and Sewer Authority	—	1,633	1,633
Puerto Rico Public Partnership Authority	13,347	14,118	14,118
Puerto Rico Tourism Company	—	622	622
Culebra Conservation and Development Authority	239	261	259
Ports of Americas Authority	211	211	211
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	1,139	8,351	2,820
Puerto Rico Convention Center District Authority	—	758	38
Office of the Commissioner of Financial Institutions of Puerto Rico	—	372	246
Total economic development	<u>526,969</u>	<u>717,426</u>	<u>792,163</u>
Intergovernmental – Municipal Services Administration	<u>141,926</u>	<u>162,681</u>	<u>166,177</u>
Total expenditures	<u>\$ 12,426,459</u>	<u>14,524,406</u>	<u>12,877,571</u>

(1) As a department and a fiscal agent.

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2023

(In thousands)

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

(1) Employees' Retirement System of the Commonwealth of Puerto Rico

The special revenue fund of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(2) Public Buildings Authority Special Revenue Fund

The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's Primary Government agencies.

(3) Puerto Rico Fiscal Agency and Finance Advisory Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Fiscal Agency and Finance Advisory Authority, a blended component unit, is used to account for the moneys received from the Commonwealth for the purpose of overseeing compliance with the certified budget and fiscal plan pursuant to the PROMESA Act of 2016; revise matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Commonwealth; enter into a creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body.

(4) Puerto Rico Infrastructure Financing Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to \$117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which are collected by the U.S. Treasury and returned to the Commonwealth. Under Act No. 44-1988, as amended, the Commonwealth conditionally allocates to this fund the first \$117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds.

(5) Ponce Authority's Special Revenue Fund

The special revenue fund of Ponce Authority, a blended component unit, is used to account for its remaining legal and certain other administrative requirements resulting after the transfer of all rights and duties to Ponce Ports Authority. The main purpose of the Ponce Authority was the planning, development, and construction of a large-scale container terminal in the city of Ponce, Puerto Rico.

(6) Puerto Rico Public Private Partnerships Authority

The special revenue fund of Puerto Rico Public Partnership Authority, a blended component unit, is used to account for FEMA Pre-disaster Mitigation, Public Assistance, Hazard Mitigation Grant Program and the Crisis Counseling Assistance and Training Program Grant. Also, it is responsible for the identification, and analysis and development of Partnerships projects, for the delivery of needed public infrastructure.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2023

(In thousands)

(7) Puerto Rico System of Annuities and Pension for Teachers

The special revenue fund of the Puerto Rico System of Annuities and Pension for Teachers, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(8) Retirement System of the Judiciary of the Commonwealth of Puerto Rico

The special revenue fund of the Retirement System of the Judiciary of the Commonwealth of Puerto Rico, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(9) Special Communities Perpetual Trust's Special Revenue Fund

The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain under privileged communities.

(10) The Children's Trust Special Revenue Fund

The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998, between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

(11) University of Puerto Rico Comprehensive Cancer Center's Special Revenue Fund

The special revenue fund of the University of Puerto Rico Comprehensive Cancer Center, a blended component unit, is used to account for the moneys received from the Commonwealth and certain other grants from both the private sector and the Federal government, to execute public policy related to the prevention, orientation, investigation, and treatment of cancer in Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

(1) Puerto Rico Infrastructure Financing Authority's Debt Service Fund

The debt service fund of the Puerto Rico Infrastructure Financing Authority accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its special tax revenue bonds. These resources are received from operating transfers from the Puerto Rico Infrastructure Financing Authority Special Revenue Fund.

(2) Puerto Rico Maritime Shipping Authority Debt Service Fund

This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term liability that

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2023

(In thousands)

resulted from the sale of its marine operations. This fund is mainly subsidized by appropriations and operating transfers from the General Fund.

(3) The Children's Trust Debt Service Fund

The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, the Puerto Rico Infrastructure Financing Authority's Capital Project Fund, proprietary fund types, pension trust funds, and discretely presented component units.

(1) Commonwealth of Puerto Rico Capital Project Fund

These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

(2) Public Buildings Authority's Capital Projects Fund

The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2023
(In thousands)

	Special Revenue								
	Employee's Retirement System of the Government of the Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Fiscal Agency and Financial Advisory Authority	Puerto Rico Infrastructure Financing Authority	Ponce Authority	Puerto Rico Public Private Partnerships Authority	Puerto Rico Systems of Annuities and Pensions for Teachers	Retirement System of the Judiciary of the Commonwealth of Puerto Rico	Special Communities Perpetual Trust
Assets:									
Cash and cash equivalents in commercial banks	\$ 44,649	132,312	130,301	47,263	1,039	33,019	36,435	—	881
Investments	49,737	—	—	—	—	—	4,967	—	—
Receivables – net:									
Intergovernmental	—	—	—	—	—	68,318	—	—	—
Accounts	—	—	267	—	—	—	—	—	3
Loans	151,334	—	—	—	—	—	104,711	79	—
Other	396	—	—	—	—	—	148	—	—
Due from:									
Other funds	137,235	47,191	—	22,422	—	—	—	—	—
Other governmental entities	—	—	1,228	4,528	325	—	—	—	658
Other assets	—	—	473	1,832	—	—	—	—	—
Restricted assets:									
Cash and cash equivalents in commercial banks	38,265	136,621	36,096	178,503	—	14,619	—	159	—
Investments	—	—	—	—	—	—	—	—	—
Other	—	—	—	383	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—	—	—
Total assets	\$ 421,616	316,124	168,365	254,931	1,364	115,956	146,261	238	1,542
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	\$ 1,817	7,157	22,867	114,796	963	76,048	2,284	1	20,571
Due to:									
Other funds	—	4,815	3,707	43,087	4,038	—	—	—	—
Component units	—	—	—	4,556	—	6,262	—	—	—
Other governmental entities	—	1,652	—	49,111	28	—	358	—	45
Interest payable	—	—	—	—	—	—	—	—	—
Unearned revenue	—	17,793	30,386	—	—	—	—	—	—
Notes payable to GDB	—	—	—	—	1,700	—	—	—	—
Total liabilities	1,817	31,417	56,960	211,550	6,729	82,310	2,642	1	20,616
Deferred inflow of resources:									
Global tobacco settlement agreement	—	—	—	—	—	—	—	—	—
Total deferred inflow of resources	—	—	—	—	—	—	—	—	—
Fund balances:									
Restricted for:									
Education	—	—	—	—	—	—	143,619	—	—
Public Safety	—	—	—	—	—	—	—	237	—
Debt service	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—
General Government	419,799	—	—	—	—	—	—	—	—
Committed to:									
Public housing and welfare	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—
Assigned to:									
Capital projects	—	284,707	—	43,381	—	—	—	—	—
General Government	—	—	111,405	—	—	—	—	—	—
Economic Development	—	—	—	—	—	33,646	—	—	—
Unassigned (deficit)	—	—	—	—	(5,365)	—	—	—	(19,074)
Total fund balances (deficit)	419,799	284,707	111,405	43,381	(5,365)	33,646	143,619	237	(19,074)
Total liabilities, deferred inflow of resources, and fund balances (deficit)	\$ 421,616	316,124	168,365	254,931	1,364	115,956	146,261	238	1,542

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2023
(In thousands)

	Special Revenue		Debt Service			Capital Projects			Total Nonmajor Governmental Funds
	The Children's Trust	University of Puerto Rico Comprehensive Cancer Center	The Children's Trust	Puerto Rico Infrastructure Financing Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Eliminations	
Assets:									
Cash and cash equivalents in commercial banks	\$ 10,726	5,610	—	—	—	—	—	—	442,235
Investments	—	—	—	—	—	—	—	—	54,704
Receivables – net:									
Intergovernmental	—	3,749	—	—	—	—	—	—	72,067
Accounts	—	12,798	—	—	—	710	—	—	13,778
Loans	—	—	—	—	—	—	—	—	256,124
Other	—	48	37,250	—	—	—	—	—	37,842
Due from:									
Other funds	—	—	—	—	—	—	—	(4,291)	202,557
Other governmental entities	—	—	—	—	—	—	—	—	6,739
Other assets	—	—	—	—	—	—	—	—	2,305
Restricted assets:									
Cash and cash equivalents in commercial banks	—	11,213	—	—	—	12,881	—	—	428,357
Investments	—	—	104,630	—	—	—	—	—	104,630
Other	—	—	547	—	—	—	—	—	930
Real estate held for sale or future development	—	—	—	—	—	1,854	—	—	1,854
Total assets	\$ 10,726	33,418	142,427	—	—	15,445	—	(4,291)	1,624,122
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	\$ 82	9,872	—	—	—	28	—	—	256,486
Due to:									
Other funds	—	—	—	—	—	—	—	(4,291)	51,356
Component units	—	2,197	—	—	—	—	—	—	13,015
Other governmental entities	—	—	—	—	8	—	—	—	51,202
Interest payable	—	59,762	—	—	—	—	—	—	59,762
Unearned revenue	—	—	—	—	—	—	—	—	48,179
Notes payable to GDB	—	31,932	—	—	—	—	—	—	33,632
Total liabilities	82	103,763	—	—	8	28	—	(4,291)	513,632
Deferred inflow of resources:									
Global tobacco settlement agreement	—	—	37,250	—	—	—	—	—	37,250
Total deferred inflow of resources	—	—	37,250	—	—	—	—	—	37,250
Fund balances:									
Restricted for:									
Education	—	—	—	—	—	—	—	—	143,619
Public safety	—	—	—	—	—	—	—	—	237
Debt service	—	—	105,177	—	—	—	—	—	105,177
Capital projects	—	—	—	—	—	15,417	—	—	15,417
General Government	—	—	—	—	—	—	—	—	419,799
Committed to:									
Public housing and welfare	10,644	—	—	—	—	—	—	—	10,644
Capital projects	—	2,260	—	—	—	—	—	—	2,260
Assigned to:									
Capital projects	—	—	—	—	—	—	—	—	328,088
General Government	—	—	—	—	—	—	—	—	111,405
Economic Development	—	—	—	—	—	—	—	—	33,646
Unassigned (deficit)	—	(72,605)	—	—	(8)	—	—	—	(97,052)
Total fund balances (deficit)	10,644	(70,345)	105,177	—	(8)	15,417	—	—	1,073,240
Total liabilities, deferred inflow of resources, and fund balances (deficit)	\$ 10,726	33,418	142,427	—	—	15,445	—	(4,291)	1,624,122

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2023

(In thousands)

	Special Revenue								
	Employee's Retirement System of the Government of the Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Fiscal Agency and Financial Advisory Authority	Puerto Rico Infrastructure Financing Authority	Ponce Authority	Puerto Rico Public Private Partnerships Authority	Puerto Rico Systems of Annuities and Pensions for Teachers	Retirement System of the Judiciary of the Commonwealth of Puerto Rico	Special Communities Perpetual Trust
Revenue:									
Intergovernmental	\$ —	82,139	9,144	129,108	—	1,520,125	—	—	—
Interest and investment earnings	—	3,547	3,554	6,168	1	381	—	—	—
Other	—	14,056	2,390	132	—	3,130	—	—	132
Total revenue	—	99,742	15,088	135,408	1	1,523,636	—	—	132
Expenditures:									
Current:									
General government	339	158,136	57,483	146,532	—	—	—	—	—
Health	—	—	—	—	—	—	—	—	—
Public housing and welfare	—	—	—	—	—	—	—	—	353
Economic development	—	—	—	—	27	1,538,761	—	—	—
Capital outlays	—	1,297	363	—	—	35	—	—	—
Debt service:									
Principal	—	—	152	40	—	—	—	—	—
Interest and other	—	—	31	—	—	—	—	—	—
Other – debt issuance costs	—	—	—	—	—	—	—	—	—
Total expenditures	339	159,433	58,029	146,572	27	1,538,796	—	—	353
Excess (deficiency) of revenue over (under) expenditures	(339)	(59,691)	(42,941)	(11,164)	(26)	(15,160)	—	—	(221)
Other financing sources (uses):									
Transfers in	7,001	219,816	54,990	2,672	211	14,117	17,695	73	—
Transfers out	—	(3,156)	—	—	—	—	—	—	—
Total other financing sources	7,001	216,660	54,990	2,672	211	14,117	17,695	73	—
Extraordinary item:									
Gain (loss) on PROMESA Tittle III transaction	—	—	—	—	—	—	—	—	—
Total extraordinary item	—	—	—	—	—	—	—	—	—
Net change in fund balances	6,662	156,969	12,049	(8,492)	185	(1,043)	17,695	73	(221)
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	413,137	127,738	99,356	51,873	(5,550)	34,689	125,924	164	(18,853)
Fund balances (deficit) – end of year	\$ 419,799	284,707	111,405	43,381	(5,365)	33,646	143,619	237	(19,074)

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2023

(In thousands)

	Special Revenue		Debt Service			Capital Projects			Total Nonmajor Governmental Funds
	The Children's Trust	University of Puerto Rico Comprehensive Cancer Center	The Children's Trust	Puerto Rico Infrastructure Financing Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Eliminations	
Revenue:									
Intergovernmental	\$ —	8,869	—	—	—	—	—	—	1,749,385
Interest and investment earnings	302	—	4,030	—	—	—	—	—	17,983
Other	58	21,097	—	—	—	—	—	—	40,995
Total revenue	360	29,966	4,030	—	—	—	—	—	1,808,363
Expenditures:									
Current:									
General government	—	—	—	—	—	(9)	—	—	362,481
Health	—	62,590	—	—	—	—	—	—	62,590
Public housing and welfare	104	—	—	—	—	—	—	—	457
Economic development	—	—	—	—	226	—	—	—	1,539,014
Capital outlays	—	30,781	—	—	—	3,201	3,156	—	38,833
Debt service:									
Principal	—	31,932	46,050	—	—	17	—	—	78,191
Interest and other	—	9,897	34,073	—	—	—	—	—	44,001
Other – debt issuance costs	—	—	—	—	3,646	—	—	—	3,646
Total expenditures	104	135,200	80,123	—	3,872	3,209	3,156	—	2,129,213
Excess (deficiency) of revenue over (under) expenditures	256	(105,234)	(76,093)	—	(3,872)	(3,209)	(3,156)	—	(320,850)
Other financing sources (uses):									
Transfers in	20	36,065	75,321	55	1,899	3,236	3,156	(3,178)	433,149
Transfers out	—	—	(20)	(2)	—	—	—	3,178	—
Total other financing sources	20	36,065	75,301	53	1,899	3,236	3,156	—	433,149
Extraordinary item:									
Gain (loss) on PROMESA Tittle III transaction	—	—	—	1,938	49,840	—	—	—	51,778
Total extraordinary item	—	—	—	1,938	49,840	—	—	—	51,778
Net change in fund balances	276	(69,169)	(792)	1,991	47,867	27	—	—	164,077
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	10,368	(1,176)	105,969	(1,991)	(47,875)	15,390	—	—	909,163
Fund balances (deficit) – end of year	\$ 10,644	(70,345)	105,177	—	(8)	15,417	—	—	1,073,240

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Proprietary Funds

Year ended June 30, 2023

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government 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.

Bureau of Emergency Services 9-1-1

This fund was created by Act No. 144-1994. The Bureau of Emergency Services 9-1-1 is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number and transferring these to the appropriate response agencies.

Disability Insurance

This fund was created by Act No. 139-1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to employment.

Drivers' Insurance

This fund was created by Act No. 428-1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Lotteries Fund

This fund accounts for the assets and operations of the two lottery systems administered by the Commonwealth.

Ponce Ports Authority

This fund was created by Act No. 240-2011. It is used to account for the development of the container terminal formerly undertaken by Ponce Authority and handle such facilities future operations.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund

This fund was created by Act No. 32-1997. It is administered, pursuant to Act No. 9-1970, as amended, by the PRDOH. Pursuant to such act, the PRDOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

Puerto Rico Water Pollution Control Revolving Fund

This fund, administered by the EQB, is authorized to enter into operating agreements and capitalization grant agreements with the EPA, mostly for water infrastructure projects, under a joint cooperation agreement between the EQB, PRIFA, PRASA, and the FAFAA, where each entity has agreed to assume their corresponding responsibilities.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Nonmajor Proprietary Funds

June 30, 2023

(In thousands)

Business-Type Activities – Nonmajor Enterprise Funds								
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	Total
Assets:								
Current assets:								
Cash and cash equivalents in commercial banks	\$ 57,423	61,882	9,622	131,770	1,585	—	—	262,282
Receivables - net:								
Insurance premiums	—	3,986	1,278	—	—	—	—	5,264
Intergovernmental	—	—	—	—	244	—	—	244
Accounts	2,502	—	—	3,859	448	—	—	6,809
Accrued interest	—	156	—	—	—	—	—	156
Other	—	131	—	—	44	—	—	175
Due from other funds	—	—	—	51,786	4,038	—	—	55,824
Due from other governmental entities	—	—	—	—	104	—	—	104
Other assets	20	—	—	—	26	—	—	46
Restricted assets:								
Cash and cash equivalents in commercial banks	—	3,480	9,433	—	609	72,724	189,798	276,044
Receivables - net:								
Accounts	—	—	—	—	—	—	18	18
Accrued interest	—	—	—	—	—	315	1,522	1,837
Loans from component units	—	—	—	—	—	3,300	11,355	14,655
Total current assets	59,945	69,635	20,333	187,415	7,098	76,339	202,693	623,458
Noncurrent assets:								
Receivables - net:								
Loans from component units – restricted	—	—	—	—	—	179,731	435,093	614,824
Restricted investments	—	29,347	—	—	—	—	—	29,347
Other restricted assets	—	—	—	10,917	—	—	18	10,935
Land and other nondepreciable assets	490	—	—	—	28,643	—	—	29,133
Capital assets, net of depreciation/amortization	8,843	466	495	240	178	—	—	10,222
Total assets	69,278	99,448	20,828	198,572	35,919	256,070	637,804	1,317,919
Deferred outflows of resources:								
Other postemployment benefits related	4	91	43	139	—	—	—	277
Pension related	2,105	4,219	1,974	12,335	—	—	—	20,633
Total deferred outflows of resources	2,109	4,310	2,017	12,474	—	—	—	20,910
Liabilities and net position:								
Current liabilities:								
Accounts payable and accrued liabilities	2,148	226	414	4,259	466	321	586	8,420
Due to other funds	9,044	—	—	—	—	—	—	9,044
Due to other governmental entities	—	—	—	—	77	115	184	376
Interest payable	—	1	1	—	12,822	—	—	12,824
Unearned revenue	—	1,534	8	14,893	608	—	—	17,043
Lease liability	580	156	165	—	—	—	—	901
Subscription liability	2,264	—	—	—	—	—	—	2,264
Compensated absences	297	159	60	109	—	—	—	625
Obligation for unpaid lottery prizes	—	—	—	127,372	—	—	—	127,372
Voluntary termination benefits payable	—	—	—	256	—	—	—	256
Liability for insurance benefits	—	441	83	—	—	—	—	524
Total pension liability	2,105	1,754	821	2,798	—	—	—	7,478
Total other postemployment benefits liability	4	92	43	143	—	—	—	282
Total current liabilities	16,442	4,363	1,595	149,830	13,973	436	770	187,409
Noncurrent liabilities:								
Notes payable to component units	—	—	—	—	20,762	—	—	20,762
Lease liability	818	315	335	—	—	—	—	1,468
Subscription liability	2,198	—	—	—	—	—	—	2,198
Compensated absences	1,189	310	102	949	—	—	—	2,550
Obligation for unpaid lottery prizes	—	—	—	30,536	—	—	—	30,536
Voluntary termination benefits payable	—	—	—	1,024	—	—	—	1,024
Total pension liability	2,796	24,585	11,507	49,162	—	—	—	88,050
Total other postemployment benefits liability	79	746	349	1,543	—	—	—	2,717
Total liabilities	23,522	30,319	13,888	233,044	34,735	436	770	336,714
Deferred inflows of resources:								
Pension related	489	4,196	1,964	5,592	—	—	—	12,241
Net position:								
Net investment in capital assets	3,473	(5)	(5)	240	2,593	—	—	6,296
Restricted for emergency services	6,269	—	—	—	—	—	—	6,269
Restricted for lending activities	—	—	—	—	—	255,634	637,034	892,668
Restricted for payment of insurance benefits	—	32,386	9,433	—	—	—	—	41,819
Unrestricted	37,634	36,862	(2,435)	(27,830)	(1,409)	—	—	42,822
Total net position	\$ 47,376	69,243	6,993	(27,590)	1,184	255,634	637,034	989,874

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenses, and Changes in Fund Net Position – Nonmajor Proprietary Funds

Year ended June 30, 2023

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							Total
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	
Operating revenue:								
Insurance premiums	\$ —	20,526	5,588	—	—	—	—	26,114
Emergency telephone service charges	23,148	—	—	—	—	—	—	23,148
Lottery ticket sales	—	—	—	817,699	—	—	—	817,699
Interest	—	—	—	—	—	—	835	835
Other	—	—	—	54	1,680	—	—	1,734
Total operating revenue	23,148	20,526	5,588	817,753	1,680	—	835	869,530
Operating expenses:								
Insurance benefits	—	1,116	496	—	—	—	—	1,612
Lottery prizes	—	—	—	520,924	—	—	—	520,924
General, administrative, and other operating expenses	13,918	3,973	2,336	74,751	1,674	721	606	97,979
Total operating expenses	13,918	5,089	2,832	595,675	1,674	721	606	620,515
Operating income (loss)	9,230	15,437	2,756	222,078	6	(721)	229	249,015
Nonoperating revenue (expenses):								
U.S. government grants	—	—	—	—	295	7,086	25,820	33,201
Contributions to component units	—	—	—	—	—	(5,738)	(3,141)	(8,879)
Interest and investment earnings	1,342	1,869	—	1,599	—	2,552	6,896	14,258
Loss on disposition of capital assets	(121)	—	—	—	—	—	—	(121)
Interest expense	(135)	—	—	—	(1,490)	—	—	(1,625)
Other	894	—	—	(52)	44	—	—	886
Total nonoperating revenue (expenses)	1,980	1,869	—	1,547	(1,151)	3,900	29,575	37,720
Income (loss) before transfers	11,210	17,306	2,756	223,625	(1,145)	3,179	29,804	286,735
Transfers from other funds	—	5,898	2,761	—	729	7,546	—	16,934
Transfers to other funds	(7,177)	—	—	(223,625)	—	—	—	(230,802)
Net change in net position	4,033	23,204	5,517	—	(416)	10,725	29,804	72,867
Net position (deficit) – beginning of year, as restated (see note 4 to financial statement)	43,343	46,039	1,476	(27,590)	1,600	244,909	607,230	917,007
Net position (deficit) – end of year	\$ 47,376	69,243	6,993	(27,590)	1,184	255,634	637,034	989,874

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
Combining Statement of Cash Flows – Nonmajor Proprietary Funds
Year ended June 30, 2023
(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							Total
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	
Cash flows from operating activities:								
Receipts from customers and users	\$ 23,215	20,619	5,373	820,053	1,166	—	—	870,426
Other receipts	—	—	—	54	—	—	—	54
Payments to suppliers	(2,860)	(7,063)	(3,238)	(76,365)	(1,678)	(563)	(618)	(92,385)
Payments to employees	(7,745)	(2,815)	(1,585)	(5,690)	(493)	—	—	(18,328)
Loans originated	—	—	—	—	—	(3,145)	(22,061)	(25,206)
Principal collected on loans	—	—	—	—	—	3,300	6,718	10,018
Interest received on loans	—	—	—	—	—	—	619	619
Payments of lottery prizes	—	—	—	(520,362)	—	—	—	(520,362)
Payments of insurance benefits	—	(1,141)	(508)	—	—	—	—	(1,649)
Net cash provided by (used in) operating activities	12,610	9,600	42	217,690	(1,005)	(408)	(15,342)	223,187
Cash flows from noncapital financing activities:								
U.S. government grants	—	—	—	—	667	7,085	25,820	33,572
Contributions to component units	—	—	—	—	—	(5,737)	(3,141)	(8,878)
Other receipts	894	—	—	—	—	—	—	894
Transfers from other funds	—	5,897	2,761	—	713	7,546	—	16,917
Transfers to other funds	(7,368)	—	—	(223,354)	(63)	—	—	(230,785)
Net cash provided by (used in) noncapital financing activities	(6,474)	5,897	2,761	(223,354)	1,317	8,894	22,679	(188,280)
Cash flows from capital and related financing activities:								
Principal and interest payments	(1,623)	(51)	(143)	—	—	—	—	(1,817)
Capital expenditures	—	—	—	(116)	(173)	—	—	(289)
Net cash provided by (used in) by capital and related financing activities	(1,623)	(51)	(143)	(116)	(173)	—	—	(2,106)
Cash flows from investing activities:								
Interest collected on deposits, and investments	1,342	—	—	1,599	44	2,282	6,224	11,491
Proceeds from sales and maturities of investments	—	777	—	—	—	—	—	777
Net cash provided by (used in) investing activities	1,342	777	—	1,599	44	2,282	6,224	12,268
Net increase (decrease) in cash and cash equivalents	5,855	16,223	2,660	(4,181)	183	10,768	13,561	45,069
Cash and cash equivalents – beginning of year, as restated	51,568	49,139	16,395	135,951	2,011	61,956	176,237	493,257
Cash and cash equivalents – end of year	\$ 57,423	65,362	19,055	131,770	2,194	72,724	189,798	538,326
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ 9,230	15,437	2,756	222,078	6	(721)	229	249,015
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	1,759	54	146	53	10	—	—	2,022
Provision for bad debt expense	169	—	—	—	71	—	—	240
Changes in operating assets and liabilities:								
Decrease (increase) in accounts receivable	73	145	(207)	(1,099)	(410)	—	—	(1,498)
Increase (decrease) in due from component units	—	—	—	—	—	155	(15,559)	(15,404)
Increase in due from other governmental entities	—	—	—	—	(104)	—	—	(104)
Decrease (increase) in other assets	(6)	—	—	2,125	(26)	—	—	2,093
Decrease (increase) in deferred outflow of resources	(1,580)	1,261	591	(3,773)	—	—	—	(3,501)
Increase (decrease) in accounts payable and accrued liabilities	487	(34)	165	(4,271)	(629)	43	(196)	(4,435)
Increase (decrease) in due to other funds	—	—	—	—	—	115	184	299
Increase in due to other governmental entities	—	—	—	—	77	—	—	77
Increase (decrease) in unearned revenue	—	(52)	(8)	1,328	—	—	—	1,268
Increase (decrease) in compensated absences	165	(28)	(39)	13	—	—	—	111
Decrease in deferred inflow of resources	364	2,511	1,176	2,654	—	—	—	6,705
Decrease in total pension liability	1,908	(9,261)	(4,334)	(1,935)	—	—	—	(13,622)
Increase (decrease) in otherpostemployment benefits liability	41	(409)	(192)	4	—	—	—	(556)
Increase in obligation for unpaid lottery prizes	—	—	—	562	—	—	—	562
Decrease in voluntary termination benefits payable	—	—	—	(49)	—	—	—	(49)
Increase (decrease) in liability for disability benefits payable	—	(24)	(12)	—	—	—	—	(36)
Total adjustments	3,380	(5,837)	(2,714)	(4,388)	(1,011)	313	(15,571)	(25,828)
Net cash provided by (used in) operating activities	\$ 12,610	9,600	42	217,690	(1,005)	(408)	(15,342)	223,187
Noncash capital and financing activities:								
Loss on disposition of capital assets	\$ 121	—	—	52	—	—	—	173
Subscription asset liability	\$ 5,398	—	—	—	—	—	—	5,398

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2023

These entities, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statement No. 39 and No. 61, are discretely presented in a separate column of the basic financial statements of the Primary Government principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because these discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of the Puerto Rico Science, Technology and Research Trust, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These entities have been classified as nonmajor discretely presented component units because management believes they do not meet the following factors for inclusion as major: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. The accounting principles followed by each of the discretely presented component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements.

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Center of Diabetes for Puerto Rico	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
Assets:					
Cash and cash equivalents in commercial banks	\$ 57,211	37,644	641	1,974	24,849
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	157,167	—	—	—	—
Receivables – net:					
Insurance premiums	—	—	—	—	—
Intergovernmental	—	—	—	188	—
Accounts	26,919	9,541	—	—	—
Loans and advances	—	—	—	5,530	—
Accrued interest	606	—	—	—	—
Lease receivable	777	4,915	—	—	—
Other	551	83	91	4	—
Due from – net:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	686	886	—	—	27
Inventories	—	1,838	—	—	—
Prepaid expenses	—	2,411	—	37	—
Other assets	392	—	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	179	20,094	2,253	—	—
Investments	—	—	—	—	—
Other restricted assets	—	—	—	497	—
Real estate held for sale or future development	—	—	—	1,061	—
Capital assets:					
Land and other nondepreciable	901	1,971	—	80	4,542
Other capital assets, net of depreciation/amortization	7,241	27,239	315	523	506
Total assets	252,630	106,622	3,300	9,894	29,924
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	379	54	—	—	—
Pension related	31,372	15,637	—	—	—
Total deferred outflows of resources	31,751	15,691	—	—	—
Liabilities:					
Accounts payable and accrued liabilities	3,612	22,240	59	1,304	1,179
Deposits and escrow liabilities	—	—	—	—	—
Due to:					
Primary government	12,953	—	—	—	—
Component units	—	2,153	—	37,791	—
Other governmental entities	—	2,011	218	—	—
Interest payable	—	—	—	23,234	—
Unearned revenue	45,829	20,256	—	5	—
Liabilities payable within one year:					
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—
Lease liability	692	77	—	—	—
Subscription liability	—	634	—	—	—
Compensated absences	2,017	1,464	34	44	26
Voluntary termination benefits payable	814	—	—	—	—
Liability for insurance benefit	61,402	—	—	—	—
Total pension liability	12,414	1,670	—	—	—
Total other postemployment benefits liability	379	54	—	—	—
Other long-term liabilities	—	525	—	—	—
Liabilities payable after one year:					
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—
Lease liability	2,194	150	—	—	—
Subscription liability	—	524	—	—	—
Compensated absences	—	—	1	—	274
Voluntary termination benefits payable	3,609	—	—	—	—
Net pension obligation	—	—	—	—	—
Total pension liability	172,439	39,431	—	—	—
Total other postemployment benefits liability	3,378	537	—	—	—
Other long-term liabilities	2,000	35	2,252	—	—
Total liabilities	323,732	91,761	2,564	62,378	1,479
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Leases	777	4,732	—	—	—
Pension related	32,263	4,105	—	—	—
Total deferred inflows of resources	33,040	8,837	—	—	—
Net position:					
Net investment in capital assets	5,255	27,825	315	603	5,048
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	—	—	—	497	—
Unrestricted (deficit)	(77,646)	(6,110)	421	(53,584)	23,397
Total net position (deficit)	\$ (72,391)	21,715	736	(52,484)	28,445

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Economic Development Bank for Puerto Rico	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Government Development Bank Debt Restructuring Authority	Institute of Puerto Rican Culture
Assets:					
Cash and cash equivalents in commercial banks	\$ 105,284	11,724	1,009	—	28,503
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	40,134	—	—	—	—
Receivables – net:					
Intergovernmental	—	—	—	—	—
Accounts	—	—	86	—	1,521
Loans and advances	12,971	—	—	—	—
Accrued interest	141	—	—	37,295	—
Lease receivable	—	—	370	—	—
Other	—	—	—	—	—
Due from – net:					
Primary government	35,448	3,338	—	—	—
Component units	—	—	—	34,268	—
Other governmental entities	—	7,698	—	868,846	—
Inventories	—	—	—	—	1,524
Prepaid expenses	—	7	1,965	—	—
Other assets	138	—	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	—	14,921	18,524	680
Investments	—	—	—	26,612	—
Other restricted assets	—	—	—	270	—
Real estate held for sale or future development	111	—	—	1,038	—
Capital assets:					
Land and other nondepreciable	2,735	—	3,233	—	1,214
Other capital assets, net of depreciation/amortization	4,371	108	10,060	—	28,921
Total assets	201,333	22,875	31,644	986,853	62,363
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	36	5	8	—	163
Pension related	11,862	1,547	3,873	—	9,979
Total deferred outflows of resources	11,898	1,552	3,881	—	10,142
Liabilities:					
Accounts payable and accrued liabilities	10,498	1,639	732	13,177	4,559
Deposits and escrow liabilities	110,400	—	394	—	—
Due to:					
Primary government	—	7,826	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	4,692	—	—	—
Interest payable	19	—	—	43,657	—
Unearned revenue	25,235	5,104	—	—	17,858
Liabilities payable within one year:					
Revenue bonds	—	—	—	59,016	—
Notes payable to financial institutions	—	—	—	—	—
Lease liability	—	—	—	—	—
Subscription liability	—	—	—	—	—
Compensated absences	237	86	101	—	25
Voluntary termination benefits payable	201	—	146	—	222
Liability for insurance benefits	—	—	—	—	—
Total pension liability	1,688	132	375	—	3,133
Total other postemployment benefits liability	32	5	8	—	163
Other long-term liabilities	100	—	—	—	—
Liabilities payable after one year:					
Revenue bonds	—	—	—	1,552,926	—
Notes payable to financial institutions	—	—	—	—	—
Lease liability	—	—	—	—	—
Subscription liability	—	—	—	—	—
Compensated absences	349	403	104	—	478
Voluntary termination benefits payable	351	—	569	—	704
Net pension obligation	—	—	—	—	—
Total pension liability	30,724	3,636	9,450	—	49,693
Total other postemployment benefits liability	415	46	304	—	1,832
Other long-term liabilities	—	238	—	—	—
Total liabilities	180,249	23,807	12,183	1,668,776	78,667
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Leases	—	—	338	—	—
Pension related	3,237	403	1,242	—	6,870
Total deferred inflows of resources	3,237	403	1,580	—	6,870
Net position:					
Net investment in capital assets	7,106	108	13,295	—	30,135
Restricted for:					
Capital projects	—	—	—	—	680
Debt service	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	9,111	—	14,921	—	—
Unrestricted (deficit)	13,528	109	(6,454)	(681,923)	(43,847)
Total net position (deficit)	\$ 29,745	217	21,762	(681,923)	(13,032)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	Musical Arts Corporation	Public Corporation for the Supervision and Deposit Insurance of P.R. Cooperatives
Assets:					
Cash and cash equivalents in commercial banks	\$ 4,542	45,095	9,569	6,446	3,268
Cash and cash equivalents in governmental banks	—	2,150	—	—	—
Investments	6,962	—	—	—	303,651
Receivables – net:					
Intergovernmental	—	—	594	—	—
Accounts	1,613	41,193	2,025	1	—
Loans and advances	—	—	—	—	3,731
Accrued interest	326	2,084	—	—	2,755
Lease receivable	934	50,898	16,769	—	—
Other	18,420	—	—	1	63
Due from – net:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	122	—
Inventories	—	—	—	—	—
Prepaid expenses	147	1,145	121	—	—
Other assets	—	2,885	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	38,527	51	1,186	—
Investments	41,385	—	—	—	—
Other restricted assets	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—
Capital assets:					
Land and other nondepreciable	8,887	88,128	12,098	568	35
Other capital assets, net of depreciation/amortization	4,909	4,993	3,820	455	1,028
Total assets	88,125	277,098	45,047	8,779	314,531
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	—	113	—	16	—
Pension related	367	11,836	—	1,074	6,242
Total deferred outflows of resources	367	11,949	—	1,090	6,242
Liabilities:					
Accounts payable and accrued liabilities	2,007	13,211	828	215	64,563
Deposits and escrow liabilities	—	2,464	401	—	—
Due to:					
Primary government	—	17,413	—	—	—
Component units	—	7,395	—	—	—
Other governmental entities	—	27,204	16,819	64	—
Interest payable	—	451	1	—	—
Unearned revenue	—	47,856	—	1,166	—
Liabilities payable within one year:					
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	36,494
Lease liability	—	—	—	10	—
Subscription liability	—	—	—	—	—
Compensated absences	59	52	—	372	—
Voluntary termination benefits payable	—	585	—	40	—
Liability for insurance benefits	—	—	—	—	—
Total pension liability	46	3,010	—	403	544
Total other postemployment benefits liability	—	111	—	16	—
Other long-term liabilities	—	727	—	—	—
Liabilities payable after one year:					
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	1,613
Lease liability	—	—	—	—	—
Subscription liability	—	—	—	—	—
Compensated absences	—	1,355	159	45	881
Voluntary termination benefits payable	—	1,079	—	191	—
Net pension obligation	—	—	—	18,288	—
Total pension liability	1,105	45,906	—	5,965	14,493
Total other postemployment benefits liability	—	987	—	202	—
Other long-term liabilities	—	39,699	—	—	—
Total liabilities	3,217	209,505	18,208	26,977	118,588
Deferred inflows of resources:					
Service concession arrangements	18,041	—	—	—	—
Leases	883	45,974	16,460	—	—
Pension related	115	8,579	—	679	2,057
Total deferred inflows of resources	19,039	54,553	16,460	679	2,057
Net position:					
Net investment in capital assets	13,796	93,121	272	1,013	1,063
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	271	—	—
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	46,356	—	—	1,328	113,452
Unrestricted (deficit)	6,084	(68,132)	9,836	(20,128)	85,613
Total net position (deficit)	\$ 66,236	24,989	10,379	(17,787)	200,128

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Destination Marketing Corporation	Puerto Rico Industrial Development Company
Assets:				
Cash and cash equivalents in commercial banks	\$ 3,125	35,973	17,287	129,374
Cash and cash equivalents in governmental banks	—	—	—	—
Investments	—	5,972	81	—
Receivables – net:				
Intergovernmental	—	—	—	—
Accounts	—	6,601	84	4,188
Loans and advances	—	79	—	—
Accrued interest	—	275	—	—
Lease receivable	—	20,251	—	430,348
Other	660	—	3	4,074
Due from – net:				
Primary government	—	3,010	1,108	2,358
Component units	—	—	5,000	1,358
Other governmental entities	—	448	—	201
Inventories	—	—	—	—
Prepaid expenses	623	131	1,035	4,641
Other assets	—	662	—	—
Restricted assets:				
Cash and cash equivalents in commercial banks	4,773	19,305	—	1,589
Investments	1,054	—	—	1,800
Other restricted assets	—	3,155	—	—
Real estate held for sale or future development	—	—	—	—
Capital assets:				
Land and other nondepreciable	5,157	264,749	—	206,105
Other capital assets, net of depreciation/amortization	57,402	323,731	804	293,325
Total assets	<u>72,794</u>	<u>684,342</u>	<u>25,402</u>	<u>1,079,361</u>
Deferred outflows of resources:				
Loss on bonds refunding	—	—	—	298
Other postemployment benefits related	—	—	—	453
Pension related	3,203	—	—	33,870
Total deferred outflows of resources	<u>3,203</u>	<u>—</u>	<u>—</u>	<u>34,621</u>
Liabilities:				
Accounts payable and accrued liabilities	664	10,842	8,686	7,592
Deposits and escrow liabilities	—	14,165	—	8,947
Due to:				
Primary government	—	—	—	27,921
Component units	—	138,416	—	52,860
Other governmental entities	—	—	—	10,259
Interest payable	—	86,330	—	63,296
Unearned revenue	3,205	16,591	1,758	49,644
Liabilities payable within one year:				
Revenue bonds	—	—	—	78,158
Notes payable to financial institutions	—	—	—	2,980
Lease liability	—	—	100	—
Subscription liability	—	—	—	—
Compensated absences	51	—	—	173
Voluntary termination benefits payable	—	—	—	889
Liability for insurance benefits	—	—	—	—
Total pension liability	514	—	—	13,957
Total other postemployment benefits liability	13	—	—	444
Other long-term liabilities	—	—	2,880	—
Liabilities payable after one year:				
Revenue bonds	—	—	—	71,739
Notes payable to financial institutions	—	—	—	23,980
Lease liability	—	—	338	—
Subscription liability	—	—	—	—
Compensated absences	76	—	—	301
Voluntary termination benefits payable	—	—	—	3,093
Net pension obligation	—	—	—	—
Total pension liability	10,147	—	—	172,854
Total other postemployment benefits liability	150	—	—	4,097
Other long-term liabilities	—	1,524	1,143	9,850
Total liabilities	<u>14,820</u>	<u>267,868</u>	<u>14,905</u>	<u>603,034</u>
Deferred inflows of resources:				
Service concession arrangements	—	—	—	—
Leases	—	19,287	—	405,693
Pension related	1,549	—	—	51,373
Total deferred inflows of resources	<u>1,549</u>	<u>19,287</u>	<u>—</u>	<u>457,066</u>
Net position:				
Net investment in capital assets	62,559	450,064	376	322,573
Restricted for:				
Capital projects	—	—	—	—
Debt service	—	—	—	3,389
Student loans and other educational purpose	2,392	—	—	—
Other specified purposes	3,434	—	479	—
Unrestricted (deficit)	(8,757)	(52,877)	9,642	(272,080)
Total net position (deficit)	<u>\$ 59,628</u>	<u>397,187</u>	<u>10,497</u>	<u>53,882</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Integrated Transit Authority	Puerto Rico Land Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
Assets:					
Cash and cash equivalents in commercial banks	\$ 581	32,263	40,173	3,412	—
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	—	—	—	—	—
Receivables – net:					
Intergovernmental	—	—	—	693	—
Accounts	—	3,412	—	—	—
Loans and advances	—	—	—	—	—
Accrued interest	—	—	480	21	—
Lease receivable	—	4	79,313	4,362	—
Other	—	1,287	544	11	20
Due from – net:					
Primary government	—	5,415	—	—	—
Component units	—	—	—	5,111	—
Other governmental entities	—	175	484	—	—
Inventories	—	—	—	6,030	—
Prepaid expenses	—	4,704	241	—	475
Other assets	—	53	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	—	256	—	58,756
Investments	—	—	—	—	211,815
Other restricted assets	—	—	—	—	4,852
Real estate held for sale or future development	—	—	183,680	—	—
Capital assets:					
Land and other nondepreciable	—	7,370	14,509	2,500	—
Other capital assets, net of depreciation/amortization	—	43,345	6,176	34,014	—
Total assets	<u>581</u>	<u>98,028</u>	<u>325,856</u>	<u>56,154</u>	<u>275,918</u>
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	1	14	69	548	—
Pension related	86	11,253	6,171	30,200	—
Total deferred outflows of resources	<u>87</u>	<u>11,267</u>	<u>6,240</u>	<u>30,748</u>	<u>—</u>
Liabilities:					
Accounts payable and accrued liabilities	—	21,476	3,316	3,967	194
Deposits and escrow liabilities	—	—	30,279	—	24,874
Due to:					
Primary government	—	—	1,234	48,897	—
Component units	—	80,201	—	19,093	—
Other governmental entities	237	—	98	810	—
Interest payable	—	—	616	—	3,703
Unearned revenue	—	234	—	—	—
Liabilities payable within one year:					
Revenue bonds	—	—	—	—	8,980
Notes payable to financial institutions	—	—	—	—	—
Lease liability	—	157	—	57	—
Subscription liability	—	—	—	—	—
Compensated absences	—	248	138	1,593	—
Voluntary termination benefits payable	—	473	247	1,006	—
Liability for insurance benefits	—	—	—	—	—
Total pension liability	32	1,112	2,112	12,052	—
Total other postemployment benefits liability	1	14	75	548	—
Other long-term liabilities	—	259	—	—	—
Liabilities payable after one year:					
Revenue bonds	—	—	—	—	167,975
Notes payable to financial institutions	—	—	—	—	—
Lease liability	—	3,696	—	153	—
Subscription liability	—	—	—	—	—
Compensated absences	—	306	221	845	—
Voluntary termination benefits payable	—	1,424	659	2,596	—
Net pension obligation	—	—	—	—	—
Total pension liability	438	24,101	33,216	171,967	—
Total other postemployment benefits liability	11	402	798	4,915	—
Other long-term liabilities	—	982	—	2,464	—
Total liabilities	<u>719</u>	<u>135,085</u>	<u>73,009</u>	<u>270,963</u>	<u>205,726</u>
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Leases	—	4	77,292	4,331	—
Pension related	149	2,659	4,157	39,833	—
Total deferred inflows of resources	<u>149</u>	<u>2,663</u>	<u>81,449</u>	<u>44,164</u>	<u>—</u>
Net position:					
Net investment in capital assets	—	46,862	20,685	36,304	—
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	—	—	94,765
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	—	—	—	—	—
Unrestricted (deficit)	(200)	(75,315)	156,953	(264,529)	(24,573)
Total net position (deficit)	<u>\$ (200)</u>	<u>(28,453)</u>	<u>177,638</u>	<u>(228,225)</u>	<u>70,192</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Puerto Rico Municipal Finance Corporation	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico School of Plastic Arts
Assets:				
Cash and cash equivalents in commercial banks	\$ 65,801	44,038	253	3,874
Cash and cash equivalents in governmental banks	—	544	—	—
Investments	—	—	—	—
Receivables – net:				
Intergovernmental	13,680	—	—	—
Accounts	5	15,950	268	1,045
Loans and advances	—	—	—	—
Accrued interest	485	—	—	—
Lease receivable	—	197,042	566	—
Other	—	—	223	—
Due from – net:				
Primary government	—	—	—	—
Component units	—	—	—	—
Other governmental entities	—	1,899	683	—
Inventories	—	—	—	—
Prepaid expenses	—	8,167	—	—
Other assets	—	—	13	—
Restricted assets:				
Cash and cash equivalents in commercial banks	—	206,857	7,835	—
Investments	—	—	—	2,858
Other restricted assets	—	25,351	—	—
Real estate held for sale or future development	—	—	—	—
Capital assets:				
Land and other nondepreciable	—	376,054	83	—
Other capital assets, net of depreciation/amortization	—	910,690	8,875	7,986
Total assets	79,971	1,786,592	18,799	15,763
Deferred outflows of resources:				
Loss on bonds refunding	—	—	—	—
Other postemployment benefits related	—	664	36	11
Pension related	—	55,087	9,623	1,939
Total deferred outflows of resources	—	55,751	9,659	1,950
Liabilities:				
Accounts payable and accrued liabilities	145	40,608	2,866	207
Deposits and escrow liabilities	—	1,397	—	—
Due to:				
Primary government	—	82,287	—	—
Component units	—	279,340	—	—
Other governmental entities	41,124	—	—	—
Interest payable	—	162,230	—	—
Unearned revenue	—	160,333	4,148	—
Liabilities payable within one year:				
Revenue bonds	—	—	—	—
Notes payable to financial institutions	—	4,484	—	—
Lease liability	—	—	38	—
Subscription liability	—	—	—	—
Compensated absences	—	2,600	481	57
Voluntary termination benefits payable	—	734	172	—
Liability for insurance benefits	—	—	—	—
Total pension liability	—	22,564	1,324	—
Total other postemployment benefits liability	—	664	37	—
Other long-term liabilities	—	—	—	—
Liabilities payable after one year:				
revenue bonds	—	—	—	—
Notes payable to financial institutions	—	6,796	—	—
Lease liability	—	—	93	—
Subscription liability	—	—	—	—
Compensated absences	—	—	305	77
Voluntary termination benefits payable	—	3,779	1,013	—
Net pension obligation	—	—	—	—
Total pension liability	—	317,577	26,842	5,678
Total other postemployment benefits liability	—	7,562	606	141
Other long-term liabilities	—	—	1,680	—
Total liabilities	41,269	1,092,955	39,605	6,160
Deferred inflows of resources:				
Service concession arrangements	—	637,409	—	—
Leases	—	191,817	544	—
Pension related	—	71,184	3,057	586
Total deferred inflows of resources	—	900,410	3,601	586
Net position:				
Net investment in capital assets	—	668,374	8,827	7,985
Restricted for:				
Capital projects	—	232,208	—	—
Debt service	—	—	—	—
Student loans and other educational purpose	—	—	—	2,858
Other specified purposes	—	—	3,667	—
Unrestricted (deficit)	38,702	(1,051,604)	(27,242)	124
Total net position (deficit)	\$ 38,702	(151,022)	(14,748)	10,967

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2023
(In thousands)

	Puerto Rico Science, Technology and Research Trust	Puerto Rico Tourism Company	Nonmajor Component Units Total
Assets:			
Cash and cash equivalents in commercial banks	\$ 21,110	158,088	893,111
Cash and cash equivalents in governmental banks	—	—	2,694
Investments	4,176	—	518,143
Receivables – net:			
Intergovernmental	—	4,929	20,084
Accounts	—	17,679	132,131
Loans and advances	—	4,689	27,000
Accrued interest	—	—	44,468
Lease receivable	—	40,563	847,112
Other	908	355	27,298
Due from – net:			
Primary government	—	18,979	69,656
Component units	—	—	45,737
Other governmental entities	1,649	—	883,804
Inventories	—	—	9,392
Prepaid expenses	—	—	25,850
Other assets	72	—	4,215
Restricted assets:			
Cash and cash equivalents in commercial banks	—	40,189	435,975
Investments	—	—	285,524
Other restricted assets	47,201	—	81,326
Real estate held for sale or future development	—	2,600	188,490
Capital assets:			
Land and other nondepreciable	41,044	5,066	1,047,029
Other capital assets, net of depreciation/amortization	17,013	13,855	1,811,705
Total assets	<u>133,173</u>	<u>306,992</u>	<u>7,400,744</u>
Deferred outflows of resources:			
Loss on bonds refunding	—	—	298
Other postemployment benefits related	—	163	2,733
Pension related	—	13,867	259,088
Total deferred outflows of resources	<u>—</u>	<u>14,030</u>	<u>262,119</u>
Liabilities:			
Accounts payable and accrued liabilities	6,899	14,496	261,781
Deposits and escrow liabilities	—	—	193,321
Due to:			
Primary government	—	47,058	245,589
Component units	—	5,000	622,249
Other governmental entities	—	388	103,924
Interest payable	—	—	382,921
Unearned revenue	—	750	400,588
Liabilities payable within one year:			
Revenue bonds	—	—	146,154
Notes payable to financial institutions	—	—	43,958
Lease liability	—	112	1,243
Subscription liability	—	—	634
Compensated absences	—	459	10,317
Voluntary termination benefits payable	—	488	6,017
Liability for insurance benefits	—	—	61,402
Total pension liability	—	5,458	82,540
Total other postemployment benefits liability	—	163	2,727
Other long-term liabilities	179	—	4,670
Liabilities payable after one year:			
Revenue bonds	—	—	1,792,640
Notes payable to financial institutions	—	—	32,389
Lease liability	216	431	7,271
Subscription liability	—	—	524
Compensated absences	—	730	6,910
Voluntary termination benefits payable	—	1,241	20,308
Net pension obligation	—	—	18,288
Total pension liability	—	79,164	1,214,826
Total other postemployment benefits liability	—	2,136	28,519
Other long-term liabilities	—	1,050	62,917
Total liabilities	<u>7,294</u>	<u>159,124</u>	<u>5,754,627</u>
Deferred inflows of resources:			
Service concession arrangements	—	—	655,450
Leases	—	40,040	808,172
Pension related	—	14,752	248,849
Total deferred inflows of resources	<u>—</u>	<u>54,792</u>	<u>1,712,471</u>
Net position:			
Net investment in capital assets	58,056	18,377	1,899,997
Restricted for:			
Capital projects	—	—	232,888
Debt service	—	—	98,425
Student loans and other educational purpose	—	—	5,250
Other specified purposes	—	—	193,245
Unrestricted (deficit)	67,823	88,729	(2,234,040)
Total net position (deficit)	<u>\$ 125,879</u>	<u>107,106</u>	<u>195,765</u>

COMMONWEALTH OF PUERTO RICO
 Nonmajor Discretely Presented Component Units
 Combining Statement of Activities
 Year ended June 30, 2023
 (In thousands)

Expenses	General revenue and transfers											Net position (deficit) beginning of year as previously reported	Correction of errors, change in reporting entity and adoption of new pronouncements (note 4 to financial statements)	Net position (deficit)-beginning of year, as restated	Net position (deficit) end of year	
	Program revenue			Net revenues (expenses) and changes in net position	Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Interest and investment earnings	Excise taxes and others	Extraordinary Gain	Change in net position					
	Charges for services	Operating grants and contributions	Capital grants and contributions													
Agricultural Enterprises Development Administration	\$ —	—	—	—	—	—	—	—	—	—	—	(119,350)	119,350	—	—	—
Automobile Accidents Compensation Administration	33,862	94,778	—	60,916	(2,798)	—	11,311	—	—	—	69,429	(141,820)	—	(141,820)	(72,391)	
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	82,957	84,448	—	1,491	7,574	—	6,266	—	124	—	15,455	965	5,295	6,260	21,715	
Center of Diabetes for Puerto Rico	810	187	—	(623)	863	—	—	51	2	—	293	443	—	443	736	
Company for the Integral Development of the "Península de Carraera" Corporation for the "Carlo Martín Peña" Enlace Project	4,231	—	1,353	(2,878)	—	—	—	—	—	—	(2,229)	(49,555)	—	(49,555)	(52,484)	
Culebra Conservation and Development Authority	19,025	—	3,232	38,137	22,344	—	—	10	—	—	22,354	6,091	—	6,091	28,445	
Economic Development Bank for Puerto Rico	—	—	4,759	82,690	—	—	—	—	—	—	—	1,480	(1,480)	—	—	
Farm Insurance Corporation of Puerto Rico	92,702	4,539	—	(714)	—	—	—	3,814	32,617	—	35,717	(5,972)	—	(5,972)	29,745	
Fine Arts Center Corporation	33,517	24,535	—	(8,982)	12,000	—	—	224	—	—	3,242	(3,025)	—	(3,025)	217	
Government Development Bank Debt Restructuring Authority	9,449	3,355	—	(814)	4,389	—	—	337	—	—	3,912	17,850	—	17,850	21,762	
Institute of Puerto Rican Culture	144,369	128,029	—	(4,460)	11,490	—	—	—	—	—	(16,340)	(865,583)	—	(865,583)	(881,923)	
Institutional Trust of the National Guard of Puerto Rico	15,982	—	11,522	(4,460)	—	—	—	—	—	—	7,030	(19,403)	(659)	(20,062)	(13,032)	
Land Authority of Puerto Rico	4,995	4,680	—	(315)	—	—	—	2,538	—	—	2,223	64,013	—	64,013	66,236	
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	1,051	14,375	412	—	13,736	13,113	—	—	—	55,561	82,410	(60,674)	3,253	(57,421)	24,989	
Musical Arts Corporation	5,758	2,219	9,571	—	6,032	2,635	—	301	—	—	8,968	1,411	—	1,411	10,379	
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	12,578	376	—	1,196	(11,006)	6,456	—	182	90	—	(4,278)	(13,509)	—	(13,509)	(17,787)	
Puerto Rico Conservatory of Music Corporation	6,840	25,897	1,904	—	20,961	—	—	11,338	—	—	32,299	167,829	—	167,829	200,128	
Puerto Rico Convention Center District Authority	12,111	2,933	—	44	(9,134)	6,160	—	525	75	215	(2,159)	61,787	—	61,787	56,628	
Puerto Rico Destination Marketing Corporation	84,531	51,340	10,411	—	(22,780)	3,321	4,954	—	1,722	460	(12,323)	412,672	(3,162)	409,510	397,187	
Puerto Rico Industrial Development Company	66,439	627	—	—	(65,812)	56,989	—	—	140	—	(6,683)	19,180	—	19,180	10,497	
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	1,915	49,378	1,496	—	48,959	—	—	—	23,279	1,414	73,652	(19,770)	—	(19,770)	53,882	
Puerto Rico Integrated Transit Authority	11	—	—	—	(11)	—	—	51	97	—	137	(337)	—	(337)	(200)	
Puerto Rico Land Administration	84,896	5,991	9,259	—	(69,646)	72,907	—	407	—	—	3,668	7,686	(39,807)	(32,121)	(28,453)	
Puerto Rico and Municipal Islands Maritime Transport Authority	4,939	17,889	—	—	12,950	—	—	2,369	234	—	15,553	162,085	—	162,085	177,638	
Puerto Rico Metropolitan Bus Authority	—	—	—	—	—	—	—	—	—	—	—	(41,656)	41,656	—	—	
Puerto Rico Municipal Finance Agency	11,789	2,115	29,228	—	19,554	40,411	—	105	71	—	60,141	(289,015)	—	(289,015)	(288,225)	
Puerto Rico Municipal Finance Corporation	18,391	—	—	—	(18,391)	—	—	—	12,177	56	(6,158)	76,350	—	76,350	70,192	
Puerto Rico Pests Authority	198,195	—	197,292	—	(903)	—	—	4,376	35	—	3,508	35,194	—	35,194	38,702	
Puerto Rico Public Broadcasting Corporation	72,832	124,823	18,964	—	70,855	52,313	—	4,450	11,949	—	136,567	(290,589)	—	(290,589)	(151,022)	
Puerto Rico Public Private Partnerships Authority	16,931	7,833	1,933	—	(7,165)	1,714	—	113	736	—	(4,602)	(10,146)	—	(10,146)	(14,748)	
Puerto Rico School of Plastic Arts	—	2,940	2,934	—	(1,701)	3,043	—	—	225	—	1,567	9,400	(34,867)	—	9,400	
Puerto Rico Science, Technology and Research Trust	7,575	91	21,578	—	(6,102)	—	—	—	—	—	(2,726)	128,605	—	128,605	125,879	
Puerto Rico Tourism Company	27,771	4,866	11,379	—	(9,703)	46,306	(4,954)	—	3,082	130,060	63,852	140,643	170	(33,537)	107,106	
Total nonmajor component units	\$ 1,190,400	658,244	337,127	127,347	(67,682)	336,886	—	6,791	85,570	178,692	119,413	661,670	(556,303)	90,398	(465,905)	195,765

See accompanying independent auditors' report.