AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements
June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS
JUNE 30, 2020 AND 2019

ZAYAS, MORAZZANI &CO.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 366225
San Juan, Puerto Rico 00936-6225
(787) 753-7025
(787) 753-7038

Independent Auditors' Report

To the Board of Directors of
Autoridad de Ponce
(formerly known as Port of the Americas Authority):

We have audited the accompanying financial statements of Autoridad de Ponce (formerly known as Port of the Americas Authority) (the "Authority"), a component unit of the Commonwealth of Puerto Rico, which comprise the statements of net deficit as of and for the fiscal years ended June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net deficit, and cash flows for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Autoridad de Ponce (formerly known as Port of the Americas Authority) as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The principal assets of the Authority consist of construction in progress for a Port in the Municipality of Ponce stated at the cost of $269,039,519 as of June 30, 2020. As described in Note 1, those assets, but not the liabilities associated with them, have to be transferred to the Autoridad del Puerto de Ponce, pursuant to Law No. 240 of 2011, as amended. No future activities, after the transfer of the assets are expected for the Authority, except for the disposition of the accumulated liabilities, either with future legislative appropriations, Authority's revenues and/or through condonation. As of June 30, 2020, and as of the date of the auditors' report, the subject transfer of assets is still pending. There is no information available about the value by where the referral assets would be recorded at the expected transferee considering elements of obsolescence and others.

As discussed in Note 12 to the financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. Also, the Authority has not received the required funds for the debt service. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 12. The financial statements do not include adjustments that may result from the outcome of these uncertainties. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A"), on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

June 8, 2022
San Juan, Puerto Rico

Zayas, Morazzani & Co.

Stamp No. E491856 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

INTRODUCTION

Autoridad de Ponce (formerly known as Port of the Americas Authority) (the "Authority"), a public corporation and a component unit of the Commonwealth of Puerto Rico, was created by Law No. 171 enacted on August 11, 2002. The main purpose of the Authority is to develop a deep draft port in the Southern Region of Puerto Rico. This development is part of the Commonwealth's efforts to create a world-class public marine terminal and to stimulate large-scale industrial zone in the Southern Region of Puerto Rico.

On December 12, 2011, the Puerto Rico Governor signed the Law No. 240 of 2011, known as the Law of the Autoridad del Puerto de Ponce (the "New Law"), which establishes general directives for the further development of the Port of the Americas and its integration to certain development strategies proposed by the Municipality of Ponce. The Law created the Autoridad del Puerto de Ponce ("PPA") to continue the development of the Port and handle the Port's future operations. All of the asset's rights and duties of the Authority shall be transferred to the PPA. As of the date of issuing the Authority financial statements, assets have not been transferred out from the Authority.

Pursuant to the provisions of the New Law, the Authority shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the New Law.

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

The following Management's Discussion and Analysis ("MD&A") of the Authority's activities and financial performance introduces the financial statements of the Authority for the fiscal years ended June 30, 2020 and 2019. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project. Please refer to Note 2 in the accompanying financial statements for a summary of the Authority's significant accounting policies. The financial statements along with the MD&A are designed to provide readers with a comprehensive understanding of the Authority's finances.

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

FINANCIAL POSITION SUMMARY

Statement of Net Deficit

The Statement of Net Deficit presents the financial position of the Authority at the end of the fiscal year. The statement identifies the "net deficit" as the deficit between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. A summarized comparison of the Authority's net deficit on June 30, 2020 and 2019 is as follows:

		2020	2019	Change
Assets:				
Current and other assets	$	767,147	574,338	192,809
Capital assets, net		269,039,519	269,039,519	-
Total assets		269,806,666	269,613,857	192,809
Liabilities:				
Current and other liabilities		950,980	938,230	12,750
Accrued interest		127,510,680	105,903,869	21,606,811
Contingent reserve obligation		1,050,000	1,050,000	-
Bond purchase agreements		225,533,700	225,533,700	-
Due to Autoridad del Puerto de Ponce		4,022,265	4,022,265	-
Line of credit		1,700,000	1,700,000	-
Total liabilities		360,767,625	339,148,064	21,619,561
Net deficit:				
Net investment in capital assets		(91,100,066)	(69,493,255)	(21,606,811)
Unrestricted		139,107	(40,952)	180,059
Total net deficit		(90,960,959)	(69,534,207)	(21,426,752)
Total liabilities and net deficit	$	269,806,666	269,613,857	192,809

The highlight for the Statement of Net Deficit is as follow:

- In the year ended June 30, 2020, the Authority's net position decreased by $21.4 million, in relation to 2019, mainly as a result of an increase in interest expense and accrued interest payable. This decrease is, mainly, because the Authority has not received and has not been assigned the required funds for the interest expenses related to the Authority's debt service.

Statement of Revenues, Expenses and Changes in Net Deficit

The Statement of Revenues, Expenses and Changes in Net Deficit is an indicator of the overall fiscal condition of the Authority. Following is a summary of the Statements of Revenues, Expenses, and Changes in Net Deficit:

		2020	2019	Change
Net operating income/(loss) before non-operating revenues and expenses	$	177,750	(221,966)	399,716
Non-operating revenues and expenses:				
Federal funds advances on hands of Autoridad del Puerto de Ponce		-	62,984	(62,984)
Interest income		2,309	527	1,782
Interest expense		(21,606,811)	(43,257,009)	21,650,198
Total non-operating revenues and expenses		(21,604,502)	(43,193,498)	(21,588,996)
Changes in Net Deficit		(21,426,752)	(43,415,464)	21,988,712
Net (deficit)/position, beginning of year		(69,534,207)	(26,118,743)	(43,415,464)
Total net deficit, end of year	$	(90,960,959)	(69,534,207)	(21,426,752)

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

- The changes in net position presented a deficit of expenses over revenues for the year ended on June 30, 2020 for the amount of $21.4 million. This deficit is, mainly, because the Authority has not received and hast not being assigned the required funds for the expenses related to the Authority's debt service and the recognition of an obligation of $450,000, corresponding to a Court's judgement.

CAPITAL ASSETS

The Authority's capital assets are presently under "construction in progress" and, as such, are currently valued at the historical cost of $269 million as of June 30, 2020 and 2019, respectively. Once Management appraises the Port facilities, including acquired property, land, piers, infrastructure and new construction, the Authority will be able to establish the transfer value of those assets in accordance with Law No. 240 of 2011, as amended.

The Authority continues with its Management's Plan to transfer all the assets of the Authority in accordance with Law No. 240 of 2011, as amended.

DEBT ADMINISTRATION

As of June 30, 2020, the principal and interests balance outstanding on the Authority's credit facilities amounted to $354.7 million, including $225.5 million in bond purchase agreements, $1.7 million in line of credit and $127.5 million in accrued interest.

On November 29, 2018, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and GDB announced the consummation of GDB's financial restructuring pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

As part of the restructuring and wind-down of Government Development Bank for Puerto Rico ("GDB"), GDB transferred to the GDB Debt Recovery Authority ("GDBRA") its reimbursement claims against the Authority for amounts honored by GDB under the GDB Letter of Credit securing the PRIFA Bonds (the "Letter of Credit"). GDBRA was created by Act 109 of August 24, 2017, as amended, to facilitate the restructuring of certain of GDB's indebtedness and the release of certain claims against GDB pursuant to a Qualifying Modification under Title VI of PROMESA.

ECONOMIC OUTLOOK AND CURRENTLY KNOWN FACTS

Authority's ability to continue as a going concern

The Authority's Management Plan is currently focused in transferring all the assets of the Authority in accordance with Law No. 240 of 2011, as amended.

During the year ended June 30, 2020, the Authority has not received the required funds for the debt service of the line of credit and the bond purchase agreements referred in Notes 6 and 7, respectively. The balance of Authority's credit facilities held at GDB will ultimately depend on future Commonwealth's legislative appropriations, Authority's revenues and/or thought condonation.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. These financial statements do not include adjustments, if any, that may result from the effect of the transfer of asset required by Law No. 240 of 2011, as amended, and the disposition of the accumulated liabilities.

REQUEST FOR INFORMATION

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

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET DEFICIT
JUNE 30, 2020 AND 2019

		2020		2019
ASSETS				
Cash (note 3)	$	461,913	BE-1	441,554
Contributions receivable from the Commonwealth of Puerto Rico (funds for operating activities)		242,250		69,800
Due from Autoridad del Puerto de Ponce from Federal funds advances		62,984		62,984
Capital assets, net (notes 4 and 9)		269,039,519		269,039,519
Total assets	$	269,806,666		269,613,857
LIABILITIES	Accounts payable Sum of a-$923,141 BE-2			
Accounts payable:				
Trade	$	a 76,423		63,673
Contractors payable and retainage		396,718		396,718
Line of credit (note 6)		1,700,000	BE-2	1,700,000
Mitigation project escrow fund's obligation (notes 4 and 11)		1,050,000		1,050,000
Accrued interest payable (notes 6 and 7)		127,510,680		105,903,869
Other accrued (note 11)		a 450,000		450,000
Bond purchase agreements (note 7)		225,533,700		225,533,700
Due to agencies of the Commonwealth of Puerto Rico		27,839		27,839
Due to the Autoridad del Puerto de Ponce (note 8)		4,022,265		4,022,265
Total liabilities		360,767,625		339,148,064
NET DEFICIT				
Net investment in capital assets (note 9)		(91,100,066)	BE-2	(69,493,255)
Unrestricted		139,107		(40,952)
Total net deficit		(90,960,959)		(69,534,207)
Total liabilities and net deficit	$	269,806,666		269,613,857

See accompanying independent auditors' report and notes to financial statements.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET DEFICIT
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating revenues:		
Contributions from the Commonwealth of Puerto Rico (funds for operating activities)	$ 192,000 BE-3	$ 237,000
Operating expenses:		
Professional services	14,250	8,966
Other	-	450,000
Total operating expenses (note 1)	14,250 BE-3	458,966
Operating income / (loss) before non-operating revenues and expenses	177,750	(221,966)
Non-operating revenues and (expenses):		
Interest income	2,309 BE-3	527
Interest expense	(21,606,811)	(43,257,009)
Federal fund advances on hands of Puerto de Ponce	-	62,984
Total non-operating revenues and (expenses)	(21,604,502)	(43,193,498)
Decrease in net position	(21,426,752)	(43,415,464)
Net (deficit) / position, beginning of year	(69,534,207)	(26,118,743)
Net deficit, end of year	$ (90,960,959)	$ (69,534,207)

See accompanying independent auditors' report
and notes to financial statements

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

		2020	2019
Cash flows provided by operating activities:			
Contributions from the Commonwealth of Puerto Rico	$	19,550	187,867
Cash paid to employees and other		(1,500)	-
Net cash provided by operating activities		18,050	187,867
Cash flows provided by investing activities:			
Interest received		2,309	527
Net cash provided by investing activities		2,309	527
Net increase in cash		20,359	188,394
Cash, beginning of year		441,554	253,160
Cash, end of year, net of impairment	$	461,913	441,554
Reconciliation of operating (loss) / income to net cash provided by operating activities			
Operating (loss) / income		177,750	(221,966)
Adjustments to reconcile operating (loss) / income to net cash provided by operating activities:			
Changes in assets and liabilities:			
(Increase) in contributions receivable from the Commonwealth of Puerto Rico		(172,450)	(49,133)
Increase in accounts payable		12,750	8,966
(Decrease) / increase in other liabilities		-	450,000
Total adjustments		(159,700)	409,833
Net cash provided by operating activities	$	18,050	187,867

See accompanying independent auditors' report
and notes to financial statements.

1. NATURE OF THE AUTHORITY

Autoridad de Ponce (formerly known as Port of the Americas Authority) (the "Authority") is a component unit of the Commonwealth of Puerto Rico created by Law No. 171 of August 11, 2002, as amended. The Commonwealth provides financial support to the Authority 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). Therefore, the Authority's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund. On June 28, 2004 the law that created the Authority was amended by Law No. 166 to change the name of the port to "Puerto de Las Americas Rafael "Churumba" Cordero Santiago" (the Port). Also, on September 22, 2004, the Puerto Rico Legislature enacted Law No. 409 to provide a $250 million financing for the development of the project. The main purpose of the Authority is the planning, development and construction of a large-scale container terminal in the city of Ponce, Puerto Rico. By law, the Puerto Rico Infrastructure Financing Authority ("PRIFA") provides administrative and other assistance to the Authority, until the Board of Directors of the Port of the Americas Authority determines, through the adoption of a resolution, that the Authority is prepared to continue operations on its own. Refer to Note 12 for additional disclosures regarding the Authority.

On December 12, 2011, the Puerto Rico Governor signed the Law No. 240 of 2011, known as the Law of the "Autoridad del Puerto de Ponce" (the "New Law"), which establishes general directives for the further development of the Port of the Americas and its integration to certain development strategies proposed by the Municipality of Ponce. The Law created the Autoridad del Puerto de Ponce ("PPA") for continuing the development of the Port and handle the Port's future operations. All the rights and duties of the Port of the Americas Authority were also given to the PPA. As of June 30, 2019, the Board of Directors of the PPA was formed and operations started, although the assets of the Authority have not been transferred.

With the commencement of the operations of PPA in fiscal year 2015, as described in the previous paragraph above, the operations of the Authority have been limited to processing the remaining legal requirements resulting after the transfer of all rights and duties to PPA. Such legal requirements consist principally of servicing the long-term debt that remained in the Authority. The Commonwealth of Puerto Rico should appropriate annually funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

Estimated useful lives of office equipment and vehicle are three and five years, respectively.

Impairment of Long-lived Assets - The GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, require to Governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital assets 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. According to the GASB Statement 42, the policy of the Authority is to evaluate for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. However, Law No. 240 of 2011, as amended, has ordered the Authority to transfer all the assets to the "Autoridad del Puerto de Ponce". Management, after consultation with the Management of the new Authority regarding the plans for the future operations, including the considerations of the infrastructure attributes of the developed asset, has concluded that no adjustments are required to the stated amounts of the assets in anticipation of the transfer to new Authority. In addition, damages caused by Hurricane María of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

2017 and the earthquake activity of 2019 and 2020 were evaluated and a claim was filed with FEMA. FEMA has confirmed that it will provide the required funding to have the installations in the operating capacity status they were before. As of June 30, 2020, no impairment had been identified regarding this last matter.

Non-current liabilities – Non-current liabilities include principal amounts of line of credit, bond purchases and other non-current liabilities that are not scheduled to be paid within the next fiscal year.

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

Reclassifications - Certain reclassifications have been made to the 2019 financial statements to conform with the 2020 financial statement presentation.

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

> The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

Risk Management - The Authority is exposed to various risks of loss from torts, theft, damages, destruction of assets, employee injuries and illnesses, natural disasters, and other losses, which may arise during the normal course of business. Insurance coverage is maintained to protect the Authority from claims arising if such matters occur. The various insurance premiums are negotiated by the Authority and the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury and reimbursed by the Authority.

Accounting Pronouncements Issued But Not Yet Effective:

a) GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

b) GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, although postponed due to COVID-19 pandemic. Refer to GASB Statement No .95 below.

c) GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5 - 22 of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, although postponed due to COVID-19 pandemic. Refer to GASB No. 95 below.

d) GASB Statement No. 90, *Majority Equity Interest*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

e) 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

f) GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Business Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in; a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this Statement that relate to the effective date of Statement 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra-entity transfers of assets and applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below. Earlier application is encouraged and is permitted by topic.

g) GASB Statement No. 93, *Replacement of Interbank Offered Rates.* The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, although postponed due to COVID-19 pandemic. Refer to GASB No. 95 below. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

h) 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 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:

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

The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:

- GASB Statement No. 87, Leases
- GASB Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

j) GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide 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 Statement No. 87, Leases, as amended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

k) GASB Statement No. 97, *Certain component unit criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- an amendment of GASB Statement No 14 and No. 84 and Supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans)1 as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

l) GASB Statement No. 98*, The Annual Comprehensive Financial Report.* This Statement replaces an existing term but does not otherwise establish new accounting and financial reporting requirements. The terms comprehensive annual financial report and comprehensive annual financial report in NCGA and GASB pronouncements are replaced with annual comprehensive financial report and annual comprehensive financial reports, respectively. The associated acronyms in NCGA and GASB pronouncements are replaced with ACFR and ACFRs. The requirements of this Statement apply to all state and local governments. This Statement amends National Council on Government Accounting Statement 1, Governmental Accounting and Financial Reporting Principles, Summary Statement of Principles No. 12, paragraphs 4, 12, 128, 135, 138, 139, 143, 155, 157, 173, and 175, and footnote 22; Statement No. 6, Accounting and Financial Reporting for Special Assessments, paragraph 13; Statement No. 14, The Financial Reporting entity, paragraph 50; Statement No. 30, Risk Financing Omnibus, paragraph 7; Statement No. 34, Basic Financial Statements -and Management's Discussion and Analysis - for State and Local Governments, footnote 7; NCGA Interpretation 10, State and Local Government Budgetary Reporting, paragraph 14; Implementation Guide No. 2015-1, Questions 2.4.1, 3.35.2, 4.28.11, 4.43.2, 7.5.1, 7.5.2, 7.48.2, 7.69.1, 7.91.3, 9.2.1, 9.2.2, 9.14.2, and 9.33.3; and Implementation Guide No. 1016-1, Implementation Guidance Update-2016, Question 5.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management of the Authority is evaluating the impact that these statements will have on its financial statements.

3. CUSTODIAL CREDIT RISK - DEPOSITS

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

Deposits in governmental banks represent the balance of interest and noninterest bearing accounts in GDB. However, any deposits at GDB as of June 30, 2018, were subsequently transferred to the Public Entity Trust (PET) on November 29, 2018 to GDB's Qualifying Modification and the GDB Restructuring Act.

On November 29, 2018, all claims that the Authority had against GDB, including their GDB deposits, were released pursuant to the Qualifying Modification and the GDB Restructuring Act. The carrying amounts of deposits of the Authority on June 30, 2020 and 2019 consist of the following:

	June 30, 2020 – Carrying Amount			
	Unrestricted	Restricted	Total	Bank Balance
Commercial banks	$ 461,913	-	461,913	461,913

	June 30, 2019 – Carrying Amount			
	Unrestricted	Restricted	Total	Bank Balance
Commercial banks	$ 441,554	-	441,554	441,554

4. CAPITAL ASSETS

The Authority's net capital assets at June 30, 2020, were as follows:

	June 30, 2019	Additions/ (Depreciation Expense)	Retirements	June 30, 2020
Depreciable assets:				
Office equipment	$ 12,457	$ -	$ -	$ 12,457
Vehicle	22,018	-	-	22,018
	34,475	-	-	34,475
Less: Accumulated depreciation	(34,475)	-	-	(34,475)
Net depreciable assets	-	-	-	-
Non-depreciable:				
Construction in progress	269,039,519	-	-	269,039,519
	$ 269,039,519	$ -	$ -	$ 269,039,519

The Authority is developing a deep draft port (the "Project") in the southern coast of Puerto Rico (Municipality of Ponce) with a terminal at Ponce Harbor. The Project required federal authorizations under Section 10 of the Rivers and Harbors Act as well as under Section 404 of the Clean Water Act (Section 10 and Section 404 Permits). An additional permit under Section 103 of the Marine Protection, Research and Sanctuaries Act (Section 103 Permit) was also required for the Ponce Harbor navigation channel for dredging and ocean disposal of the dredged material. During 2005, the United States Army Corps of Engineers ("USCOE" or “COE”) issued a Department of the Army Permit ("DA Permit") for the construction of the Project, pursuant to certain conditions including conducting archaeological studies in the Value-Added Industrial Area ("VAIA") and the designation and submittal of a buffer zone adjacent to the Ponce Historical District for the USCOE's and the State Historic Preservation Office's ("SHPO") approval.

4. CAPITAL ASSETS, Continued

As disclosed in Note 11, during 2011 USCOE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. In a letter dated July 20, 2011, and further to the Authority's request, USCOE confirmed that the Authority could continue to work in certain areas of the Project. Nonetheless, areas not specifically addressed by USCOE in the July 20, 2011 letter remained subjected to the no-further-work requirement. The parties reached an agreement effective on June 18, 2013; based on the terms and conditions of this agreement the Authority shall pay a civil penalty of $150,000 and $4.2 million by performing certain mitigation projects. As a result, a contingent reserve of $4.35 million was accrued during fiscal year 2012. The contingent reserve balance amounts to $1,050,000 as of the years ended June 30, 2020 and 2019.

Currently, Autoridad del Puerto de Ponce continues to receive cruise ship visits and make efforts to attract new cruise lines. In addition, it continues with the marketing efforts of the facilities, to increase the volume of cargo handled, as well as to develop new rental logistics and manufacturing business. The development strategy is to convert the facility into a third-generation multi-cargo port, aimed at meeting the growing needs of the container ship sector, supply chain management and the demands of the globalization.

5. LAND FACILITIES

The Port of Ponce is owned by the Autonomous Municipality of Ponce. The Authority had an agreement with the Municipality, which was renewed on several occasions, for the use and exploitation of the facilities and some of the Municipality's adjacent properties and establishing the general terms and conditions for the Facility Transfer Agreement. This agreement was not renewed when it expired on September 30, 2010, as the Municipality of Ponce commenced negotiations with the Central Government to continue directly with the development and operation of the port facilities.

6. LINE OF CREDIT

As of June 30, 2014, as a result of the Consent Decree Agreement, the Authority entered in a line of credit with the GDB, whereby GDB agreed to disburse the Authority certain advances up to a maximum aggregate principal of $1.7 million plus any accrued interest. Interest would be based on 1.5% over the prime rate, with a floor of 6% and a ceiling of 12%. The final payment was due in October 2014. The proceeds of the line of credit are to finance some of the terms of the Consent Decree-Agreement. The line of credit balance amounts to $1,700,000 as of the years ended June 30, 2020 and 2019. Additional details are disclosed in Notes 3 and 12. The balance credit line were transferred to a newly formed statutory public trust created pursuant to then GDB Restructuring Act, Known as the GDB Debt Recovery (DRA).

6. LINE OF CREDIT, Continued

Note with GDB and GDB Debt Recovery Authority

As of June 30, 2014, GDB Agreed to disburse the authority a line of credit with a principal of $1.7 million plus any accrued interest. The loan was subsequently transferred to the GDB Debt Recovery Authority, a statutory public trust and governmental instrumentality created pursuant to Act 109-2017, as amended ("GDB DRA") upon consummation of the GDB Qualifying Modification under Title VI of PROMESA on November 29, 2018. At the time of the transfer to the GDB-DRA, the outstanding principal amount under the line of credit was $ 1.7 million, plus accrued interest of $732,378.

7. BOND PURCHASE AGREEMENTS WITH GDB DRA

The Authority entered into various bond purchase agreements with the Government Development Bank for Puerto Rico (GDB) as follows:

a) Bonds 2005 Series A - On April 20, 2005 the Authority entered into a bond purchase agreement with the Government Development Bank for Puerto Rico (GDB), whereby GDB agreed to disburse the Authority from time to time certain principal advances up to a maximum aggregate principal amount of $70 million.

   The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015. The principal amount may be paid with any of the following: (1) a long-term bond issuance once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Law No. 409 of September 22, 2004 (Law No. 409). Principal and interest payments are guaranteed by the Commonwealth of Puerto Rico by Law No. 409. As of June 30, 2014, the principal outstanding Series A Bond purchase agreement amounted to $47.9 million. This investment was paid in full and cancelled on January 1, 2015.

b) Bonds 2005 Series B - On August 31, 2005 the Authority entered into an additional bond purchase agreement with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of $40 million. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 1, 2015. The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Law No. 409. As of June 30, 2014, the principal balance outstanding under the Series B Bond purchase agreement amounted to $40 million. This investment was paid in full and cancelled on January 1, 2015.

7. BOND PURCHASE AGREEMENTS WITH GDB DRA, Continued

c) Bonds 2005 Series C - On November 10, 2005, the Authority entered into an additional bond purchase agreement with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of $140 million. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 1, 2015. The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Law No. 409. As of June 30, 2014, the principal balance outstanding under the Series C Bond amounted to $136.9 million. This investment was paid in full and cancelled on January 1, 2015.

Interest rate for each of the three bond purchase agreements was determined annually by GDB based on a spread ranging between 150 - 175 basis points over the interest rate of underlying commercial paper issued by the GDB in connection with these credit facilities. The interest rate as of June 30, 2014, was 7.00%.

The Authority entered into a refinance agreement with the Government Development Bank for Puerto Rico (GDB) as follows:

a) Bond 2014 - During 2005, the Authority issued three series of bonds in the amount $70, $40 and $140 million for a total aggregate outstanding principal amount of $250 million, which were purchased by GDB and were due and payable on January 1, 2015. The Authority issued a new bond in December 31, 2014 and the proceeds were used solely to refinance and repay the outstating bonds, Bonds 2005 Series A, B and C for an aggregate amount of $232.8 million. The aggregate outstanding principal balance of the bond principal amount shall be payable in full on January 1, 2045. The principal amount may be paid with any of the following: (1) a long-term bond issuance once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Law No 409 of September 22, 2004 (Law No. 409). Principal and interest payments are guaranteed by the Commonwealth of Puerto Rico by Law No. 409. As of June 30, 2020 and 2019, the principal outstanding Bond purchase agreement amounted to $225,533,700.

The unpaid principal balance of the bond principal amount shall bear interest at a floating rate per annum equal to interest rate borne by the general obligations of the Commonwealth of Puerto Rico, as may be informed from time to time by the Investment and Treasury Department of the GDB. Such interest rate shall be revised on a quarterly basis provided, however, that interest rate shall never be less than seven percent (7%) nor greater than twelve percent (12%). The interest rate as of June 30, 2020 and 2019 was 9.52%.

7. BOND PURCHASE AGREEMENTS WITH GDB DRA, Continued

The following summarizes the activity in bond purchase agreements for the fiscal year ended June 30, 2020:

		Beginning Balance	Advances	Principal Payments	Ending Balance
2014 Bond	$	225,533,700	-	-	225,533,700

8. DUE TO THE AUTORIDAD DEL PUERTO DE PONCE

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

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

During the year ended June 30, 2019, the Authority of the Puerto de Ponce received advances of $62,984 from the Federal Energy Management Administration (FEMA) on behalf of the Authority. The subject advances are shown as Due from Autoridad del Puerto de Ponce from Federal funds advances in the accompanying financial statements. They are part of a grant award to the Authority in the amount of $2,049,659 to perform works related with the damages caused by Huracan María.

9. NET INVESTMENT IN CAPITAL ASSETS

At June 30, 2020 and 2019, the Authority's net investment in capital assets, is as follows:

	2020	2019
Capital assets, net of accumulated depreciation	$ 269,039,519	$ 269,039,519
Bond purchase agreements attributable to the acquisition, construction, and improvements of capital assets	(225,533,700)	(225,533,700)
Due to the Autoridad del Puerto de Ponce – capital assets related	(3,948,487)	(3,948,487)
Interest payable in line of credit and bond purchase agreements	(127,510,680)	(105,903,869)
Contingent reserve	(1,050,000)	(1,050,000)
Contractors payable and contractors' retainage	(396,718)	(396,718)
Line of credit (note 6)	(1,700,000)	(1,700,000)
	$ (91,100,066)	$ (69,493,255)

10. CONSTRUCTION COMMITMENTS

Due to the stage of development of the Authority, there are no material outstanding construction commitments on June 30, 2020 and 2019.

Inter-Agency Agreement - On August 29, 2007 the Authority signed an agreement with the Puerto Rico Aqueduct and Sewer Authority ("PRASA") in which the PRASA agreed to reimburse the Authority up to $4 million for the relocation of the sewer and potable water distribution system to support the Port. The cost of this construction is estimated at approximately $10.4 million. During April 2011, PRASA reimbursed the Authority for the agreed amount of $4 million. Such amount was recorded as a reduction to the capitalized construction in progress. Upon completion of the relocation project the resulting infrastructure will be held and maintained by PRASA. Once the project is completed and accepted by PRASA, the total amount invested in the project, net of PRASA's reimbursement will be deducted from the Authority's construction-in-progress and transferred as a contribution to PRASA. As of June 30, 2020, the project has not been transferred to PRASA, as there are still activities pending related to the water distribution infrastructure.

11. COMMITMENTS AND CONTINGENCIES

The Authority is a defendant in numerous legal proceedings pertaining to matters incidental to the construction of the Port as follows:

USCOE Proceedings:

As disclosed in Note 4 to the financial statements, during 2011 the USCOE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. On June 18, 2013, become effective a Consent Decree (“CD”) agreement between the USCOE and the Authority for injunctive relief, civil penalty, and mitigation projects.

The Authority shall pay a civil penalty to the United States Department of Justice in the amount of one hundred and fifty thousand dollars ($150,000) within thirty (30) days of the Consent Decree effectiveness. During the year ended June 30, 2015, the total amount of civil penalty was paid by the Authority.

Also, as in-lieu mitigation projects (“ILMP”) the Authority shall establish an escrow account for the deposit of funds to be used for the development and implementation of one or more ILMP by one or more not-for-profit organizations as instructed by the USCOE. For such, the Authority will deposit four million two hundred thousand dollars ($4,200,000) in four (4) individuals’ payments of one million fifty thousand dollars ($1,050,000) in a specified payment schedule beginning within sixty-five (65) days from the effectiveness of the CD and ending on fiscal year 2015. During the year ended June 30, 2014, the Authority deposited the first payment of $1,050,000 on the escrow fund for mitigation project. As of June 30, 2020, the remaining balance to be deposited by the Authority for mitigation project is $1,050,000.

11. COMMITMENTS AND CONTINGENCIES, Continued

Potential claims against contractors and commitment to purchase lands:

On May 18, 2011, the USCOE and the State Historic Preservation Office ("SHPO") conducted and inspection in the area of the Project. As a result of the inspection, the USCOE notified the Authority of its non-compliance with several requirements in the Permit number SAJ-2002-06525 (the "Permit") issued on May 5, 2005 which required the implementation of certain requirements including, among others, conducting certain archeological studies at the Value-Added Industrial Area, a study at the Ponce Playa Historical District, the expropriation of lands, and the designation and submittal of a buffer zone. Later, on June 7, 2011, the USCOE issued a stop-work order for any work related to the Permit.

As set forth by the USCOE in its June 7, 2011 letter, the non-compliance with requirements in the Permit resulted in criminal and civil sanctions for the Authority. Amid this scenario and to secure the viability claim against the parties, including contractors, potentially responsible for the damages that the Authority might suffer as a result of this situation, the Authority sent demand letters for an amount not less that approximately $30 million to the individuals and entities that were involved in the planning, design, and or construction activities connected with the Project work related.

As a result, one of those entities answered the demand and is counterclaiming against the Authority claiming that the USCOE decision to stop-the-work affected the work of such contractor, resulting in a "delay event" under the contract and is claiming extended over-head and equipment stand-by costs for an amount of approximately $5.7 million. Subsequent to the year ended June 30, 2014, on July 3, 2014, the Authority and the contractor reached an agreement to settle the lawsuit. As established in the agreement, the Authority shall make an initial payment of $1.8 million within thirty (30) days from the signing of the agreement. The initial payment consists of $650 thousand in contractors' retainage and $1.15 million to cover other elements of the claim. The initial payment of $1.8 million was performed on July 22, 2014. The parties also agreed in the additional amount to cover the execution of the remaining work, under the construction contract and jobs attributable to the buffer zone. The Authority reached an interagency agreement with the Port of Ponce Authority that will provide the additional funds required to support the agreed transaction. Both the sources of additional funds and the related additional uses will be recognized when realized and incurred. At June 30, 2014, the Authority completed the recognition of the full obligation of $1,800,000 corresponding to the compensation related to prior services.

Further to the issue disclosed above, the Authority shall pay for the acquisition of lands considered as part of the Permit. The amount initially paid by the government approximated $15,000,000 but final acquisition price was subject to judgment. The final judgment indicate that the Commonwealth of Puerto Rico should pay additional price of $13,749,217 plus legal fees of $98,851, plus interest on the purchase price since 2005.

11. COMMITMENTS AND CONTINGENCIES, Continued

The Authority management did not accrue any amount regarding the possible outcome of favorable and or unfavorable potential claims discussed above on its financial statements as of June 30, 2020 and 2019.

The Authority is a defendant in a lawsuit, where on December 28, 2021, the Court ordered the payment, including interests, to the plaintiff. Accordingly, the Authority accrued a claim liability for the corresponding amount.

12. GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. *GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

The Authority dependent on the Commonwealth's appropriations to finance its operations, and repay its obligations.

12. GOING CONCERN, Continued

The financial difficulties being experienced by the Commonwealth have significant adverse impacts on the Authority, given its reliance on Commonwealth's appropriations and lack of available funding alternatives.

During the year ended June 30, 2020, the Authority has not received the required funds for the debt service of the line of credit and the bond purchase agreements referred in Notes 6 and 7, respectively. The repayment of the balance of Authority's credit facilities held at GDB DRA will ultimately depend on future Commonwealth's legislative appropriations, Authority's revenues and/or restructuring of its debt under PROMESA.

In addition, the Authority Management Plan is currently focused in transferring all the assets of the Authority in accordance with Law No. 240 of 2011, as amended.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As stated, no adjustments have been made to consider the effect of the transfer of assets required by Law No. 240 of 2011, as amended, and the disposition of the accumulated liabilities.

13. SIGNIFICANT EVENTS

(a) Earthquakes

On January 6 and 7, 2020, two large earthquakes near the town of Ponce, Puerto Rico resulted in severe damage to infrastructure, an island-wide power outage and water shortages, among others. Also, hundreds of replicas have been experienced. The subject conditions resulted in disruptions in the Authority's activities and other limitations caused by the earthquakes. In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2021-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activate the national Guard to provide support during the emergency management.

13. SIGNIFICANT EVENTS, Continued

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2020 and 2021 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2021. President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020, report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

(b) COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic. Since then, many countries have enacted COVID-19 protection measures, with a significant impact on daily life, production and the supply chain of goods in these countries and beyond. While the disruption is currently expected to be temporary, there is uncertainty about the duration.

The effects of the disease have been swift. The pandemic has transformed economic outlooks, health, and social norms around the globe. Government and health care providers are working around the clock to slow the spread of the disease. The whole world is affected by the pandemic. Travel restrictions are in place, and global trade, commerce, tourism, investment, and supply chains were in disarray. Measures taken to contain the spread of the virus, including quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses locally and worldwide, resulting in an economic slowdown.

The Governor of the Commonwealth of Puerto Rico issued a lock-down starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lock-down effective May 24, 2021.

14. SUBSEQUENT EVENTS

Management evaluated subsequent events through June 8, 2022, the date on which the financial statements were available to be issued.

a. Debt Service - Subsequent to June 30, 2020, the Authority has not received the required funds for debt service of the line of credit and bond purchase agreements referred in note 6 and 7, respectively.

b. Commonwealth Plan of Adjustment - Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

   On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

   On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

14. SUBSEQUENT EVENTS, Continued

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

14. SUBSEQUENT EVENTS, Continued

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, 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. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

14. SUBSEQUENT EVENTS, Continued

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an 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 will be 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. As with the New GO Bonds, 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 will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be 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 payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

14. SUBSEQUENT EVENTS, Continued

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.

- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).

- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.

- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are 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. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up 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 Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the

14. SUBSEQUENT EVENTS, Continued

appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

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