

AUTORIDAD DE PONCE
(Formerly known as Port of the Americas Authority)
(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements
June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
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JUNE 30, 2022 AND 2021

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Independent Auditors' Report

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

Opinion

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 position/(deficit) as of and for the fiscal years ended June 30, 2022, and 2021, and the related statements of revenues, expenses, and changes in net position/(deficit), and cash flows for the fiscal years then ended and the related notes to the basic financial statements.

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, 2022 and 2021, 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.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Autoridad de Ponce, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A"), on pages 4 through 8, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

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, 2022. 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, 2022, 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 which the referred assets would be recorded at the expected transferee considering elements of obsolescence and others.

As discussed in Note 12 to the basic financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 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.

San Juan, Puerto Rico
September 29, 2023

Stamp No. E539371 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.

Zayas, Morazzani & Co.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

INTRODUCTION

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 (the “Commonwealth’s”), was created by Law No. 171 enacted on August 11, 2002, as amended. 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's 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 Puerto Rico 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 Municipality 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, 2022 and 2021. 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.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policies, practices, 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. Note 2 in the accompanying financial statements for a summarizes 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 consists of three parts: the MD&A, the Authority basic financial statements, and the notes to the financial statements. The report includes the following three statements: the statement of net position/(deficit), the statement of revenues, expenses, and changes in net position/(deficit), and the statement of cash flows.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

FINANCIAL POSITION SUMMARY

Statement of Net Position/(Deficit)

The Statement of Net Position/(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 position/(deficit) as of June 30, 2022, and 2021 is as follows:

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 1,137,828	946,828	191,000
Capital assets, net	<u>269,039,519</u>	<u>269,039,519</u>	-
Total assets	<u>270,177,347</u>	<u>269,986,347</u>	<u>191,000</u>
Liabilities:			
Current and other liabilities	965,299	960,390	4,909
Accrued interest	1,008,096	149,030,933	(148,022,837)
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	<u>1,700,000</u>	<u>1,700,000</u>	-
Total liabilities	<u>8,745,660</u>	<u>382,297,288</u>	<u>(373,551,628)</u>
Net position/(deficit):			
Net investment in capital assets	260,937,881	(112,613,747)	373,551,628
Unrestricted	<u>493,806</u>	<u>302,806</u>	191,000
Total net position/(deficit)	<u>261,431,687</u>	<u>(112,310,941)</u>	<u>373,742,628</u>
Total liabilities and net position/(deficit)	\$ <u>270,177,347</u>	<u>269,986,347</u>	<u>191,000</u>

The highlight for the Statement of Net Position/(Deficit) is as follows:

- In the year ended June 30, 2022, the Authority's net position increased by \$373.7 million, in relation to 2021, mainly as a result of the Commonwealth Plan of Adjustment. The Authority bonds were discharged under the terms of this Plan and are no longer outstanding.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

Statement of Revenues, Expenses and Changes in Net Position/(Deficit)

The Statement of Revenues, Expenses and Changes in Net Position/(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 Position/(Deficit):

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Net operating income before non-operating revenues and expenses	\$ 185,559	170,040	15,519
Non-operating revenues and expenses:			
Interest income	532	231	301
Interest expense	(16,193,383)	(21,520,253)	5,326,870
Total non-operating revenues and expenses	<u>(16,192,851)</u>	<u>(21,520,022)</u>	<u>5,327,171</u>
Special item:			
Gain on extinguishment of debt	<u>389,749,920</u>	<u>-</u>	<u>389,749,920</u>
Changes in net position/(deficit)	373,742,628	(21,349,982)	395,092,610
Net (deficit), beginning of year	<u>(112,310,941)</u>	<u>(90,960,959)</u>	<u>(21,349,982)</u>
Total net position/(deficit), end of year	<u>\$ 261,431,687</u>	<u>(112,310,941)</u>	<u>373,742,628</u>

The highlights for the Statement of Revenues, Expenses and Changes in Net Position/(Deficit) are as follows:

- For the year ended on June 30, 2022, the Authority presented as changes in net position, an excess of revenues over expenses in the amount of \$373.7 million. This variance of approximately \$395.1 million is related to the approval of the Commonwealth Plan of Adjustment. Under this Plan of Adjustment, the Authority bonds were discharged and are no longer outstanding. Accordingly, for the year ended June 30, 2022, a gain on extinguishment of debt of approximately \$389.8 was recognized.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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, 2022 and 2021, 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, 2022, the principal and interests balance outstanding on the Authority's credit facilities amounted to \$2.7 million consisting of \$1.7 million in line of credit and \$1 million in accrued interest.

On November 29, 2018, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA") and Government Development Bank for Puerto Rico ("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 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.

On March 15, 2022, the Authority's bonds were included in the Commonwealth Plan of Adjustment. Consequently, as of June 30, 2022, a gain of \$389,749,920 was presented as special item in the Statement of Revenues, Expenses and Changes in Net Position/(Deficit) resulting from this discharge.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

ECONOMIC OUTLOOK AND CURRENTLY KNOWN FACTS

Authority's ability to continue as a going concern

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

During the year ended June 30, 2022, 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 assets 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 POSITION/(DEFICIT)
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash (note 3)	\$ 639,656	468,869
Due from Commonwealth of Puerto Rico	435,188	414,975
Due from Autoridad del Puerto de Ponce	62,984	62,984
Capital assets, net (notes 4 and 9)	269,039,519	269,039,519
Total assets	\$ 270,177,347	269,986,347
LIABILITIES		
Accounts payable:		
Trade	\$ 92,405	92,405
Contractors payable and retainage	395,055	390,146
Line of credit (note 6)	1,700,000	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)	1,008,096	149,030,933
Accrued liabilities	450,000	450,000
Bond purchase agreements (note 7)	-	225,533,700
Due to 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	8,745,660	382,297,288
NET POSITION/(DEFICIT)		
Net investment in capital assets (note 9)	260,937,881	(112,613,747)
Unrestricted	493,806	302,806
Total net position/(deficit)	261,431,687	(112,310,941)
Total liabilities and net position/(deficit)	\$ 270,177,347	269,986,347

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 POSITION/(DEFICIT)
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Operating revenues:		
Contributions from the Commonwealth of Puerto Rico	\$ 198,000	\$ 188,000
Operating expenses:		
Professional services	11,265	17,960
Other operating expenses	1,176	-
Total operating expenses (note 1)	12,441	17,960
Operating income before non-operating revenues and expenses	185,559	170,040
Non-operating revenues and (expenses):		
Interest income	532	231
Interest expense	(16,193,383)	(21,520,253)
Total non-operating revenues and (expenses)	(16,192,851)	(21,520,022)
Special items:		
Gain on extinguishment of debt (note 7)	389,749,920	-
Total special items	389,749,920	-
Change in net position	373,742,628	(21,349,982)
Net deficit, beginning of year	(112,310,941)	(90,960,959)
Net position/(deficit), end of year	\$ 261,431,687	\$ (112,310,941)

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, 2022 AND 2021

	2022	2021
Cash flows provided by operating activities:		
Contributions from the Commonwealth of Puerto Rico	\$ 198,000	15,275
Cash paid to suppliers	(7,532)	(8,550)
Contribution receivables	(20,213)	-
Net cash provided by operating activities	170,255	6,725
Cash flows provided by investing activities:		
Interest received	532	231
Net cash provided by investing activities	532	231
Net increase in cash	170,787	6,956
Cash, beginning of year	468,869	461,913
Cash, end of year	\$ 639,656	468,869
Reconciliation of operating income to net cash provided by operating activities		
Operating income	185,559	170,040
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Increase in due from the Commonwealth of Puerto Rico	(20,213)	(172,725)
Increase in accounts payable	4,909	9,410
Total adjustments	(15,304)	(163,315)
Net cash provided by operating activities	\$ 170,255	6,725
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Non-cash transaction:		
Gain on extinguishment of debt	\$ 389,749,920	-

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

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

1. NATURE OF THE AUTHORITY

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 Municipality 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 New 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 Municipality 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).

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

AUTORIDAD DE PONCE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

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 in 2017 and the earthquake activity in 2019 and 2020 were evaluated and a claim was filed with

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Federal Emergency Management Agency (“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, 2022 and 2021, 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 payable 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 2021 financial statements to conform with the 2022 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 should also 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.

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(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

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 special revenue fund in the Authority result from the Commonwealth legislative appropriations. 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 when they are both measurable and available. 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 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. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- b) 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 relates 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.
- c) 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- d) 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.
- e) 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.

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JUNE 30, 2022 AND 2021

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:

- GASB 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.

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JUNE 30, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- f) 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.
- g) 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) 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.
- h) GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of this statement is to establish the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement’s introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- i) GASB Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.
- j) GASB Statement No. 100, Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.
- k) GASB Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

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

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

3. CUSTODIAL CREDIT RISK - DEPOSITS

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

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

June 30, 2022 – Carrying Amount				
		Unrestricted	Total	Bank Balance
Commercial banks	\$	639,656	639,656	639,656
June 30, 2021 – Carrying Amount				
		Unrestricted	Total	Bank Balance
Commercial banks	\$	468,869	468,869	468,869

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

4. CAPITAL ASSETS

The Authority's net capital assets at June 30, 2022, were as follows:

	<u>June 30,</u> <u>2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2022</u>
Depreciable assets:				
Office equipment	\$ 12,457	\$ -	\$ -	\$ 12,457
Vehicle	<u>22,018</u>	<u>-</u>	<u>-</u>	<u>22,018</u>
	34,475	-	-	34,475
Less: Accumulated depreciation	<u>(34,475)</u>	<u>-</u>	<u>-</u>	<u>(34,475)</u>
Net depreciable assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-depreciable:				
Construction in progress	<u>\$ 269,039,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,039,519</u>

The Authority is developing a deep draft port (the "Project") on 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.

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

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, 2022 and 2021.

Currently, Autoridad del Puerto de Ponce continues to receive cruise ship visits and makes 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 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, 2022, and 2021. Additional details are disclosed in Note 13. The balance credit line was transferred to a newly formed statutory public trust created pursuant to the GDB Restructuring Act, Known as the GDB Debt Recovery (DRA).

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

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 \$917,819.

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.

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(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

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 outstanding bonds, Bonds 2005 Series A, B and C for an aggregate amount of \$232.8 million. The aggregate outstanding principal balance of the bond 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, 2021, the principal outstanding Bond purchase agreement amounted to \$225,533,700.

The unpaid principal balance of the bond as of June 30, 2021, bore 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, 2022 and 2021 was 9.52%.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

7. BOND PURCHASE AGREEMENTS WITH GDB DRA, Continued

On May 15, 2022, the Authority's bonds, including accumulated interests, were converted into General Obligation, and therefore, as of June 30, 2022, the Authority bonds were no longer outstanding. As a result, for the year ending June 30, 2022, a gain of \$389,749,920 was presented as a special item in the accompanying basic financial statements.

The following summarizes the activity in bond purchase agreements for the fiscal year ended June 30, 2022:

	Beginning Balance (Principal Amount)	Debt Adjustment	Advances	Principal Payments	Current Balance
Bond 2014	\$ 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 Emergency Management Agency (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 basic financial statements. They are part of a grant award to the Authority in the amount of \$2,049,659 to perform works related to the damage caused by Hurricane María.

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

9. NET INVESTMENT IN CAPITAL ASSETS

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

	<u>2022</u>	<u>2021</u>
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)
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	(1,008,096)	(149,030,933)
Contingent reserve	(1,050,000)	(1,050,000)
Contractors payable and contractors' retainage	(395,055)	(390,146)
Line of credit	<u>(1,700,000)</u>	<u>(1,700,000)</u>
	<u>\$ 260,937,881</u>	<u>\$ (112,613,747)</u>

AUTORIDAD DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2022 AND 2021

10. CONSTRUCTION COMMITMENTS

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, 2022, 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 basic financial statements, in 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, became 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 the mitigation project. As of June 30, 2022, the remaining balance to be deposited by the Authority for mitigation project is \$1,050,000.

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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 than 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. 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 on 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. As of 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 was approximately \$15,000,000 but final acquisition price was subject to judgment. The final judgment indicates that the Commonwealth of Puerto Rico should pay an additional price of \$13,749,217 plus legal fees of \$98,851, plus interest on the purchase price since 2005.

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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 in its financial statements as of June 30, 2022, and 2021.

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

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 default on bonds, loans or similar agreements, restructuring of debt, noncompliance with statutory 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 Management Plan is currently focused on transferring all the assets of the Authority in accordance with Law No. 240 of 2011, as amended. It is expected that all rights of all assets, and duties of the Authority (with the exceptions of its existing debt) will be transferred to the Authority del Puerto de Ponce. No future activities, after the transfer of the assets, are expected for the Authority, except for the disposition of the accumulated liabilities, either with and/or through condonation.

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12. GOING CONCERN, Continued

The accompanying basic 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. SUBSEQUENT EVENTS

Management evaluated subsequent events through September 29, 2023, the date on which the financial statements were available to be issued. No material subsequent events requiring further disclosure have been identified, except for the following: Subsequent to June 30, 2022, the Authority has not received the required funds for debt service of the line of credit referred to in note 6.