

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

Basic Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report)

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

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June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Autoridad del Puerto de Ponce** (“the **Authority**”), a component unit of the Commonwealth of Puerto Rico, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of June 30, 2023 and 2022, and the changes in its net position, statement of functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As stated on Note 1 to these financial statements, as of June 30, 2023 and 2022, and as of the date of the auditors' report, the Authority has pending to receive through transfer, all the assets, but not the liabilities, owned by Autoridad de Ponce (formerly known as Port of the Americas Authority) as required by Act 240 of December 2011.

As discussed in Note 14 to the financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A") on pages 4 through 10, 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.

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Ponce, Puerto Rico
June 17, 2024

Stamp number E575760 was
affixed to the original report.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended June 30, 2023 and 2022

INTRODUCTION

On December 12, 2011, by virtue of Act No. 240, it was approved the creation of the Autoridad del Puerto de Ponce (the "Authority"), a component unit of the Commonwealth of Puerto Rico. The Authority was created to continue the development of the container terminal formerly undertaken by Port of the Americas Authority (PAA) and handle such facilities future operations; therefore, all of the assets, rights and duties of PAA (with the exception of its existing debt) would be transferred to the Authority. As of June 30, 2023, the assets of Autoridad de Ponce (previously known as Port of the Americas Authority¹) have not been transferred to the Authority.

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

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

The following Discussion and Analysis ("MD&A") of **the Authority's** activities and financial performance introduces the financial statements of the Authority for the fiscal year ended June 30, 2023. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

AUTORIDAD DEL PUERTO DE PONCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL POSITION SUMMARY

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year. The statement identifies the "net position" as the residual of the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. A summarized comparison of **the Authority's** net position at June 30, 2023 and 2022 is as follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Assets:			
Current and other assets	\$ 2,957,285	\$ 2,171,773	\$ 785,512
Due from Autoridad de Ponce	4,022,265	4,022,265	-
Due from Department of Economic Development and Commerce	119,219	-	119,219
Capital assets, net	<u>28,820,810</u>	<u>28,657,080</u>	<u>163,730</u>
Total assets	<u>\$ 35,919,579</u>	<u>\$ 34,851,118</u>	<u>\$ 1,068,461</u>
Liabilities:			
Line of credit	\$ 20,762,577	\$ 20,762,577	\$ -
Accounts payable	81,643	835,444	(753,801)
Accrued expenses and payroll withholdings	150,954	25,567	125,387
Deferred income	608,945	-	608,945
Other liabilities	233,338	233,338	-
Due to Autoridad de Ponce from Federal funds advances	62,984	62,984	-
Due to Port of Ponce	13,950	-	13,950
Accrued interest payable	<u>12,821,899</u>	<u>11,331,146</u>	<u>1,490,753</u>
Total liabilities	<u>34,736,290</u>	<u>33,251,056</u>	<u>1,485,234</u>
Net position:			
Net investment in capital assets	2,414,653	4,937,967	(2,523,314)
Unrestricted	<u>(1,231,364)</u>	<u>(3,337,905)</u>	<u>2,106,541</u>
Total net position	<u>1,183,289</u>	<u>1,600,062</u>	<u>(416,773)</u>
Total liabilities and net position	<u>\$ 35,919,579</u>	<u>\$ 34,851,118</u>	<u>\$ 1,068,461</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

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

- As of June 30, 2023, the Authority presents a Net Position of approximately \$1.2 million, a decrease of approximately \$417 thousand from 2022. This net position decrease is mainly due to additional dockage and lease income triggered by the transfer of operation from the Department of Development and Commerce related to Export and Commerce Company assets. This increase was offset by the interest expenses recorded.
- Cash for the year ended on June 30, 2023 and 2022 are presented at approximately \$2.2 and \$2.01 million, respectively. Increase mainly due to collection of 2022 contribution funds of \$75 thousand along with federal funds FEMA of \$667 thousand associated to Hurricane Maria damages and current year tenant collection. The funds are deposited in a Commercial Bank.
- Trade receivable increased by \$415 thousand as compared to 2022 mainly due to, as mentioned before, the additional dockage and leases operations from the transfer of operation during 2023 from the Department of Development and Commerce.
- The amount of approximately \$4 million is due from the Autoridad de Ponce (formerly Port of the Americas Authority) for the years ended June 30, 2023 and 2022.
- Line of credit balance as of June 30, 2023 and 2022, is approximately \$20.8 million. Credit provided through the Authority's line of credit, through the GDBRA, are to be satisfied by future Commonwealth's legislative appropriations and/or Authority revenues. During the year ended June 30, 2023, the accrued interest payable amounted to approximately \$12.8 million, an increase of approximately \$1.5 million from 2022. During the year 2023, no principal or interest were paid.
- Accounts payable for the year ended June 30, 2023 amounted approximately \$82 thousand, a decrease of approximately \$754 thousand when compared to 2022 mainly due to FEMA related repairs contracts paid off during 2023.
- Other liabilities represent accrued court judgment in the amount of \$233 thousand recorded in 2022.

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

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

AUTORIDAD DEL PUERTO DE PONCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is an indicator of the overall fiscal condition of the Authority. A summarized comparison of the Authority's Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Operating revenues	\$ 2,409,619	\$ 741,916	\$ 1,667,703
Operating expenses	<u>1,675,096</u>	<u>1,533,722</u>	<u>141,374</u>
Operating (loss) income before non-operating revenues and expenses	<u>734,523</u>	<u>(791,806)</u>	<u>1,526,329</u>
Non-operating revenues and expenses			
Other income	44,499	115,000	(70,501)
Federal grants	294,958	1,002,680	(707,722)
Interest expense on capital assets	(1,162,657)	(1,162,657)	-
Interest expense on operating activities	(328,096)	(328,096)	-
Court judgment expense	-	(233,338)	233,338
Contribution to Port of Ponce	<u>-</u>	<u>(278,000)</u>	<u>278,000</u>
Total non-operating revenues and (expenses)	<u>(1,151,296)</u>	<u>(884,411)</u>	<u>(266,885)</u>
Changes in net position	(416,773)	(1,676,217)	1,259,444
Net position, beginning of year	<u>1,600,062</u>	<u>3,276,279</u>	<u>(1,676,217)</u>
Net position, end of year	<u>\$ 1,183,289</u>	<u>\$ 1,600,062</u>	<u>\$ (416,773)</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

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

- For the year ended on June 30, 2023, the Authority presented as changes in net position, an excess of expenses over revenues in the amount of approximately \$417 thousand. This represents a positive variance of approximately \$1.6 million, when compared with 2022. This change is related, primarily to contributions from the Commonwealth of Puerto Rico, increase in port operations revenues of due to transfer of operations from Department of Development and Commerce and federal funds for mayor repair and maintenance net of increase in utilities expense, payroll and interest on line of credit. Also, during 2022, the Authority had additional expenses for court judgment of \$233 thousand and PayGo of \$278 thousands, that impacted negatively the results for that year. For the year ended June 30, 2023, the Authority generated an operating income of approximately \$744 thousand, while, during the year ended June 30, 2022, generated an operating loss of approximately \$792 thousand.

CAPITAL ASSETS

The Authority's capital assets consist mainly on the acquisition of land for future developments. At the end of fiscal year 2023, the Authority's net capital assets amount to approximately \$28.8 million with a related net investment in capital assets of approximately \$4.7 million. During the year ended June 30, 2023 approximately \$173 thousand additions were realized.

DEBT ADMINISTRATION

As of June 30, 2023, the principal and interests balance outstanding on the Authority's credit facilities amounted to approximately \$29.1 million. On October 2, 2023, the outstanding balance, including accrued interest as of that date was settled resulting in a gain on extinguishment of debt and releasing the Authority from the debt.

ECONOMIC OUTLOOK AND CURRENTLY KNOWN FACTS

Authority's ability to continue as a going concern

The Commonwealth has not included appropriations for the payment of debt service in its General Fund budget since fiscal year 2017, as the payment of such obligations has been suspended pursuant to the Moratorium Act and Act No. 5. In addition, the Authority has been unable to raise through operations the funds required for debt service. Management's plans for the future operations rely on the final transfer of the assets from Autoridad de Ponce, in accordance with Law No. 240 of 2011, as amended. As further disclosed in the financial statements, subsequent to June 30, 2023, the Authority received the transfer of certain movable properties such as vehicles and equipment from the Autonomous Municipality of Ponce and additional real property from the Department of Development and Commerce which were previously owned by the Export and Commerce Company of Puerto Rico to be use and operated by the Authority. This transfer will inject additional operating revenues to the Authority.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the years ended June 30, 2023 and 2022

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Mr. Héctor Agosto Rivera, Executive Director, Autoridad del Puerto de Ponce, P.O. Box 7051, Ponce, Puerto Rico 00732-7051.

AUTORIDAD DEL PUERTO DE PONCE
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STATEMENTS OF NET POSITION
June 30, 2023 and 2022

ASSETS

	2023	2022
Current assets		
Cash with commercial bank	\$ 2,193,743	\$ 2,011,153
Accounts receivables, net	448,419	33,907
Grants receivable (note 4)	244,692	8,250
Contributions receivable (note 5)	44,029	118,463
Prepaid expenses	26,402	-
Due from the Department of Economic Development and Commerce (note 6)	119,219	-
Due from Autoridad de Ponce (note 7)	4,022,265	4,022,265
Total current assets	7,098,769	6,194,038
Capital assets (notes 7, 8 and 11)	28,820,810	28,657,080
Total assets	\$ 35,919,579	\$ 34,851,118

LIABILITIES

Line of credit (note 9)	20,762,577	20,762,577
Accounts payable	81,643	835,444
Accrued expenses and payroll withholdings	109,533	16,001
Security deposits	41,421	9,566
Federal funds received in advance	608,945	-
Other current liabilities	233,338	233,338
Due to Autoridad de Ponce from Federal funds advances (note 7)	62,984	62,984
Due to Port of Ponce (note 10)	13,950	-
Accrued interest payable (note 9)	12,821,899	11,331,146
Total liabilities	34,736,290	33,251,056

NET POSITION

Net investment in capital assets (note 11)	2,414,653	3,577,310
Unrestricted	(1,231,364)	(1,977,248)
Total net position	1,183,289	1,600,062
Total liabilities and net position	\$ 35,919,579	\$ 34,851,118

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the fiscal years ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Concessions revenues	\$ 1,391,896	\$ 69,620
Port operating fees and charges	<u>287,779</u>	<u>45,702</u>
Total operating revenues	<u>1,679,675</u>	<u>115,322</u>
Operating expenses:		
Salaries and fringe benefits	587,146	118,697
Professional services and counseling	168,857	53,826
Utilities	364,642	180,822
Repair services expenses	383,639	1,175,584
Other operating expense	<u>161,206</u>	<u>4,739</u>
Total operating expenses	<u>1,665,490</u>	<u>1,533,668</u>
Operating income (loss) before depreciation and amortization	14,185	(1,418,346)
Depreciation and amortization	<u>9,606</u>	<u>53</u>
Operating income (loss)	<u>4,579</u>	<u>(1,418,399)</u>
Non-operating revenues and (expenses):		
Contributions from the Commonwealth of Puerto Rico	729,944	626,593
Noncapital grants revenues	294,958	1,002,680
Other nonoperating revenues	44,499	115,000
Interest expense (note 9)	(1,490,753)	(1,490,753)
Court judgment expenses	-	(233,338)
Contribution to Port of Ponce (note 13)	<u>-</u>	<u>(278,000)</u>
Total non-operating revenues and (expenses)	<u>(421,352)</u>	<u>(257,818)</u>
Decrease in net position	(416,773)	(1,676,217)
Net position, beginning of year	<u>1,600,062</u>	<u>3,276,279</u>
Net position, end of year	<u>\$ 1,183,289</u>	<u>\$ 1,600,062</u>

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

AUTORIDAD DEL PUERTO DE PONCE
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STATEMENTS OF CASH FLOWS
For the Fiscal years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Concessions and port services collected	\$ 1,105,849	\$ 87,393
Payments for goods and services	(1,786,597)	(990,825)
Payments for employees and payroll expenses	<u>(493,614)</u>	<u>(117,881)</u>
Net cash used in operating activities and net decrease in cash	<u>(1,174,362)</u>	<u>(1,021,313)</u>
Cash flows from noncapital and related financing activities:		
Proceeds from contribution from government	804,378	816,916
Proceeds from noncapital grants	667,491	994,429
Proceeds from related parties	13,950	-
Proceeds from other nonoperating activities	<u>-</u>	<u>115,000</u>
Net cash provided by noncapital and related financing	<u>1,485,819</u>	<u>1,926,345</u>
Cash flows used in capital and related financing activities:		
Aquisition of capital assets	<u>(173,336)</u>	<u>(14,133)</u>
Cash flows provided by investing activities:		
Interest received	<u>44,499</u>	<u>-</u>
Net increase in cash	182,620	890,899
Cash, beginning of year	<u>2,011,153</u>	<u>1,120,254</u>
Cash, end of year	<u><u>\$ 2,193,773</u></u>	<u><u>\$ 2,011,153</u></u>

AUTORIDAD DEL PUERTO DE PONCE
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STATEMENTS OF CASH FLOWS, Continued
For the Fiscal years ended June 30, 2023 and 2022

	2023	2022
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	<u>\$ 4,579</u>	<u>\$ (1,418,399)</u>
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	9,606	53
Bad debt expenses	71,950	-
(Increase) decrease in assets:		
Accounts receivable	(486,462)	(28,926)
Prepaid expenses	(26,402)	-
Due from Department of Economic Development and Commerce	(119,219)	-
Increase (decrease) in liabilities:		
Accounts payable	(753,801)	424,147
Accrued expenses	93,532	815
Security deposit	31,855	997
Total adjustments	<u>(1,178,941)</u>	<u>397,086</u>
Net cash used in operating activities	<u>\$ (1,174,362)</u>	<u>\$ (1,021,313)</u>

AUTORIDAD DEL PUERTO DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

1. NATURE OF THE AUTHORITY

On December 12, 2011, by virtue of Act No. 240, as amended, it was approved the creation of the Autoridad del Puerto de Ponce (the "Authority"), a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Commonwealth provides financial support to the Authority through legislative appropriations and its current existing debt is payable from the legislative appropriations. The Authority's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund. The Authority was created to continue the development of the container terminal formerly undertaken by Port of the Americas Authority (PAA) and handle such facilities future operations; therefore, all of the assets, rights and duties of PAA (with the exception of its existing debt) would be transferred to the Authority. As of June 30, 2023, the assets of Autoridad de Ponce (previously known as Port of the Americas Authority²) have not been transferred to the Authority.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

1. NATURE OF AUTHORITY, Continued

On October 23, 2022, the Authority entered into a Memorandum of Understanding (“MOU 2023-009”) where the Department of Economic Development and Commerce, notwithstanding being the owner of part of the real properties or equipment located or installed within the port premises, hereby designated the Authority to act on its behalf and be the only and exclusive party with legal authority to request, pursue and obtain federal assistance funds administered by FEMA's Public Assistance Alternatives Procedures Program for Permanent Work (Section 428), in relation to DR4339PR, for the construction or reconstruction of all the Ponce Authority's properties or equipment that forms a part or are operated by the Authority. The MOU 2023-009 facilitates the administration and conservation of certain properties by the Authority while the process of property transfer is completed as mandated by Law 240-2011. See note 16 for additional information subsequent to June 30, 2023.

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.

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

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

AUTORIDAD DEL PUERTO DE PONCE
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Implementation of Accounting Standards – Governmental accounting standards implemented during 2023 are as follows:

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, was issued. This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The Authority has implemented GASB Statement No. 91 in this report, however, it does not have any current impact on the Authority

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued. This statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among movements that enter into public-public partnership arrangements (PPPS) and availability payment arrangements (APAs) and by enhancing the understanding, relevance, and consistency of information about PPPS and APAs. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Authority has implemented GASB Statement No. 94 in this report, however, it does not have any current impact on the Authority.

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June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, was issued. This statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Authority has implemented GASB Statement No. 96 in this report, however, it does not have any current impact on the Authority.

In October 2021, the GASB issued Statement No. 98, Annual Comprehensive Financial Report, was issued, which established the term Annual Comprehensive Financial Report and its acronym, ACFR, to be used in reporting for state and local governments. The Authority adopted this guidance during fiscal 2022. There was no impact to the Authority's financial position or results of operations as a result of the implementation.

In April 2022, the GASB issued Statement No. 99, Omnibus 2022, was issued. 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. Certain provisions of this statement are effective upon issuance, while other provisions are effective for years beginning after June 15, 2022 and 2023. The Authority has implemented the provisions of GASB Statement No. 99 that are effective upon issuance and for years beginning after June 15, 2022. The Authority is evaluating the impact, if any, upon its financial position, results of operations, or cash flows upon adoption of all other provisions.

Accounting Pronouncements Issued but Not Yet Effective – Governmental accounting standards not yet affective during 2023 are as follows:

The GASB issued Statement No. 100, Accounting Changes and Error Correction, in June 2022. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. The statement enhances 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.

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 year 2024. Earlier application is encouraged.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The GASB issued Statement No. 102, Certain Risk Disclosures, was issued in December 2023. The requirements of this statement are effective for fiscal years beginning after June 15, 2024. The purpose of the statement is to improve financial reporting by providing users with information to evaluate a government's vulnerability to certain concentrations or constraints. Governments will also need to assess if events have occurred, are occurring or will occur within 12 months after financial statement issuance that could have a substantial impact on the entity.

The GASB issued Statement No. 103, Financial Reporting Model Improvements, was issued in April 2024. The requirements of this statement are effective for fiscal years beginning after June 15, 2025. The purpose of the statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A). It describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. It also requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses and requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. Also, this statement requires governments to present budgetary comparison information using a single method of communication. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts and explanation of significant variances are required.

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.

Accounts receivables and Allowance for Doubtful Accounts – Management considers most accounts and other receivables to be fully collectible; however, the Authority has created an allowance for those where, based upon historical attempts at collection, it deems collection to be unlikely. The allowance for trade receivables as of June 30, 2023 was \$71,950. No allowance was recorded as of June 30, 2022. All other receivables were deemed fully collectible as of June 30, 2023.

Prepaid Expenses – Prepaid expenses consist of payments to vendors which reflect costs applicable to future accounting periods such as insurance premiums. Prepaid expenses are recorded as expenditures over the period of their economic benefit.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

Impairment of Long-lived Assets - The policy of the Authority is to evaluate for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. However, Law No. 240 of 2011, as amended, has ordered the Authority to receive, through transfer, all the assets from the Autoridad de Ponce. Accordingly, the impairment analysis on the subject assets should be a matter for the consideration of the Authority, including the evaluation of the future activities expected with them, when transfer occurs. As of June 30, 2023 and 2022, the transfer of the subject assets is pending, as a result no impairment was identified.

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

AUTORIDAD DEL PUERTO DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unearned Revenues – Unearned revenues represent payments received in advance for services or non-exchange contributions, with revenues recognized as earned over the term of the related agreement

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2022 to conform to the fiscal year 2023 presentation. Such reclassification had no impact on the change in net position previously reported.

3. CUSTODIAL CREDIT RISK - DEPOSITS

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

The carrying amounts of deposits of the Authority at June 30, 2023 and 2022 consist of the following:

	Carrying Amount		
2023	Unrestricted	Restricted	Total
Commercial banks	\$1,584,559	609,184	\$2,193,743
2022	Unrestricted	Restricted	Total
Commercial banks	\$ 1,529,912	481,241	\$2,011,153

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

4. GRANTS RECEIVABLES

Components of grants receivable at June 30, 2023 and 2022 are summarized below:

	2023	2022
Federal Emergency Management Agency (FEMA)	\$ 114,928	\$ 8,250
Puerto Rico Department of Housing (Pass-thru)	<u>129,764</u>	<u>-</u>
 Total grants receivables	 <u><u>\$ 244,692</u></u>	 <u><u>\$ 8,250</u></u>

5. CONTRIBUTIONS RECEIVABLE

As of June 30, 2023 and 2022, contributions receivable from the Department of Economic Development and Commerce in the amount of \$44,029 and \$118,463, respectively, represents general funds collected from Puerto Rico Treasury Department on behalf of the Authority during fiscal year ended June 30, 2022 not remitted to the Authority.

6. DUE FROM DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERSE

Due from Department of Economic Development and Commerce amounting to \$119,219 as of June 30, 2023 represents tenant's receivable collected on behalf of the Authority pending to be remitted to the Authority.

7. DUE FROM/DUE TO AUTORIDAD DE PONCE

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

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

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

AUTORIDAD DEL PUERTO DE PONCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

8. CAPITAL ASSETS

The Authority's net capital assets activity for the year ended June 30, 2023 is as follows:

	<u>June 30,</u> <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2023</u>
Depreciable assets:				
Furniture and equipment	\$ 14,133	173,336	-	\$ 187,469
Less: Accumulated depreciation	<u>(53)</u>	<u>(9,606)</u>	<u>-</u>	<u>(9,659)</u>
Net depreciable assets	<u>\$ 14,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,810</u>
Non depreciable asset:				
Land	<u>\$ 28,643,000</u>	<u>-</u>	<u>-</u>	<u>\$ 28,643,000</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

9. LINE OF CREDIT

On August 29, 2014, the Authority entered into an \$60 million line of credit agreement with GDB (now owed to GDB Debt Recovery Authority or GDBRA) to cover the operational, maintenance, equipment acquisition and permanent improvement costs of the Ports of the Americas Rafael Cordero Santiago, pursuant to the provisions of Act No. 240 of 2011, which created the Authority (assets are owned by the Authority as of June 30, 2017). Borrowings under this line of credit agreement bear interest based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest may never be less than 7% nor greater than 12%. Interest during fiscal year 2015 was 7.78%. The line of credit has a maturity of June 30, 2044, and its principal and interests are payable through annual legislative appropriations. As of June 30, 2023 and 2022, the outstanding principal balance were approximately \$20.8 million and the accumulated interest were approximately \$9.8 and \$8.4 million, respectively, which are payable from future Commonwealth's legislative appropriations and/or Authority's revenues.

As of June 30, 2023 and 2022, the capital assets restricted and unrestricted component of net position related to the line of credit outstanding principal balance and accumulated interest balance are as follows:

	2023		
	Operating Activities	Investment in Capital Asset	Total
Line of credit, principal balance	\$ 4,569,577	\$ 16,193,000	\$ 20,762,577
Line of credit, accumulated interest	2,786,552	10,035,347	12,821,899
	<u>\$ 7,356,129</u>	<u>\$ 26,228,347</u>	<u>\$ 33,584,476</u>
	2022		
	Operating Activities	Investment in Capital Asset	Total
Line of credit, principal balance	\$ 4,569,577	\$ 16,193,000	\$ 20,762,577
Line of credit, accumulated interest	2,458,456	8,872,690	11,331,146
	<u>\$ 7,028,033</u>	<u>\$ 25,065,690</u>	<u>\$ 32,093,723</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

9. LINE OF CREDIT, Continued

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

On October 2, 2023 the line of credit outstanding balance as of that date was settled. See note 16 for additional disclosure.

10. DUE TO PORT OF PONCE

At June 30, 2023, the Authority had collected \$13,950 from tenants on behalf of Port of Ponce pending to be remitted accordingly.

11. NET INVESTMENT IN CAPITAL ASSETS

At June 30, 2023 and 2022, the Authority's net investment in capital assets - restricted, is as follows:

	2023	2022
Capital assets - land	\$ 28,643,000	\$ 28,643,000
Line of credit balance attributable to capital assets	(16,193,000)	(16,193,000)
Interest on line of credit	<u>(10,035,347)</u>	<u>(8,872,690)</u>
Net investment in capital assets	<u><u>\$ 2,414,653</u></u>	<u><u>\$ 3,577,310</u></u>

12. DEFINED CONTRIBUTION PENSION PLAN

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

On August 23, 2017, the Governor signed into law the Act No. 106 of 2017, known as the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created a new defined contribution plan (PRGERS) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2023 and 2022

12. DEFINED CONTRIBUTION PENSION PLAN, Continued

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

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

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

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

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

For the years ended June 30, 2023 and 2022, the employees' contribution of approximately \$33,314 and \$1,262, respectively. As of June 30, 2023 and 2022, accumulated contribution withheld amounted to \$5,905 and \$1,262, respectively, and is presented as accrued expenses in the accompanying statement of net position.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2023

13. COMMITMENTS AND CONTINGENCIES

Legal procedures

As of June 30, 2023, the Authority is defendant in various lawsuit that amounted \$4,450,000 in aggregate. The Authority received a court judgment for one of the cases and ordered the payment of \$233,338 plus interests. Original amount claimed was \$450,000. The Authority has recorded the court judgment in the accompanying financial statements to accrued for the \$233,338. The legal counsel for the Authority has advised that at this stage in the proceedings of the other cases, he cannot offer an opinion as to the probable outcome.

Contribution to Port of Ponce

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

Federal award

The Authority participates in federal financial assistance programs funded by the Federal Government. The Authority is subject to Single Audit in accordance with the provisions of the Single Audit Act of 1996 when expenditures exceed \$750,000 during any given fiscal year. For the year ended, expenditures did not exceed the threshold and therefore no Single Audit was performed for the year ended June 30, 2023. Expenditures during the year ended June 30, 2022 exceeded the threshold of \$750,000 and therefore a Single Audit was performed accordingly. Although the Authority's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2022, expenditures financed by these programs are subject to financial and compliance audits by appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantors for such expenditures. Nevertheless, the Authority management expects the expenditures amount, which may be disallowed by the granting agencies from such audits, if any, to be immaterial.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2023

14. GOING CONCERN

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

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

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

15. UNUSUAL EVENTS

Hurricane Fiona

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

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

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16. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 17, 2024, the date on which the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2023 financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Authority. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mention based on their relevance and materiality as a whole.

Line of Credit Settlement

On October 2, 2023, Ponce Port Authority and multiple parties including the Puerto Rico Housing Finance Authority (HFA), Comprehensive Fund for Agricultural Development of PR (FIDA), and other public entities along with the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) and the Debt Recovery Authority (DRA) (the Parties”) entered into a Loan Settlement Agreement with GDB Debt Recovery Authority (the "DRA") to settle outstanding loans of approximately \$50,915,383, including accrued interest as of that date; and claims among the parties.

The Parties agreed to make a total cash payment of \$29,500,000 to the DRA in full settlement of the outstanding loan amounts and any related claims. Payments include an initial payment of \$2,844,885 by the EDB on June 1, 2023. The remaining balance of \$26,655,115 to be paid by October 15, 2023. The settlement amount will not bear interest until the payment date. Any unpaid portion after the payment date will incur an annual interest rate of 7.5% until full payment is made by December 31, 2023.

Upon payment, the DRA will release all claims related to the public entity loans. Legal actions currently pending will be dismissed, with the court retaining jurisdiction to enforce the agreement. As of June 30, 2023, the Authority has an outstanding loan agreement with a principal amount of \$20,762,577, plus \$12,821,899 interest in arrears. The Authority is part of the collective payment agreement, contributing to the total settlement amount of \$29,500,000.

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16. SUBSEQUENT EVENTS, Continued

Memorandum of Understanding with Municipality of Ponce

On January 26, 2024, the Authority entered into a Memorandum of Understanding (MOU) with the Autonomous Municipality of Ponce (MAP) to establish the roles and responsibilities of the Municipality and the Authority regarding the management, application, and administration of federal funds for the reconstruction and development of the Port of Ponce, following the damages caused by hurricanes, earthquakes, and other disasters. The Municipality designates the PPA as its agent to manage federal funds from FEMA and HUD related to disaster recovery and mitigation for the Port of Ponce. The PPA is responsible for applying for, obtaining, and managing federal grants, including FEMA Public Assistance, Hazard Mitigation, and HUD CDBG-DR and CDBG-MIT funds. Funds received will be used for the construction, reconstruction, or replacement of port facilities and equipment owned by the MAP.

This designation does not transfer legal ownership but authorizes the PPA to act on behalf of the Municipality for federal funding purposes however all properties and assets operated by the Port of Ponce Administrative Board will be transferred to the PPA eventually and the PPA will become the sole owner of these assets and continue as the interested party for federal assistance.

Transfer of Movable Property from MAP to the Authority

On March 21, 2024, the Municipal Legislature of the Autonomous Municipality of Ponce approved Resolution Number 81, Series 2023-2024 to authorize the interim Mayor, Marlese Ann Sifre Rodriguez, to transfer movable property from the Municipal Dock Administrative Board to the Authority. The transfer is in accordance with Act No. 240 of December 12, 2011, as amended and in accordance with procedures for managing and transferring municipal property outlined by the Puerto Rico Municipal Code (Law 107-2020). The resolution facilitates the transfer of all movable property under the custody of the Municipal Dock Administrative Board to the PPA. Movable property comprises of an inventory of 356 items, including vehicles, office equipment, and other assets. On April 1, 2024 the assets were transferred and the PPA became the custodian of the property and will use it strictly for the operational purposes of the Ponce Dock.

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16. SUBSEQUENT EVENTS, Continued

Transfer of Real Property from DDEC to the Authority

On June 5, 2024, the DDEC authorized the transfer of multiple parcels of land from the Government of Puerto Rico to APP. Parcels include Lot Numbers 1, 8-A, and 6, covering a total surface area of approximately 37,573.4792 square meters. Additional parcels described cover areas within the Ponce Harbor Industrial Subdivision and other locations in Playa Ward, Ponce. The properties were transferred free of cost and any encumbrances. The transfer includes all rights, easements, and uses associated with the properties. Immediate possession and dominion over the properties were granted to APP upon certification in the Registry of Property of Puerto Rico.
