PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements with Independent Auditor's Report
and
Required Supplementary Information

Fiscal Year Ended June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's, basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As discussed in Note 15 to the basic financial statements, the Commonwealth of Puerto Rico has not released the GASB 73 Pension Expense Report of the Commonwealth's Defined Benefit Pension Plan for the year ended June 30, 2020. Accordingly, all pension related amounts included in the financial statements are outdated, and this may have a significant effect on the financial position and results of operations of the Authority. Furthermore, pension information that is required to be disclosed by U.S. generally accepted accounting principles has been omitted.

Qualified Opinion

In our opinion, except for the effects of the matters described above in the Basis for Qualified Opinion paragraph, the financial statements referred above present fairly, in all material respects, the financial position of the Authority as of June 30, 2020, and the changes in financial position and, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

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 discussed in Notes 3 and 4 to the basic financial statements, on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Governor, commenced a case for the Authority by filing a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* (PROMESA) in the United States District Court of Puerto Rico, which raises substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 4 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in the Authority's total postemployment benefits other than pensions (OPEB) liability 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.

Management has omitted the GASB No. 73 required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

September 29, 2021

Crowe PR PSC

Stamp number E455502 was affixed to the original of this Report.

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2020 and 2019. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Statements

The basic financial statements provide information about the Authority's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by GASB, except as follows:

As discussed in Note 15 to the basic financial statements, the Commonwealth of Puerto Rico has not released the GASB 73 Pension Expense Report of the Pension Plan for the year-end June 30, 2020. Accordingly, all pension related amounts included in the financial statements is outdated, and this may have a significant effect on the financial position and results of operations of the Authority. Furthermore, pension information that is required to be disclosed by generally accepted accounting principles has been omitted. Therefore, all historic financial information presented in the Management Discussion Analysis has to be read considering the possible effects of this departure.

In addition, the Authority restated the beginning of the year balance of the net position, to account for the total pension obligation as of June 30, 2019, and the related expense for the year then ended, which information had not been released by the Commonwealth of Puerto Rico when the Authority’s 2019 financial statements were released. This adjustment also took into consideration the implementation of GASB 73—*Accounting and Financial Reporting for Pensions and Related Assets That Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, that had to be implemented during fiscal year 2019, but was not implemented for lack of information, also.

We also alert the readers that since 2017, the Authority is operating under Title III – In Court Restructuring Process, of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), as discussed under *Currently Known Facts*, ahead in this MD&A. This matter raises substantial doubts about the Authority’s ability to continue as a going concern. The Authority has prepared its financial statements assuming the Authority will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Financial Highlights

The Authority's net deficit as of June 30, 2020, totaled $386.3 million as compared to net position of $268.4 million as of June 30, 2019. Net position decreased by $654.7 million after capital grants during the fiscal year ended June 30, 2020, as compared to a decrease of $769.8 million during the fiscal year ended June 30, 2019, as restated. This decrease is mainly attributable to a decrease of operating revenues of $35.9 million, a decrease of $182.8 million in operating expenses, a decrease of interest on bonds and GDB Debt Recovery Authority (formerly Government Development Bank of Puerto Rico “GDB”) obligations of $20.1 million, a decrease of $97.3 million of operating transfers from the Commonwealth, a decrease of $8.8 million in other income/expenses and an increase in capital transfers and grants of $63.6 million during the fiscal year ended June 30, 2020.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled $9,096.3 million on June 30, 2020, as compared to $9,326.5 million on June 30, 2019. Net capital assets decreased by 2.5% on June 30, 2020, when compared with the balance on June 30, 2019.

The total aggregate amount of the Authority's non-current liabilities was $8,525.8 million on June 30, 2020, as compared to $8,261.7 million on June 30, 2019 (as restated), which consisted principally of bonds payable, GDB Debt Recovery Authority obligation, accrued interest, accrued legal claims, voluntary termination incentive plans, and the Authority's net pension liability. Much of the liabilities have been stayed under the Puerto Rico Oversight Management, and Economic Stability Act (PROMESA) proceedings, and are in the process of being negotiated.

Overview of the Basic Financial Statements

The basic financial statements consist of the: (1) statement of net deficit, (2) statement of revenues, expenses, and changes in net deficit, (3) statement of cash flows, and (4) notes to the financial statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

Statement of Net Deficit

The statement of net deficit reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net deficit. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and non-current. The focus of the statement of net deficit is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net deficit is reported in the following categories:

Net Investment in Capital Assets - This component of net deficit consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net deficit is used to account for restricted assets for the principal and interest payments of the bonds payable. However, since the Authority filed for relief under PROMESA Title III, all debt service of the bonds, other than those related to the Teodoro Moscoso Bridge concession have been stayed. Accordingly, assets are not being segregated for debt service. Furthermore, funds kept by the Bank of New York Mellon (the "Trustee") are no longer available for such purposes.

Restricted for Construction - This component of net deficit consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - This component consists of net deficit that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Deficit

The statement of revenues, expenses, and changes in net deficit includes: (i) operating revenues, which consist of tolls and train fares, other operating income, concession agreements, and other operating expenses, such as costs of operating toll roads, the transportation system, administrative expenses, and depreciation on capital assets; and (ii) "non-operating" revenue and expenses, such operating transfers from the Commonwealth, interest and investment income, interest expense and others. The statement also includes capital contributions and payments received from the Commonwealth and federal government grants. The focus of the statement of revenues, expenses, and changes in net deficit is the change in net deficit (economic resources measurement focus). This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital, and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, commitments, and contingencies, going concern and PROMESA. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority

Condensed Statement of Net Position (Deficit)

The following table reflects the condensed net deficit of the Authority as of June 30, 2020 and 2019:

	2020 [1]	2019 (Restated)
Assets		
Current assets	$ 35,175,097	$ 40,937,008
Restricted assets	249,456,149	391,935,374
Capital assets, net	8,898,393,339	9,126,924,238
Highways and bridge under concession agreements, net	197,896,107	199,622,733
Total assets	9,380,920,692	9,759,419,353
Deferred outflows of resources	110,936,070	117,556,763
Total assets and deferred outflows of resources	$ 9,491,856,762	$ 9,876,976,116
Liabilities		
Current liabilities	$ 251,305,802	$ 220,534,143
Non-current liabilities	8,525,887,948	8,261,667,479
Total liabilities	8,777,193,750	8,482,201,622
Deferred inflows of resources	1,101,038,220	1,126,408,021
Total liabilities and deferred inflows of resources	9,878,231,970	9,608,609,643
Net position		
Net investment in capital assets	1,759,491,091	1,973,859,512
Restricted for debt service	-	-
Restricted for construction	132,436,565	250,573,960
Unrestricted	(2,278,302,864)	(1,956,066,999)
Total net position (deficit)	(386,375,208)	268,366,473
Total liabilities, deferred inflow of resources and net position (deficit)	$ 9,491,856,762	$ 9,876,976,116

[1] The 2020 Statement of Net Position lacks any adjustment related to the effects of unrecorded pension transactions for the year ended June 30, 2020.

Current assets decreased by approximately 14.40% to $35.1 million during the fiscal year ended June 30, 2020. The net decrease in current assets of $5.8 million was principally due to a decrease in cash and cash equivalents, by approximately $9.7 million offset by an increase in, accounts receivable from the Commonwealth by approximately $ 4.8 million. Cash and cash equivalents decreased by approximately $9.7 million mainly due to less toll revenues received during the fiscal year ended June 30, 2020. This decrease is mainly due to the impact of lockdown caused by the COVID-19 pandemic virus.

Restricted assets decreased by approximately 36.4% to $249.5 million during the fiscal year ended June 30, 2020. Cash and cash equivalents and Investments with Trustee decreased by approximately $163.9 million during the fiscal year ended June 30, 2020. This decrease is mainly due to the use of capital expenditures (CAPEX) funds and "Abriendo Caminos" program by approximately $157.6 million. In addition, investments had interest income of approximately $3.4 million and accounts receivables from U.S. Federal government increased by 77.1% to approximately $49.1 million. There were no pledged revenues deposited with the Trustee during fiscal years 2019 and 2020. All other restricted assets remained in line with prior fiscal year.

During the fiscal year ended June 30, 2020, capital assets decreased by 2.5% to approximately $8,898.4 million as compared to fiscal year 2019. The decrease was mainly due to the net result of an aggregate increase in construction in process, roads, bridges and equipment, and vehicles of approximately $234.5 million, net of depreciation expenses of approximately $464.9 million for the fiscal year ended June 30, 2020.

During the fiscal year ended June 30, 2020, highways and bridges under the Service Concession Agreements (as defined below) decreased by 0.87% to approximately $197.9 million as compared to fiscal year 2019. This decrease was due to depreciation expenses of approximately $1.6 million related to the Teodoro Moscoso Bridge.

Deferred outflows of resources decreased by 5.6% approximately $110.9 million during the fiscal year ended June 30, 2020, as compared to prior year due to the amortization of the deferred outflows related to the unamortized loss on advance refunding and pension related of $6.7 million and $8.0 million, respectively for the years ended June 30, 2020 and 2019.

During the fiscal year ended June 30, 2020, current liabilities decreased by 13.95% to approximately $251.3 million as compared to fiscal year 2019. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including vacations, increased by 33.61% to approximately $141.1 million during the fiscal year ended June 30, 2020, as compared to prior fiscal year. The change is mainly due to an increase in accounts payable and other accrued liabilities by $14.5 million and an increase in accounts payable sub-contractors by $20.9 million.

Deferred revenue decreased by $15.9 million due to state grants received for repairs and maintenance of roads and bridges that were incurred during the current fiscal year.

Current portion of bonds payable increased by 107.9% to approximately $22.5 million during the fiscal year ended June 30, 2020, as compared to prior fiscal year is related to bonds payable of the Teodoro Moscoso Bridge.

During the fiscal year ended June 30, 2020, non-current liabilities increased by 3.21% to approximately $8,525.9 million as compared to fiscal year 2019. The increase in non-current liabilities of approximately $264.2 million during the current fiscal year was the net effect of: an increase in accrued interest payable on bonds payable and GDB Debt Recovery Authority obligation by 27.5% to approximately $1,547.8 million during the fiscal year ended June 30, 2020 as compared to prior fiscal year; and a decrease in bonds payable of approximately $11.5 million; a decrease of $13.7 million in accounts payable and a decrease of $6.4 million on obligations under vacations and voluntary termination incentive plan liability.

Legal claims not related to expropriation and related costs, decreased by 1% to approximately $21.1 million during the fiscal year ended June 30, 2020, as compared to the prior year period. Legal claims related to expropriation of properties decreased by 21.1% to approximately $62.7 million. The value of the legal claims was recorded based on advice from internal and external legal counsel.

Deferred inflows of resources during the fiscal year ended June 30, 2020, decreased by 2.2% to $1,101 million as compared to fiscal year 2019. The decrease of $26.1 million was mainly due to the effect of the amortization to the deferred inflows of resources on concession agreements.

During the fiscal year ended June 30, 2020, the Authority's net deficit decreased by 244% to $386.4 million as compared to fiscal year 2019. The decrease was due to a loss of approximately $654.7 million after capital grants during the current fiscal year 2020. The largest portion of the Authority's net deficit was its investments in capital assets net of related debt outstanding used to acquire such capital assets.

Condensed Statements of Revenues, Expenses, and Changes in Net Position (deficit)

The following table reflects a condensed summary of the revenues, expenses, and changes in net position (deficit) for fiscal years ended June 30, 2020 and 2019:

	2020 [2]	2019 (Restated and Reclassified)
Operating revenues:		
Toll and train fares	$ 129,279,250	$ 155,534,650
Other operating income	7,518,477	19,285,503
Concession agreement	39,945,626	38,386,957
Total operating revenues	176,743,353	213,207,110
Total Operating expenses	340,035,631	522,877,395
Depreciation and amortization	471,936,881	462,392,000
Operating loss	(635,229,159)	(772,062,285)
Non-Operating Revenues (Expenses):		
Operating transfers from the Commonwealth of Puerto Rico	-	97,300,000
Operating grants from U.S. Federal Government	24,310,201	31,828,425
Investment income	5,213,185	6,080,698
Other non-operating revenues	-	11,777
Interest on bonds and GDB Debt Recovery Authority Obligations	(338,226,720)	(358,376,287)
Other non-operating expenses	49,838	(93,368)
Total non-operating revenues / (expenses)	(308,653,496)	(223,248,755)
Loss Before Capital Contributions	(943,882,655)	(995,311,040)
Capital grants (U.S. Federal and Commonwealth)	289,140,974	225,497,426
Change in Net Position	(654,741,681)	(769,813,614)
Net position at beginning of year, including $124,903,255, restatement in 2019	268,366,473	1,038,180,087
Net position (deficit) at end of year	$ (386,375,208)	$ 268,366,473

Operating revenues, which consisted of toll and train fares, concession agreements and other operating revenues decreased by 19.5% to $176.7 million during the fiscal year ended June 30, 2020, as compared to fiscal year 2019. This decrease is the net effect of the following:

a. The decrease in toll and train fares of $26.3 million which is mainly attributable to the closure of governmental and business operations as a result of various executive orders made by the Governor to contain the COVID-19 pandemic virus and the impact of multiples earthquake events that severely damaged a main toll station in the PR-52.

[2] See footnote 1 on page 7

b. The decrease in other operating income of approximately $11.8 million was mainly due to a realized gain of approximately $11.0 million related with a legal settlement during the year ended June 30, 2019.

c. The concession revenue agreements of approximately $39.9 million during the current fiscal year remained in line with prior fiscal year.

Operating expenses decreased by 34.9% to approximately $340.1 million during the fiscal year ended June 30, 2020, as compared to fiscal year 2019. The decrease in operating expenses of approximately $182.8 million during the current fiscal year was the aggregate effect of: 1) the net effect of a decrease in salaries and related benefits of approximately $18.5 million 2) a decrease in pension expense (PayGo), of approximately $99.2 million given that in 2020 the Authority implemented retroactively the requirements of GASB 73 as described in Note 15 to the basic financial statements; 3) an increase in toll highways administration of approximately $3.3 million due to the unpaid tolls assumed by the Authority for the highways under the concession agreements with Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and Autopistas, and municipality of Guaynabo toll; 4) a decrease in the train operating and maintenance expense of approximately $3.8 million; 5) a decrease on the integrated transportation system of approximately $3.1 million; 6) a decrease in repairs and maintenance of roads and bridges of approximately $38.8 million, 7) a decrease in legal and professional services of approximately $11.4 million related with the implementation of the fiscal plan and Title III (PROMESA) legal services, and 8) a decrease in the eligible employees that elected the benefits of the voluntary transition program of approximately $5.4 million.

Operating transfers from the Commonwealth decreased as a result of a reduction in amounts allocated by the Commonwealth of approximately $97.3 million when compared to fiscal year ended June 30, 2019. As discussed in Note 4 to the basic financial statements.

On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the Treasury Department to retain, among other things, certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously conditionally allocated to the Authority (commonly referred to as the "clawback"). These revenues were retained by the Commonwealth for the payment of essential government services. Based on the current certified fiscal plan, it is probable that these funds will not be reassigned to the Authority in the future

Investment income decreased by approximately $772 thousand during the fiscal year ended June 30, 2020, as a result of gains generated from the investments and interest income from cash balances. In addition, interest expense on bonds and GDB Debt Recovery Authority obligations decreased by approximately $20.1 million during fiscal year ended June 30, 2020, principally due to the decrease in interest payable related with GDB Debt Recovery Authority obligation outstanding balance.

Other non-operating revenues remain in line with prior fiscal year.

The Authority also received capital and operating grants from the U.S. federal government. Capital grants may only be used for construction, major improvements, preservation of highways and bridges while operating grants are used to finance repair and maintenance for roads and bridges preservation and other operating expenses of other mass transportation systems. Such capital and operating grants amounted to approximately $222.6 and $195.9 million during the fiscal year ended June 30, 2020 and 2019, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2020, the Authority had approximately $8,898.4 million in capital assets, net of accumulated depreciation, which represents a decrease of $228.5 million, when compared with the prior year. Capital assets consist of roads, bridges, mass transportation system, transportation equipment, buildings, lands, construction in progress, and highways and bridges under concession agreements.

Since the end of fiscal year 2005, the Authority operates the mass rail transportation system for the San Juan metropolitan area known as "Urban Train". The Authority originally incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Urban Train in San Juan consists of approximately 17 km of track running from San Juan to Bayamón. Maintenance services are partially funded with operating grants from the Federal Transit Administration (FTA). Total operating grants received from FTA used for maintenance services and other programs amounted to approximately $22.9 million during the fiscal year ended June 30, 2020. Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years. The total annual operation and maintenance cost, for the fiscal year ended June 30, 2020, was approximately $47.8 million.

On September 22, 2011, the Authority entered into a toll road service concession agreement (the Toll Road Service Concession Agreement) with Metropistas, in which the Authority granted Metropistas the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 11 to the basic financial statements. On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for ten additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (as amended in 1992, 2004 and 2009, the Bridge Service Concession Agreement, and together with the Toll Road Service Concession Agreement, the Service Concession Agreements) for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge that crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Teodoro Moscoso Bridge, which began operating on February 23, 1994, as more fully described in Note 11 to the basic financial statements. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

Debt Administration

As of June 30, 2020, the total aggregate principal amount of the Authority's bonds outstanding (net of unamortized premiums and discounts) amounted to approximately $4,384.1 million, plus account interest of $752.2 million. In addition, as of the same date, the aggregate principal amount of expired GDB lines of credit now due to the GDB Debt Recovery Authority (formerly Government Development Bank of Puerto Rico "GDB"), was $1,733.7 million, plus accrued interest of $795.6 million. All these obligations have been stayed in PROMESA’s Title III proceedings.

On March 2, 2018, Standard & Poor's Global Ratings (S&P) discontinued its "D" unenhanced rating on the Authority's Highway Revenue Bonds, Highway Revenue Refunding Bonds, Transportation Revenue Bonds, Transportation Revenue Refunding Bonds, and Subordinate Transportation Revenue Bonds.

Upon filing for relief under Title III of PROMESA in 2017, as discussed below, all debt payments were stayed, except for certain debt which is currently being settled by a third party. For fiscal year ended June 30, 2020, the Authority defaulted on the debt service principal and interests amounting to $340.7 million.

CURRENTLY KNOWN FACTS

As explained in Note 3 and 4 to the basic financial statements, the number of uncertainties facing the Authority, including the proceedings initiated under Title III of PROMESA, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern.

Earthquake Events

In January 2020, there were multiples and significant earthquake events severely damaged bridges and other assets of the Authority, most of which were fully depreciated. Management has initially determined that replacing o repairing the property damaged by the earthquake events will have a replacement cost of approximately $26 million. This amount will be financed with a combination of U.S. Federal grants and the Authority's funds.

COVID-19 Pandemic Event

On March 15, 2020, then Governor Wanda Vázquez Garced signed Executive Order No. OE-2020-023, which directed the closure of all non-essential businesses in Puerto Rico, requiring the closure of all operations of the Authority, including construction and maintenance projects for about two months. Thereafter, construction and maintenance projects were recontinued and administrative employees began working under a hybrid program. Island-wide Executive Orders have continued to be issued with substantial reopening and resuming of operations beginning in May 2021.

Authority's Fiscal Plan and Agreements in Principle

On June 30, 2021, the Oversight Board approved the FY 2022 fiscal plan for the Authority and recommended certain amendments.

On April 12, 2021, the Commonwealth and other component units, including the Authority, filed an Agreement in Principle (AP) with the Municipal Securities Rulemaking Board. The Authority's portions of the AP disclosed tentative agreements reached with the Authority's bond holders, that if materialized, will result in a significant decrease in the obligations of the Authority. As of the date the financial statements were issued, the negotiations with the bondholders are still on going.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Deficit

June 30, 2020

Assets	
Current assets:	
Cash	$ 11,020,564
Accounts receivable, net	6,622,148
Due from Commonwealth of Puerto Rico, net	12,888,333
Prepaid expenses and other assets	4,644,052
Total current assets	35,175,097
Restricted assets:	
Cash and cash equivalents	113,572,654
Investments with trustee	86,528,238
Receivables:	
U.S. federal government	49,195,280
Accrued interest and other	159,977
Total restricted assets	249,456,149
Other Non-current assets:	
Capital assets, net	8,898,393,339
Highways and bridge under concession agreements, net	197,896,107
Total other non-current assets	9,096,289,446
Total assets	9,380,920,692
Deferred outflows of resources:	
Pension related	42,215,216
Deferred loss on advance refunding, net	68,604,134
Other postemployment benefits other than pensions	116,720
Total deferred outflows, net	110,936,070
Total assets and deferred outflows of resources	$ 9,491,856,762

Continued.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Deficit (Continued)

June 30, 2020

Liabilities		
Current liabilities:		
Accounts payable	$	55,922,228
Accrued and other liabilities		10,367,883
Accounts payable subcontractors		74,848,032
Deferred revenue		83,546,375
Accrued interest on bonds payable		3,349,930
Current portion of accrued legal claims		779,047
Current portion of bonds payable, Teodoro Moscoso		22,492,307
Total current liabilities		251,305,802
Non-current liabilities:		
Bonds payable		4,384,109,675
Bonds payable, Teodoro Moscoso, net		77,243,182
Accrued interest on bonds payable		752,169,635
GDB Debt Recovery Authority obligation		1,733,697,499
Accrued interest on GDB Debt Recovery Authority obligation		795,630,031
Accrued vacations, net		3,170,640
Voluntary termination incentive plan liability, net		29,669,262
Total pension liability		600,492,739
Other postemployment benefits other than pensions		2,346,428
Accounts payable		9,807,961
Accrued and other liabilities		4,021,368
Accounts payable subcontractors		50,565,992
Accrued legal claims		82,963,536
Total non-current liabilities		8,525,887,948
Total liabilities		8,777,193,750
Deferred inflow of resources:		
Service concession agreement		1,062,445,802
Other postemployment benefits other than pensions		739,002
Pension related		37,853,416
Total deferred inflows of resources		1,101,038,220
Net deficit:		
Net investment in capital assets		1,759,491,091
Restricted for debt service		-
Restricted for construction		132,436,565
Deficit		(2,278,302,864)
Total net deficit		(386,375,208)
Total liabilities, deferred inflow of resources and net deficit	$	9,491,856,762

The Notes to Financial Statements are an integral part of the Financial Statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Deficit

June 30, 2020

Operating revenues:		
Toll and train fares	$	129,279,250
Other operating income		7,518,477
Concession agreements		39,945,626
Total operating revenues		176,743,353
Operating expenses:		
Salaries and related benefits		10,658,744
Pensions paid (PayGo)		34,968,093
Other postemployment benefits		110,143
Toll highways administration and maintenance		47,171,907
Train operating and maintenance costs		47,765,962
Integrated transportation system		6,616,734
Repairs and maintenance of roads and bridges		143,381,429
Utilities		9,554,823
Insurance		11,180,745
Other		28,627,051
Total operating expenses		340,035,631
Operating loss before depreciation and amortization		(163,292,278)
Depreciation and amortization		471,936,881
Operating loss		(635,229,159)
Non-Operating Revenues (Expenses):		
Operating grants from U.S. Federal Government		24,310,201
Interest on bonds and lines of credit		(338,226,720)
Investment income		5,228,004
Net change in fair value of investments		(14,819)
Other		49,838
Total non-operating revenues (expenses), net		(308,653,496)
Loss Before Capital Contributions		(943,882,655)
Capital Grants:		
U.S. federal government		198,290,423
Commonwealth		90,850,551
Total capital grants		289,140,974
Change in Net Position (Deficit)		(654,741,681)
Net position at beginning of year		393,269,728
Prior period adjustment		(124,903,255)
Net deficit at end of year	$	(386,375,208)

The Notes to Financial Statements are an integral part of the Financial Statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

June 30, 2020

OPERATING ACTIVITIES:	
Receipt from tolls and train fares	$ 130,127,163
Receipt from other sources	2,602,985
Payments to employees, PayGo and related benefits	(54,432,145)
Payments to suppliers for goods and services	(310,197,841)
Net cash used in operating activities	(231,899,838)
NONCAPITAL FINANCING ACTIVITIES:	
Operating grants received	10,507,234
Net cash provided by noncapital financing activities	10,507,234
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	281,521,999
Acquisition and construction of capital assets	(231,601,636)
Interest paid	(4,079,896)
Net cash flows provided by capital and related financing activities	45,840,467
INVESTING ACTIVITIES:	
Purchase of investments	(3,459,557)
Investments and interest income received	1,907,677
Net cash provided by investing activities	(1,551,880)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(177,104,017)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	301,697,235
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 124,593,218

Continued.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows (Continued)

June 30, 2020

RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:		
Cash	$	11,020,564
Cash and cash equivalents - restricted		113,572,654
Total	$	124,593,218
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW USED IN OPERATING ACTIVITIES:		
Operating loss	$	(635,229,159)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization		471,936,881
Revenue from concession agreement		(40,278,733)
Impairment loss for deposits in governmental banks		46,666
Other non-operating revenues		3,172
Net change in operating assets and liabilities:		
Accounts receivable		(4,117,418)
Prepaid expenses and other assets		91,613
Other post employment benefits		(822,962)
Deferred outflows of resources related to pensions		(62,495)
Accounts payable		456,000
Accrued liabilities		(17,025,439)
Accrued legal claims		(197,144)
Accrued vacation		960,031
Accrued voluntary incentive plan liability		(8,399,853)
Deferred inflows of resources related to pensions		739,002
Net cash flows used in operating activities	$	(231,899,838)
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Non-cash transaction:		
Bonds principal and interest paid by third party (Teodoro Moscoso Bonds)	$	14,169,930

The Notes to Financial Statements are an integral part of the Financial Statements.

1. ORGANIZATION

The Authority is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 74 of June 23, 1965, as amended ("Act No. 74-1965"), to design, construct and administer toll roads, highways, and other facilities for the mobility of individuals, vehicles, and vessels, and for the planning, promotion and feasibility of mass transportation systems. As a component unit, the Authority is included in the basic financial statements of the Commonwealth.

The Authority is exempt from the payment of taxes on its revenues and properties. The Authority is governed by a seven-member board of directors empowered to approve, amend, and revoke any regulations necessary to perform its duties and to control the Authority's capital and operational budget. With the enactment of The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) on June 30, 2016, certain corporate actions may also require approval by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board). In addition, the enactment of Act No. 2-2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, expanded the powers and authority of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) so that AAFAF has the responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity, including the Authority.

In addition, as discussed in Notes 3 and 4 to the basic financial statements, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The Authority currently operates as a debtor in such Title III case.

The basic financial statements presented herein relate solely to the Authority's financial position and results of operations and are not intended to present the financial position of the Commonwealth or the results of its operations or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America (GAAP), as promulgated in Governmental Accounting Standards Board (GASB) pronouncements.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Authority's operations are included on the statement of net deficit. Revenue is recognized in the period in which it was earned, and expenses are recognized in the period in which they were incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these basic financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth. See Note 4 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities within three months or less from the date of purchase.

Receivables

Accounts receivable consist of amounts due from the Commonwealth, which includes unremitted Commonwealth Operating transfers, amounts due from Federal programs, government agencies, public corporations, municipalities of the Commonwealth and other. Amounts that are significantly overdue are included in the allowance for doubtful accounts. Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions, among other factors.

Investments

The Authority reports investments on the statement of net deficit at fair value and investment income, including changes in the fair value of investments, which are reported as non-operating revenue/(expense) in the statement of revenues, expenses, and changes in net deficit. Fair values have been determined using quoted or adjusted market values as of June 30, 2020.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost Basis - Capital assets are recorded at historical cost or acquisition value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights of way, bridge substructures, highways, and bridges), toll facilities, equipment, and other related costs (including software), buildings, and furniture. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses associated with the project.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $1,000 and an estimated life of more than two years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for new roads, highways and road widenings, 50-59 years for new bridges and transportation systems (including transportation equipment and facilities), 20 years for bridge improvements, 15 years for road resurfacing of freeways and 10 years for equipment, vehicles, and road resurfacing of non-freeways.

Impairment of Capital Assets - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others.

The Authority evaluated its capital assets and determined that there was no significant impairment as of June 30, 2020.

Service Concession Agreements

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and are amortized into concession revenue in a systematic and rational manner over the term of the agreements. The assets are still owned by the Authority and, therefore, are reported in the Authority's basic financial statements. Improvements performed by Metropistas and Autopistas to the transferred assets are capitalized by the Authority. Refer to Note 11 for additional information regarding the service concession agreements in effect as of June 30, 2020.

Claims and Judgments

The estimated amount of liability for claims and judgments is recorded on the accompanying statement of net deficit based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. Refer to Note 19 for additional information regarding the status of the Authority's key litigation as of the date of these basic financial statements.

Compensated Absences

Compensated absences include paid time off made available to employees in connection with vacation, and sick leave. The liability for compensated absences is reported in the statement of net deficit. A liability for compensated absences is reported in the financial statements only when payment is due. The liability for compensated absences recorded in the accompanying statement of net deficit is limited to leave that is attributable to services already rendered and is not contingent on a specific event.

On April 29, 2017, the Governor signed into law Act No. 26 of 2017 “Law for the Compliance with the Fiscal Plan,” which, among other things, changed the vacation and sick leave accrual formula for all government employees. Through the Act, it was established that as of May 1, 2017, all public employees will have the right to accumulate vacation leave at the rate of one and one-fourth days for each month of service. In addition, the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

payment of sick leave was eliminated. New employees accumulate vacation leave retroactively after the first 3 months of employment.

In addition, it was reported that as of the effective date of this Act, no public employee, whether a union member or not, who works for the Commonwealth in any of its agencies, instrumentalities or public corporations will have the right to receive pay for the liquidation of days in excess of the maximum allowable leave.

Pensions

Since July 1, 2017, the pension obligation of the Employees Retirement System (ERS) was transferred to an unfunded pension trust, where pension obligations are funded on a pay-as-you-go basis. On that date, active employees stopped contributing to the ERS and new employees will not become members either. The funding change resulted in the change in accounting principle from GASB 68 – *Accounting and Financial Reporting for Pensions* to GASB 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*.

For purposes of measuring the total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the total pension liability of the ERS, and changes in total pension liability have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Refer to Note 15.

Postemployment Benefits Other Than Pensions

The Authority accounts postemployment benefits other than pensions in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefits other than pensions (OPEB) expense is recognized and disclosed using the accrual basis of accounting. The Authority recognizes the total OPEB liability since the Authority's OPEB program is funded on a pay-as-you-go basis. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change; recognition occurs in the period the OPEB expense, deferred inflows, or deferred outflows, as applicable, are incurred. Those changes in total OPEB liability that are recorded as deferred inflows or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense, beginning with the period in which they arose.

Voluntary Termination Benefits

The Authority accounts for voluntary termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net deficit reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has three items that qualify for reporting in this category: (i) the deferred loss on advance refunding, (ii) the difference between expected and actual experience, due to changes in assumptions and employer's contribution to the pension plan subsequent to the measurement date of the net pension liability, and (iii) the difference between actual and expected experience related to the OPEB obligation.

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

In addition to liabilities, the statement of net deficit reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category: (i) the deferred amounts of service concession agreements, and (ii) the difference between expected and actual experience, changes in assumptions and employer's contribution to the pension plan subsequent to the measurement date of the total pension liability.

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, or changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). Deferred inflows of resources related to the service concession agreement amounted to $1,062 million. These amounts are being amortized over the 50-year term of the agreement. Deferred inflows of resources also include pension related amounts of $37.8 million and $739 thousand related to OPEB amounts. Deferred outflows of resources include the unamortized deferred loss from advance refunding of $68.6 million and pension related amounts of $42.2 million.

Bond Premiums (Discounts) and Bond Issuance Costs

Bond issuance costs are reported as expense during the year they are incurred.

Bonds discounts and premiums are amortized over the term of the related debt using the effective interest-rate method. Bonds payable are reported net of applicable discounts and premiums.

Amortization related to bond premiums (discounts) was approximately $13.8 million for the fiscal year ended June 30, 2020 and is included as a component of interest expense in the accompanying statements of revenues, expenses, and changes in net position.

Interest Expense

After the Title III filing under PROMESA, the Authority continues to accrue interest on all interest-bearing obligations. The final amount of interest to be paid in the future is dependent on the resolution of the Authority's Title III Case.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Deficit

Net deficit is classified in the following four components in the accompanying statement of net deficit:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, 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 fiscal year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service – This component of net position consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of net position consists of restricted assets for the specific purpose of financing construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position. As of June 30, 2020, the Authority has an accumulated deficit of approximately $2,278.3 million. Refer to Note 4 for further information regarding the Authority's ability to continue as a going concern.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with tolls and train fares are recorded as operating revenues when earned, based on activity reports provided by the toll and train operators, respectively.

Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.
Non-operating revenues consist principally of operating transfers allocated to the Authority by the Commonwealth and U.S. federal government to finance the Authority's operations on capital projects.

Deferred revenues are related to "Programa Estatal de Modernización de Carreteras" (PEMOC) and "Abriendo Caminos" for repairs and maintenance of roads and bridges that are recognized following the applicable legal and contractual requirements. Essentially, revenues are recognized based upon the expenditures recorded. This occurs when expenditures are incurred for the specific purpose of the project. The remaining proceeds from such grants are presented as restricted cash in the Statement of Net Deficit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital and Operating Grants

Capital and operating grants are funds allocated by the federal and local governments, including the Federal Highways Administration (FHWA), the Federal Transit Administration (FTA), and the Commonwealth to the Authority for the construction of specific capital projects or infrastructure repairs and maintenance. These are reported as capital and operating grants as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

Use of Estimates

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

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the fiscal years ended June 30, 2020, 2019 and 2018.

New Accounting Pronouncements

Adopted during the current period

The GASB has issued the following Statement:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB Statement No. 89). GASB Statement No. 89, which was adopted effective July 1, 2019, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.

  This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. GASB Statement No. 89 resulted in minimal changes in disclosure and presentation of Notes 2 and 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Adoption

The GASB has issued the following Statements:

- GASB Statement No. 84, *Fiduciary Activities* (GASB Statement No. 84), which is effective for periods beginning after December 15, 2019, as per GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* establishes, specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (i) whether a government is controlling the assets of the fiduciary activity and (ii) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

- GASB Statement No. 87, *Leases* (GASB Statement No. 87), which is effective for periods beginning after June 15, 2021, as per GASB Statement No. 95 establishes a single approach to accounting for and reporting leases by state and local governments. GASB Statement No. 87 is based on the principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 provides guidance for lease contracts for nonfinancial assets including vehicles, heavy equipment and buildings—but excludes nonexchange transactions, including donated assets and leases of intangible assets (such as patents and software licenses). GASB Statement No. 87 provides exceptions from the single approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements) and leases with related parties.

  Under this statement, a lessee government is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset. The liability should be the present value of the payments covered by the contract, and its value should be reduced as payments are made over the lease's term. The asset should equal the initial measurement of the liability. A lessee also will report the following in its financial statements:

  (1) amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset;
  (2) interest expense on the lease liability; and
  (3) note disclosures about the lease, including a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments to be made.

  Under this statement, a lessor government is required to recognize a lease receivable and a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. A lessor also will report the following in its financial statements:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) lease revenue, systematically recognized over the term of the lease, corresponding with the reduction of the deferred inflow;
(2) interest revenue on the receivable; and
(3) note disclosures about the lease, including a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

- GASB Statement No. 90, *Majority Equity Interests*—an amendment of GASB Statements No. 14 and No. 61 (GASB Statement No. 89), which is effective for periods beginning after December 15, 2019, as per GASB Statement No. 95 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government unit engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those government units and funds should measure the majority equity interest at fair value.

  For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

  This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value the interest on the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

- GASB Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), which is effective for periods beginning after December 15, 2021, as per GASB Statement No. 95 provides a single method for government issuers to report conduit debt obligations and related commitments. GASB Statement No. 91 addresses the variation in practice by: clarifying what is a conduit debt obligation; eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting; broadening the definition of conduit debt obligations to include those for which government issuers make related additional commitments, such as guarantees or moral obligation pledges, or voluntarily agree to make debt service payments or request an appropriation for such payments, if necessary; clarifying how government issuers should account for and report commitments they extend or voluntarily provide, and arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes; and enhancing note disclosures. Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. GASB Statement No. 91 requires a government issuer to

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

- GASB Statement No. 92, *Omnibus 2020* (GASB Statement No. 92), enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: the effective date of GASB 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 GASB 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 GASB Statement 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 GASB Statement No. 84, *Fiduciary 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 requirements of GASB Statement No. 92 are effective as follows: the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, regarding reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; the requirements related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74 are effective for fiscal years beginning after June 15, 2020; the requirements related to application of GASB Statement No. 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; the requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB Statement No. 95). The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of 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. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement No. 84, *Fiduciary Activities*
Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
Statement No. 90, *Majority Equity Interests*
Statement No. 91, *Conduit Debt Obligations*
Statement No. 92, *Omnibus 2020*

The effective dates of the following pronouncements are postponed by 18 months:

Statement No. 87, *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. The requirements of this Statement are effective immediately.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in 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, but not required.

- 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 Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) 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; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment 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 (3) 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 that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING

The Commonwealth and many of its component units, including the Authority, are in the midst of an economic and fiscal crisis, which has caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. Thereafter, the Commonwealth and other governmental entities including the Authority, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employee Retirement System (ERS), the Puerto Rico Electric Power Authority (PREPA), the Public Building Authority (PBA) and the Government Development Bank for Puerto Rico (GDB) initiated PROMESA bankruptcy proceedings at the request of the Governor to restructure or adjust their existing debt. The most relevant Commonwealth and federal legislation enacted to address the fiscal crisis and to initiate the economic recovery is as follows:

Fiscal Measures Before PROMESA

(i) Retention by the Government of Tax Revenues Conditionally Allocated to Certain Public Corporations and Priority of Payment Provisions

On December 1, 2015, the Governor signed Executive Order No. 46 which ordered the Secretary of Department of Treasury (DOT) to retain certain available resources of the Commonwealth based on revised revenue estimates for fiscal year 2016 and the Commonwealth's deteriorating liquidity situation. Pursuant to such executive order, the Secretary of the DOT retained revenues conditionally allocated to the Authority, the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Convention Center District Authority (PRCCDA), and Puerto Rico Metropolitan Bus Authority (PRMBA) for the payment of debt service on their bonds during fiscal year 2016. Since fiscal year 2016, such revenues are being retained by the Commonwealth pursuant to certain laws, including but not limited to (a) the Moratorium Act and Act No. 5 (discussed below), and (b) the automatic stay under Title III of PROMESA. Use of these revenues is the subject of ongoing litigation, as discussed in Note 19.

(ii) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

The implementation of the Moratorium Act and its related executive orders is the subject of ongoing litigation, as discussed in Note 19. Upon the enactment of PROMESA on June 30, 2016, the Title IV Stay (discussed below) applied to stay this litigation until its expiration on May 1, 2017. Since the commencement of the Commonwealth's Title III case on May 3, 2017, the automatic stay under Title III of PROMESA has applied to continue the stay of this litigation and prevent debt service payments to bondholders.

Overview of PROMESA

On June 30, 2016, then President Barack Obama signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). Relevant elements of PROMESA are discussed below.

Title I - Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for the Commonwealth. See PROMESA § 101(b).

As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." PROMESA § 101(a). On August 31, 2016, President Obama announced the appointment the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." PROMESA § 101(f)(1). The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, see PROMESA § 101(c), but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislative Assembly of Puerto Rico (the Legislative Assembly) may "(i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board. "PROMESA § 108(a).

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

Title II - Fiscal Plan and Budget Certification Process and Compliance

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets." H.R. Rep. 114-602(1), 2016 WL 3124840, at *45 (2016); PROMESA § 201(b)(1).

According to the legislative history, a fiscal plan should "provide for a sustainable level of debt, improve governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-a-vis one another under Puerto Rico law." H.R. Rep. 114-602(1), 2016 WL 3124840, at *112 (2016). PROMESA section 201 sets forth the specific requirements for a fiscal plan and the process for fiscal plan approval.

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as determined by the Oversight Board) to the Legislative Assembly. See PROMESA § 201(c)(1). PROMESA section 202 sets forth the specific procedures and requirements for approval of each fiscal year Commonwealth budget and Commonwealth instrumentality budgets.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

Title III - In-Court Restructuring Process

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

To be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire to effect a plan to adjust its debt." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date hereof, the Oversight Board has commenced Title III cases for the Commonwealth, the Puerto Rico Sales Tax Financing Corporation (COFINA), ERS, the Puerto Rico Electric Power Authority (PREPA), and the Authority, as discussed below.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III proceedings. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality. See PROMESA § 303.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

The core component of the Title III case is the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. *See* PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

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

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (Title IV Stay) from June 30, 2016 (the date of PROMESA’s enactment) through February 15, 2017 of all “Liability Claim” litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A “Liability Claim” is defined as any right to payment or equitable remedy for breach of performance related to “a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]” for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

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

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

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 30, 2021, the GAO published its latest biannual report on the public debt of the U.S. territories.

Title V – Infrastructure Revitalization

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

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

Title VI – Consensual, Out-of-Court Debt Modification Process

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

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

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

Title VII – Sense of Congress

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

Puerto Rico Legislation and Other Fiscal Measures

Act No. 2-2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, was enacted to expand AAFAF's powers and authority (as initially established under the Moratorium Act) so that AAFAF has the sole responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. AAFAF is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2-2017 established AAFAF as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president was a member at that time; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

Act No. 3 2017, the Fiscal Crisis Management Act, was enacted to extend most of the fiscal measures that had been adopted under Act No. 66 2014 through July 1, 2021, including a 10-year extension of the excise tax on acquisitions by foreign corporations under Act No. 154 2010.

Act No. 5 2017, the Puerto Rico Fiscal Responsibility and Financial Emergency Act, authorized the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5 2017 states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents. Act No. 5 2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5 2017 was set to expire on May 1, 2017, to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

April 30, 2017, the Governor issued executive order OE 2017 031, which extended the Act No. 5 2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46 2017, which further extended the Act No. 5 2017 emergency period through December 31, 2017. Act No. 46 2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains active in Puerto Rico under PROMESA. On June 27, 2019, the Governor issued executive order EO 2019 030 extending the emergency period until December 31, 2019. On December 31, 2019, the Governor issued executive order EO 2019 066 extending the emergency period until June 30, 2020.

Act No. 106-2017, the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants, reformed the Commonwealth's pensions by replacing the governing boards of the Retirement Systems with a single Retirement Board of the Commonwealth of Puerto Rico (Retirement Board) and established a separate "Account for the Payment of Accrued Pensions" to implement a PayGo method by which the Commonwealth will pay pension benefits to government retirees on a pay-as-you-go basis. Act No. 106-2017 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

Act No. 109-2017, the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), effectuated the GDB Fiscal Plan and provided a path for the implementation of the GDB RSA by addressing the claims of the Commonwealth and its instrumentalities against GDB. Act No. 109-2017 created two special purpose entities—the GDB Debt Recovery Authority and the Public Entity Trust—into which the GDB would divide and irrevocably transfer its assets. As discussed below, these entities were utilized to complete the transactions in the GDB's Qualifying Modification, as approved by the District Court under Title VI of PROMESA.

Act No. 241-2018, the Puerto Rico Sales Tax Financing Corporation Act, amended and restated Act No. 91-2006 to establish the legal framework for the restructuring of COFINA's issued and outstanding bonds by, among other things, authorizing the issuance of new COFINA bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment.

Act No. 29-2019, the Act for the Reduction of Administrative Burdens of the Municipalities, addressed the severe fiscal crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligations to make PayGo payments to the Commonwealth and other payments to the Puerto Rico Health Insurance Administration (PRHIA) under Act 106-2017. The Oversight Board challenged the implementation and enforcement of Act 29-2019. On April 15, 2020, the Title III Court entered an order finding that Act 29-2019 is unenforceable and permanently enjoining the Commonwealth from implementing it and enforcing it, effective May 6, 2020. The Oversight Board and other governmental entities have implemented other measures to address the issues raised in Act 29-2019.

PROMESA Title III Cases

Oversight Board Commencement of Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume and new matters to be initiated.

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court).

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for the Authority and ERS by filing similar petitions for relief under Title III of PROMESA in the Title III Court.

On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for PBA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

The foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation. All claims against any Title III debtor that arose prior to the filing of their respective Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

The Authority’s Title III Case

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against the Authority was June 29, 2018. Approximately 2,380 claims were filed against the Authority in the total aggregate asserted amount of approximately $83.1 billion. Of this amount, approximately 1,000 claims in the total aggregate asserted amount of approximately $6.7 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 930 claims in the total aggregate asserted amount of approximately $76.3 billion remain “outstanding”. The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process.

After the commencement of the Authority’s Title III case, numerous motions and adversary proceedings were filed both by and against the Authority regarding creditor rights to the Authority’s assets. The outcome of these proceedings and their impact on any plan of adjustment for the Authority cannot be determined at this time. For a detailed description of these legal contingencies, refer to Note 19.

4. 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 these basic financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

4. GOING CONCERN (Continued)

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, *Codification of Accounting and Financial Reporting Guidance Contained in the Statements of Auditing Standards*.

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern and, therefore, only assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not include adjustments that might be required if the Authority is unable to continue as a going concern.

Overview of Financial Deficit

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2020, the Authority incurred a loss before capital grants and transfers of approximately $944.0 million. As of June 30, 2020, the Authority's current liabilities exceeded its current assets by approximately $216.1 million, and the Authority had an accumulated deficit of approximately $2,278.3 million.

The Authority borrowed more than $2 billion from the GDB in previous fiscal years to finance infrastructure projects and pay operational expenses. The total aggregate outstanding balance of these lines of credit was $1.7 billion, plus accrued interest, as of June 30, 2020. These lines of credit expired in January 2016 and are currently in default.

As discussed below, currently, the Authority does not have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and it is currently in a debt restructuring proceeding under Title III of PROMESA. Additionally, significant support and funding for obligations of the Authority that have previously been provided by the Commonwealth or GDB are not likely to continue. The Commonwealth is experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed.

The Commonwealth had previously conditionally allocated to the Authority certain taxes and other revenues. The Commonwealth is in a profound fiscal, economic and liquidity crisis, the culmination of years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and level of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension, and debt service costs. On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the DOT to retain, among other things, certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously conditionally allocated to the Authority (commonly referred to as the "clawback"). These revenues were retained by the Commonwealth for the payment of essential government services.
On April 6, 2016, the Commonwealth enacted the Moratorium Act (as discussed above). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium, and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the Authority.

4. GOING CONCERN (Continued)

Pursuant to these executive orders, and subsequent to the enactment of PROMESA, certain developments in connection with actions of the Oversight Board, including but not limited to, the commencement of the Title III cases of the Authority and the Commonwealth, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB. These executive orders restricted the Authority's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. The executive orders also extended the "clawback" of available resources that were previously conditionally allocated to the Authority by suspending the obligation of the Commonwealth to transfer those revenues to the Authority. Based on the current Certified Fiscal Plan, it is probable that these funds will not be reallocated to the Authority.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded, or superseded. The emergency period under Act No. 5 has been extended by executive order though December 31, 2021. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

The Moratorium Act, the related executive orders, and subsequent to the enactment of PROMESA, have had a significant negative effect on the Authority's liquidity. During the fiscal year ended June 30, 2020, the Authority did not receive taxes amounting to approximately $439.7 million. There is no indication that the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority will resume.

Defaults

The Authority has defaulted payments totaling $1,031 million, including interest of $650 million. Subsequent to June 30, 2020, as explained in Note 24 to the basic financial statements, the Authority has also defaulted on all principal and interest debt service. Without taxes and other revenues conditionally allocated by the Commonwealth as explained above, the Authority has been unable to fund its reserve accounts and make the scheduled payments on its outstanding bonds.

4. GOING CONCERN (Continued)

GDB No Longer Provides Financial Support to the Authority

Since the Authority discontinued issuing bonds in 2010, it had been dependent on the GDB for liquidity and fiscal management support. However, with the dissolution of GDB, the Authority has no other source of financing.

On March 23, 2018, GDB ceased its operations. On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered and its unencumbered cash. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.7 billion, plus accrued interest of $795.6 million owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (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. In the case of the Authority, pursuant to an agreement between the Financial Guaranty Insurance Company (FGIC) and GDB settling FGIC's objection to the GDB Qualifying Modification (the FGIC Settlement), approximately $8.5 million of the Authority's deposits held at GDB were not applied to offset the balance of the Authority's loans pending a determination as to whether, consistent with the pertinent agreements and applicable law, such deposits can be subject to the offsets. As a result of the foregoing adjustment, all the Authority's deposits at GDB were extinguished.

Management's Remediation Plan and Commencement of Title III Case

On May 21, 2017 (the Petition Date), the Oversight Board, at the request of the Governor, filed a petition for relief for the Authority under Title III of PROMESA. As of the Petition Date, the total aggregate debt of the Authority was estimated to be approximately $4.289 billion, excluding approximately $1.733 billion in GDB lines of credit.

On April 12, 2019, the Authority presented to the Oversight Board its fiscal plan for the ensuing ten years. Faced with the challenges discussed above, the Authority developed a fiscal plan focusing on: (i) infrastructure agenda; (ii) memorandum of understating with its federal grantor agencies geared at revamping the Authority's project and program delivery capabilities; (iii) fiscal initiatives and organizational transformation; and (iv) debt sustainability. On June 4, 2019, the Oversight Board certified the fiscal plan for the Authority and recommended certain amendments. On June 26, 2020, the Oversight Board certified a further revised fiscal plan for the Authority through fiscal year 2049, which reflects updated economic projections as a result of the effects of the COVID-19 pandemic. For further updates regarding the fiscal plan refer to Note 24.

There is no certainty that the certified fiscal plan (as revised and amended) will be fully implemented, or if implemented will provide the intended results. The certified fiscal plan and related measures, and the Authority's ability to reduce its deficits, achieve a balanced budget, and pay its obligations in the normal course of business depend on a number of factors and risks, some of which are not wholly within the Authority's control.

5. CASH

Cash on June 30, 2020, consisted of:

Cash on hand and in banks	$ 11,020,564

Cash and cash equivalents include certificates of deposit with local commercial banks. Certificates of deposit with the Economic Development Bank (EDB) in the total aggregate amount of $5.9 million as of June 30, 2020, were fully allowed in prior years, as further described in Note 9 to the basic financial statements.

6. ACOUNTS RECEIVABLE, NET

Accounts receivable as of June 30, 2020, consisted of:

Operating Receivables

Government, agencies and other	$ 57,357,356
Rent receivables	5,631,975
Repairs to highways recoverable from users	1,571,063
Toll escrow agent	3,333,497
Other	5,892,609
Total	73,786,500
Less allowance for doubtful accounts	(67,164,352)
Accounts receivable, net	$ 6,622,148

Due from Commonwealth of Puerto Rico

Receivables from governmental entities consist of charges made to various government agencies, public corporations, and municipalities of the Commonwealth. Most of these amounts are significantly overdue and are included in the allowance for doubtful accounts as of June 30, 2020, except for current balances due by the Commonwealth amounting to $12.8 million, which were collected subsequent to the fiscal year ended June 30, 2020.

7. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE

Restricted cash, cash equivalents, and investments with trustee as of June 30, 2020, consisted of:

Cash on hand and in banks	$ 113,572,654
Investments with trustee:	
Mutual funds and money market funds	$ 55,230,019
Guaranteed investment contracts	7,903,918
US government securities	9,830,701
Corporate bonds	13,563,600
Total	$ 86,528,238

7. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE (Continued)

As of June 30, 2020, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by Bank of New York Mellon (trustee) under Resolutions 1968-18, 1998-06 and 2004-18 (collectively, the Bond Resolutions) in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal and interest on Highway Revenue Bonds in the event moneys in the Bond Service Account or Redemption Account under Resolution 1968-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund) (under Resolution 1968-18) - Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in the Senior Bond Service Account or Senior Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in the Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

As of June 30, 2020, amounts held by Trustee in the following accounts amounted to:

1968 Reserve account	$ 52,294,359
1968 Sinking fund	651
1998 Senior reserve account	30,669,336
1998 Senior sinking fund	1,066,377
1998 Subordinated reserve fund	2,497,515
Total	$ 86,528,238

As explained in Note 4 to the basic financial statements, the Governor issued Executive Orders No. 2016-18 (EO 18) and 2016-031 (EO 31) pursuant to the Moratorium Act. These orders authorized the Authority to apply toll revenues to fund essential services and the operations of the Authority and suspended transfers to the fiscal agent under Resolution 1968-18 dated June 13, 1968, as amended, and Resolution 1998-06 dated February 26, 1998, as amended. In addition, EO 31 suspended the transfer of certain conditionally allocated revenues to the GDB to the extent that those revenues were needed by the Authority to finance its operational expenses and/or pay for essential services. Moreover, subsequent to the enactment of PROMESA, certain developments in connection with actions of the Oversight Board, including but not limited to the initiation of the Title III cases of the Authority and the Commonwealth, also affect the disposition of such funds. Therefore, the Authority is no longer funding the reserve funds.

8. FAIR VALUE MEASUREMENTS

The Authority follows GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has ability to access.

Level 2 - Inputs to the valuation methodology include adjusted quoted market prices for similar assets or liabilities in active markets; adjusted quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

For investments classified within Level 2 of the fair value hierarchy, the Authority's custodians generally use a multidimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the Authority's management. The Authority's management considers observable data to be market data that is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to management’s perceived risk for that investment. The Authority has the following recurring fair value measurements as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. Government Obligations	$ -	$ 9,830,701	$ -	$ 9,830,701
Corporate Bonds	-	13,563,600	-	13,563,600
Mutual funds	34,162,865	-	-	34,162,865
Total	$ 34,162,865	$ 23,394,301	$ -	57,557,166
Investments valued at net asset value or amortized cost:				
Cash equivalents - money market funds				21,067,154
Guaranteed investment contracts				7,903,918
Total investments				$ 86,528,238

The Authority does not hold any investments that are measured using Level 3 inputs.

9. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in financial institutions approved by the DOT, and such deposits are required to be kept in separate accounts in the name of the Authority. The Bond Resolutions require that monies in the debt service funds be held by the Fiscal Agent in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines under the Bond Resolutions, the Authority may invest in obligations of the Commonwealth, obligations of the U.S. federal government, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of the Commonwealth, among others. Monies in the sinking funds can only be invested in direct obligations of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be recoverable. Under Commonwealth law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

All monies deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities. As of June 30, 2020, the Authority's deposits maintained in governmental and commercial banks are as follows:

	Unrestricted		Restricted	
	Book Balance	**Bank Balance**	**Book Balance**	**Bank Balance**
Commercial banks	$ 11,020,564	$ 15,040,344	$ 113,572,654	$ 113,572,846
Governmental banks	-	5,888,351	-	-
Custodial credit risk loss	-	(5,888,351)	-	-
	$ 11,020,564	$ 15,040,344	$ 113,572,654	$ 113,572,846

Custodial Credit Risk Loss on Economic Development Bank (EDB)

The Authority has certificates of deposit with EDB in the total aggregate amount of approximately $5.9 million as of June 30, 2020. Management believes that EDB faces significant risks and uncertainties, and it currently lacks sufficient liquidity to meet obligations when they come due. As a result, all certificates of deposit held with EDB were fully reserved as of June 30, 2020.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterpart, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (S&P). In addition, investments in bond sinking funds are limited to direct obligations

9. DEPOSITS AND INVESTMENTS (Continued)

of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2020, the total aggregate amount of investments held by the trustee was approximately $86.5 million. These accounts invest a diversity of short-term and long-term marketable securities, including a Guaranteed Investment Contract (GIC). Under the GIC, the financial institution guarantees the Authority a fixed rate of return. As established in the GIC, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2020, the contract value, which represents amounts deposited plus interest credited less withdrawals, approximated its fair value.

As of June 30, 2020, the guaranteed investment contract of $7.9 million was issued by FSA Capital Management Services.

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate.

Maturities of investments with the trustee as of June 30, 2020, were as follows:

	Less than One Year	One to Five Years	Five to Ten Years	Total
Mutual Funds	$ 34,162,865	$ -	$ -	$ 34,162,865
Corporate Bonds	13,563,600	-	-	13,563,600
Cash equivalents - money market funds	21,067,154	-	-	21,067,154
U.S. Government Obligations	2,990,701	6,840,000	-	9,830,701
Guaranteed investment contract	-	-	7,903,918	7,903,918
Total	$ 71,784,320	$ 6,840,000	$ 7,903,918	$ 86,528,238

10. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, on a net-basis, held by the Authority as of June 30, 2020:

	Balance at June 30, 2019	Increases	Decreases	Balance at June 30, 2020
Assets not being depreciated				
Land	$ 1,916,219,976	$ 17,264,340	$ -	$ 1,933,484,316
Construction in progress	504,769,787	263,219,180	(183,909,978)	584,078,989
Total Assets not being depreciated	2,420,989,763	280,483,520	(183,909,978)	2,517,563,305
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	13,099,700,421	126,573,985	(4,943,392)	13,221,331,014
Bridges	3,549,362,813	44,869,353	(2,290,633)	3,591,941,533
Buildings	22,500,000	-	(22,500,000)	-
Equipment vehicles and other	124,919,077	9,725,453	(11,568,528)	123,076,002
Total	19,215,858,137	181,168,791	(41,302,553)	19,355,724,375
Less accumulated depreciation	(12,509,923,662)	(478,559,162)	13,588,483	(12,974,894,341)
Total Assets being depreciated	6,705,934,475	(297,390,371)	(27,714,070)	6,380,830,034
Total capital assets, net	$ 9,126,924,238	$ (16,906,851)	$ (211,624,048)	$ 8,898,393,339

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS

Highways and bridge under Service Concession Agreements as of June 30, 2020, is summarized as follows:

	Balance at June 30, 2019	Increases	Decreases	Balance at June 30, 2020
Toll roads (PR 5 and PR 22)	$ 310,391,908	$ -	$ (29,375)	$ 310,362,533
Toll roads concession improvements	51,173,315	-	-	51,173,315
Teodoro Moscoso bridge	109,500,000	-	-	109,500,000
Total	471,065,223	-	(29,375)	471,035,848
Less accumulated depreciation	(271,442,490)	(1,697,251)	-	(273,139,741)
Total	$ 199,622,733	$ (1,697,251)	$ (29,375)	$ 197,896,107

Toll Road Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Metropistas, in which the Authority granted the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 year. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1,136 million, of which approximately $873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)

The Authority recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of $1,136 million that is being amortized and recognized as revenue over the 40-year term of the agreement. The Toll Roads (capital assets) will continue to be reported in the statement of net deficit as a separate item as highways and bridge under service concession agreements. As of June 30, 2020, the total aggregate amount of the Toll Roads capital assets was approximately $141.9 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011, until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to the Authority in their original or an enhanced condition.

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

During the fiscal year ended June 30, 2020, the Authority did not capitalize improvements made by Metropistas to the Toll Roads.

Bridge Service Concession Agreement

On December 20, 1992, the Authority and Autopistas entered into the Bridge Service Concession Agreement for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge, which crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Teodoro Moscoso Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

Upon the implementation of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* on June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge at fair value, equivalent to what the Authority might have paid to have the Teodoro Moscoso Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 59 years. The asset balance related to the Teodoro Moscoso Bridge was adjusted to recognize the first 17 years of operations and the remaining amortization will be amortized over 42 years. The Teodoro Moscoso Bridge is being depreciated because, in the opinion of management, the Bridge Service Concession Agreement does not require Autopistas to return the Teodoro Moscoso Bridge in its original condition. As of June 30, 2020, the net book value of the Teodoro Moscoso Bridge was $56.0 million.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027, through the end of the agreement. During the fiscal year ended June 30, 2020, Autopistas paid the Authority approximately $2.1 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund, in advance, the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)

The activity of the bonds during the fiscal year ended June 30, 2020, as recorded in the accompanying financial statements is as follows:

	Balance at June 30, 2019	Increases / Accretions	Payments / Amortization	Balance at June 30, 2020
Term bonds	$ 68,520,000	$ -	$ (10,820,000)	$ 57,700,000
Capital appreciation bonds	39,617,853	2,417,636	-	42,035,489
Total	$ 108,137,853	$ 2,417,636	$ (10,820,000)	$ 99,735,489

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the bonds unless the agreement is terminated as specified in the Bridge Service Concession Agreement. Because the bonds are being paid by Autopistas, the Authority records concession revenue for the amount of principal and interest paid by Autopistas annually until settlement. Therefore, the Authority recorded concession revenue in the total aggregate amount of $10.8 million during the fiscal year ended June 30, 2020, which represents the principal and interest payments on bonds made by Autopistas.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay the principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Teodoro Moscoso Bridge. Although Autopistas currently has the ability to terminate the Bridge Service Concession Agreement and have the Authority assume its obligations, the Authority has not received such notice and does not currently expect the Bridge Service Concession Agreement to terminate.

The deferred inflows of resources in the total aggregate amount of approximately $1,062.4 million, as of June 30, 2020, were related to the Toll Roads Concession Agreement. The deferred inflows related to the Toll Roads Concession Agreement significantly reduce the net position for net investment in capital assets by $1,062.4 million as of June 30, 2020.

12. BONDS PAYABLE

Until the filing for relief under Title III of PROMESA, the Bond Resolutions authorized the Authority to issue revenue bonds to raise funds for the construction and related costs of transportation facilities. As of June 30, 2020, bonds outstanding under the Bond Resolutions, were as follows:

RESOLUTION 1968-18	
Serial bonds, maturing through 2034, with interest ranging from 3.30% to 6.50%	$ 396,389,997
Term bonds, maturing through 2039, with interest ranging from 4.00% to 6.00%	393,095,000
Capital appreciation bonds, maturing through 2026, with interest ranging from 4.36% to 4.58%	30,662,498
Total Resolution 68-18	820,147,495
RESOLUTION 1998-06	
Serial bonds, maturing through 2037, with interest ranging from 2.25% to 5.75%	1,186,895,000
Term bonds, maturing through 2046, with interest ranging from 2.25% to 5.75%	1,842,045,000
Variable rate bonds held by the GDB Debt Recovery Authority	200,000,000
Capital appreciation bonds, maturing through 2026, with interest ranging from 4.47% to 5.08%	81,264,404
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Total Resolution 1998-06	3,368,869,404
Total bonds outstanding	4,189,016,899
Add: Net unamortized premium	195,092,776
Net bonds payable	$ 4,384,109,675

For variable interest-rate bonds included above, the debt service requirements were computed assuming current interest rates remain the same for their remaining term. As rates vary, variable-rate bond interest payments will vary.

The bonds were originally secured by a conditional pledge, to the extent they are actually received from the Commonwealth, of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Commonwealth may conditionally allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

12. BONDS PAYABLE (Continued)

However, the proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees conditionally allocated to the Authority are taxes and revenues available under the Commonwealth's Constitution for the payment of principal and interest of Commonwealth bonds. Accordingly, if needed, they may be withheld by the Commonwealth. On November 30, 2015, then Governor issued Executive Order 2015-046, which directed the DOT to retain gasoline, oil, diesel, and petroleum tax revenues that had previously been conditionally allocated to the Authority. This authorization to retain revenues conditionally allocated to the Authority was extended under the Moratorium Act, Act No. 5, and their related executive orders, as further discussed in Note 4 to the basic financial statements. Allocation of such moneys is also impaired by the enactment of PROMESA and actions of the Oversight Board, including but not limited to the initiation of the Title III cases of the Authority and the Commonwealth. These revenues are to be used for other essential services within the Commonwealth. During the fiscal year ended June 30, 2020, the Commonwealth retained taxes in the total aggregate amount of approximately $439.7 million that would have otherwise been transferred to the Authority, the Authority. See Note 4 for further discussion of these matters.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by Act No. 74-1965, which created the Authority, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions. However, this is also significantly limited by the filing of relief under Title III of PROMESA.

The variable rate bonds bear interest at an annual rate of interest (not to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination date. This rate will be, in the judgment of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds was 12%, as of June 30, 2020.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds was 1.64% as of June 30, 2020.

Interest on the Consumer Price Index (CPI) Bonds were to be paid on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds was 3.17% as of June 30, 2020.

The Authority's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, which require the payment of a rebate to the United States federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2020.

12. BONDS PAYABLE (Continued)

Debt Refunding

As of June 30, 2020, the outstanding balances of the bonds defeased by the Authority are as follows:

Series AA	$	24,765,000
Series BB		22,180,000
Series CC (CABS)		2,605,000
Total	$	49,550,000

As of June 30, 2020, the Authority has deferred outflows of resources in connection with the aforementioned defeased bonds of $68.6 million.

Debt Maturities

The following schedules have been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the Title III proceedings. The bonds payable are subject to compromise. Accordingly, the effects of the Title III proceedings may affect the carrying amounts, interest rates and the repayment terms.

Long-term debt activity for the fiscal year ended June 30, 2020, was as follows:

	Balance at June 30, 2019	Increases / Accretions	Payments / Amortization	Balance at June 30, 2020	Due within One Year
Serial bonds					
Resolution 1968-18	$ 396,389,997	$ -	$ -	$ 396,389,997	$ -
Resolution 1998-06	1,186,895,000	-	-	1,186,895,000	-
Total	1,583,284,997	-	-	1,583,284,997	-
Term bonds					
Resolution 1968-18	393,095,000	-	-	393,095,000	-
Resolution 1998-06	1,842,045,000	-	-	1,842,045,000	-
Total	2,235,140,000	-	-	2,235,140,000	-
Variable rate bonds					
Resolution 1998-06	200,000,000	-	-	200,000,000	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	-	57,965,000	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	-	700,000	-
Capital appreciation bonds					
Resolution 1968-18	29,307,885	1,354,613	-	30,662,498	
Resolution 1998-06	80,354,986	909,418	-	81,264,404	-
Total	109,662,871	2,264,031	-	111,926,902	-
Total before bond premium	4,186,752,868	2,264,031	-	4,189,016,899	-
Add net bond premium amortization	208,908,396	-	(13,815,620)	195,092,776	-
Total bonds outstanding subject to compromise	$ 4,395,661,264	$ 2,264,031	$ (13,815,620)	$ 4,384,109,675	$ -

12. BONDS PAYABLE (Continued)

The outstanding bonds as of June 30, 2020, require future payments of principal and interest as follows:

Fiscal Years started July 1,	Principal	Interest	Total
2021 (including amounts in arrears)	$ 525,139,403	$ 911,212,716	$ 1,436,352,119
2022	146,048,676	201,299,929	347,348,605
2023	153,750,000	193,636,083	347,386,083
2024	150,027,188	185,774,044	335,801,232
2025	156,971,735	178,396,853	335,368,588
2026-2030	863,179,896	772,721,266	1,635,901,162
2031-2035	986,200,000	549,462,034	1,535,662,034
2036-2040	1,014,305,000	277,829,022	1,292,134,022
2041-2045	166,095,000	73,078,656	239,173,656
2046-2047	27,300,000	3,863,602	31,163,602
Total	$ 4,189,016,898	$ 3,347,274,205	$ 7,536,291,103

Bonds defaults

Upon the filing for relief under Title III of PROMESA, as explained in Note 4, through June 30, 2020, the Authority stayed all debt service, other than the Teodoro Moscoso bonds. However, bonds covered by monoline insurance may have been paid by such insurers.

Fiscal Year Ended June 30,	Total defaults still outstanding	Subrogated monoline insurance company payments	Total defaults not subrogated by insurance
2017			
Principal	$ 3,110,000	$ 3,110,000	$ -
Interest	2,509,625	245,125	2,264,500
2018			
Principal	122,885,000	107,805,000	15,080,000
Interest	219,657,554	112,581,380	107,076,174
2019			
Principal	128,035,000	112,235,000	15,800,000
Interest	214,222,647	119,320,846	94,901,801
2020			
Principal	127,101,793	72,745,000	54,356,793
Interest	213,592,925	113,186,409	100,406,516
Total	$ 1,031,114,544	$ 641,228,760	$ 389,885,784

12. BONDS PAYABLE (Continued)

The debt service requirements not paid as referred to in the previous paragraph are insured by different insurance companies; Ambac Assurance Corporation ("AMBAC"), Financial Guaranty Insurance Company ("FGIC"), Assured Guaranty Insurance (“ASSURED”), MBIA Inc. (“MBIA”), AAC Insurance Group (“AAC”) and CDC IXIS Financial Guaranty North America, Inc. ("CIFG N/A"). Ambac, Assured, MBIA and AAC have been covering their share of the debt service requirements on the bonds series covered by their corresponding insurance policies. FGIC has been subject to a Rehabilitation Plan and has been paying their corresponding portions based on an established percentage of debt service that has ranged from 25% in fiscal year 2017 to 38.5% through October 13, 2019. Beginning on October 13, 2019, the debt service percentage coverage is 43.5%. However, the amount paid by FGIC is not fully disclosed to the Authority’s trustee. Therefore, the total amounts paid may be different than the amounts reported herein. Through June 30, 2020, a total of $72,745,000 million and $113,186,409 million of principal and interest payments, respectively, have been made by the aforementioned insurance companies. Even though these insurance companies have been paying principal and interest on such bonds, such payments do not constitute a reduction in the Authority’s debt. Upon insurance companies' payments, they become the owner of the surrendered Bond Obligations and are fully subrogated to all the Bondholder Rights to payments.

As explained in Note 24 to the basic financial statements, subsequent to June 30, 2020, the Authority is still under relief protection and the debt service for its bond series continues to be stayed.

13. BONDS PAYABLE -TEODORO MOSCOSO

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund, in advance, the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

Bonds outstanding under the Bond Resolutions as of June 30, 2020, are as follows:

TEODORO MOSCOSO BONDS	
Term bonds, maturing through 2027 with interest ranging from 5.55% to 5.85%	$ 57,700,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 5.90% to 6.15%	42,035,489
Total Teodoro Moscoso bonds	99,735,489
Less: Current portion	22,492,307
Long-term portion	$ 77,243,182

13. BONDS PAYABLE -TEODORO MOSCOSO (Continued)

Debt Maturities

The following schedule has been presented in accordance with original terms of the bonds payable. The outstanding bonds as of June 30, 2020, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2021	$ 22,492,306	$ 2,628,990	$ 25,121,296
2022	11,186,708	2,418,098	13,604,806
2023	12,229,665	2,063,004	14,292,669
2024	14,664,172	1,576,868	16,241,040
2025	16,248,316	981,338	17,229,654
2026-2027	22,914,322	766,936	23,681,258
Total	$ 99,735,489	$ 10,435,234	$ 110,170,723

Autopistas is currently paying the scheduled interest and principal payments for these bonds in accordance with the service concession agreement. Refer to Note 11.

14. DEBT TO THE GDB DEBT RECOVERY AUTHORITY

The Authority had various unsecured lines of credit with the GDB, which were transferred to the GDB Debt Recovery Authority, on November 29, 2018, pursuant to the GDB Qualifying Modifications. The total aggregate amount outstanding was approximately $1,733.7 million as of June 30, 2020, plus accrued and unpaid interest of $795.6 million.

15. RETIREMENT PLAN

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS).

However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA for ERS in the United States District Court for the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

PayGo Pension Reform

On June 27, 2017, the DOT issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system, in which ERS and the Commonwealth's other retirement systems stopped receiving contributions from employers or plan participants and are no longer managing contributions on behalf of participants. Since fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated.

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. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable participating employers,

15. RETIREMENT PLAN (Continued)

including the Authority. The Commonwealth allocation percentages are based on the ratio of each participating entity's actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date. Approximately $2 billion was allocated for these purposes in each of the Commonwealth's budgets for fiscal year 2019.

Act 106-2017, among other things, amended Act No. 447 with respect to the ERS's governance, funding, and benefits for active members of the actual program and new hired members. Under Act 106-2017, the ERS's Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) 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. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs will be transferred to the individual member accounts in the New Defined Contribution Plan.

Act 106-2017 also ordered a suspension of the ERS' loan programs and ordered a merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration of benefits under the new Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

Plan Description Prior to July 1, 2017

This summary of ERS' pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January 1, 1952 for members hired up to March 31, 1990;

- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999;

- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

15. RETIREMENT PLAN (Continued)

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act. No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The GASB 73 Pension Expense Report of the Commonwealth for the year ended June 30, 2020, was not available when the Authority released these financial statements. Accordingly, the total pension liability, deferred outflows / inflows of resources and GASB 73 pension expense, as recorded in these financial statements are different from actual amounts. These differences may be material to the basic financial statements. Furthermore, total pension information that is required to be disclosed by U.S. generally accepted accounting principles is not disclosed.

The total amount paid by the Authority under the PayGo system during the fiscal year ended June 30, 2020 amounted to $35.0 million, which represents 100% of the contributions required under the law.

Pension Plan Fiduciary Information

Additional information on the Puerto Rico Government Employees Retirement System for the fiscal year ended June 30, 2019, can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan PR 00940-2003.

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Program Description and Membership

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, their spouses and dependents, for a period of one year after retirement for union employees and for the remainder of the calendar year of retirement for management employees, as a single employer defined benefit Other Post-Employment Benefits Plan (the OPEB Plan).

The OPEB Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The OPEB Plan does not issue a stand-alone financial report because there are no assets legally segregated for the sole purpose of paying benefits under the OPEB Plan.

The obligations of the OPEB Plan member’s employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

All employees with more than twenty years of rendered service within the Authority are eligible for the OPEB upon retirement age.

For more details regarding the retirement age, refer to Note 15. The obligation ends in case of death before retirement and in case of total or permanent disability before retirement. The obligation also ends in case of death after retirement.

Funding Policy

The Authority currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Authority.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 for the payment of these benefits.

Membership

On June 30, 2020, the date of the most recent actuarial valuation, membership in the OPEB Program was as follows:

Description	Number
Inactive Employees or Beneficiaries Currently Receiving Benefits	1
Inactive Members Entitled To But Not Yet Receiving Benefits	-
Active Employees	891
Total Membership	892

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following key actuarial assumptions and other inputs:

Inflation	2.40%
Salary Increases	N/A
Municipal Bond Index Rate at Measurement Date	2.79%
Long-Term Expected Rate of Return	2.79%
Health care cost trend rate	5.6% decreasing to 4.7%

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Mortality Table

Mortality rates were based on the PUB-2010 General Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for service retirements. The PUB-2010 General Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 was used for the period after disability retirement.

Changes of Actuarial Assumptions

Since the Prior Measurement Date, the discount rate has decreased from 2.98% to 2.79%. Mortality rates have been updated to the PUB-2010 General Retiree Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for service retirements. The PUB-2010 General Disabled Retiree Amount-Weighted Mortality Table, projected generationally using scale MP-2020 was used for the period after disability retirement.

Changes of Benefit Terms

There was no change in the benefit terms that affected the measurement of the total OPEB liability since the prior measurement date. No benefit payments are attributable to the purchase of allocated insurance contracts.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Trend

The following presents the total OPEB liability calculated using the discount rate of 2.79%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate:

	1% Decrease (3.79%)	Current Assumption (2.79%)	1% Increase (1.79%)
Total OPEB liability	$ 2,609,914	$ 2,346,428	$ 2,107,732

Similarly, the exhibit below presents the total OPEB liability calculated using the health care cost trend rates as well as what it would be if it were calculated using a health care cost rate of 1 percent-point lower or 1 percent-point higher than the current rate:

	1% Decrease (4.6% decreasing to 3.7%)	Current Assumption (5.6% decreasing to 4.7%)	1% Increase (6.6% decreasing to 5.7%)
Total OPEB liability	$ 2,149,304	$ 2,346,428	$2,580,417

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Annual OPEB Cost and OPEB Liability

The total OPEB liability as of June 30, 2020 (reporting date), is based upon an actuarial valuation performed as of the Valuation Date, June 30, 2019. An expected total OPEB liability is determined as of June 30, 2019, using standard roll forward techniques. The roll forward calculation begins with the total OPEB liability as of the prior Measurement Date, June 30, 2018, adds the annual Normal Cost (also called the Service Cost), adds interest at the Discount Rate for the year, and then subtracts the expected benefit payments for the year. The difference between this expected total OPEB liability and the actual total OPEB liability as of the Measurement Date before reflecting any assumption changes is reflected as an experience gain or loss for the year. The difference between the actual total OPEB liability as of the Measurement Date before and after reflecting any assumption changes is reflected as an assumption change gain or loss for the year.

The following table illustrates the OPEB cost components for the year ended June 30, 2020:

Total OPEB Liability as of June 30, 2019 (Reporting Date)	$ 3,169,390
Changes for the year:	
Service Cost at the end of the year	117,660
Interest on OPEB Liability and Cash Flows	90,625
Change in benefit terms	-
Difference between expected and actual experience	(856,304)
Changes of assumptions or other inputs	81,655
Benefit payments	(256,598)
Net changes	(822,962)
Total OPEB Liability as of June 30, 2020 (Reporting Date)	$ 2,346,428

For the year ended June 30, 2020, the Authority recognized OPEB expense of approximately $110,143.

Since certain expense items are recognized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts will increase OPEB Expense they are labeled Deferred Outflows of Resources. If they serve to reduce OPEB Expense they are labeled Deferred Inflows of Resources. The recognition of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive Plan members at the beginning of the measurement period.

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

The following table provides a summary of the Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2020:

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 739,002
Changes of assumptions or other inputs	116,720	-
Total	$ 116,720	$ 739,002

The implementation of GASB No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense.

The following table illustrates the OPEB costs components for the year ended June 30, 2020:

OPEB Expense:	
Service Cost at end of year	$ 117,660
Interest on the Total OPEB Liability	90,625
Expensed portion of current-period difference between expected and actual experience in the Total OPEB Liability	(117,302)
Assumption change	11,186
Recognition of beginning Deferred Outflows of Resources as OPEB Expense	7,974
OPEB expense	$ 110,143

16. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB benefits will be recognized in OPEB Expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expenses increase/(decrease)
2021	$ 19,160	$ 117,302	$ (98,142)
2022	19,160	117,302	(98,142)
2023	19,160	117,302	(98,142)
2024	19,160	117,302	(98,142)
2025	19,160	117,302	(98,142)
Thereafter	20,920	152,492	(131,572)
Total	$ 116,720	$ 739,002	$ (622,282)

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability on June 30, 2020, was the individual entry age normal cost method.

17. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70, established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The program was available to eligible employees that have completed between 15 to 29 years of creditable services and provided monthly benefits ranging from 37.5% to 50% of each employees' monthly salary until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. The ERS Pay-Go Plan (previously ERS) is responsible for benefit payments. The employees had until December 31, 2012, to elect to participate in this program. As of June 30, 2020, the Authority's total outstanding liability under this program was approximately $24.2 million, discounted at 2.75%.

On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allowed eligible active employees to participate in a voluntarily retirement program if they were hired before April 1990 and have accrued a minimum of twenty years of service. The voluntary program, which was initially adopted during the fiscal year ended June 30, 2017, provided eligible participants with 60% of their average compensation, determined as of December 31, 2015, until the employee attains age sixty-one. As of June 30, 2020, the outstanding balance under Act No. 211 amounted to $12.3 million. The liability under this program was discounted at 2.5%.

The aggregate adjustment for changes in discount rate under Act No. 70 and Act No. 211 during the fiscal year ended June 30, 2020, resulted in a gain of $678.8 thousand.

18. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2020, operating expenses included approximately $9.2 million of charges from the Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. Furthermore, the Authority has outstanding debt payable to PREPA from electricity charges amounting to approximately $30.8 million. In addition, during the year ended June 30, 2020, the Authority received charges from the PBA, a component unit of the Commonwealth of Puerto Rico, building rent amounting to approximately $659,307. During the year ended June 30, 2020, the Authority made the rent payments each month as required.

As of June 30, 2020, the Authority had approximately $12.8 million in receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net deficit. The individual receivables, which come substantially from previous fiscal years are overdue, and have been fully allowed prior to the fiscal year ended June 30, 2020, except for current balances due by the Commonwealth amounting to $12.8 million, which were collected subsequent to the fiscal year ended June 30, 2020.

The amount due from the Commonwealth of Puerto Rico relates to CAPEX appropriation transfers made to the Authority. This amount was collected subsequent to June 30, 2020.

As further discussed in Note 14, the balance of the now terminated GDB lines of credit, was assumed by the GDB Debt Recovery Authority. As of June 30, 2020, the Authority has an outstanding balance to GDB of approximately $1,733.7 million plus accrued interest of approximately $795.6 million.

Bonds payable includes $200 million variable rate bonds, purchased by GDB from a third party on May 19, 2014, and subsequently assumed by the GDB Debt Recovery Authority.

During the year ended June 30, 2020, the Authority received from the Commonwealth approximately $90.9 million for repair maintenance and resurfacing of certain roads and bridges.

As of June 30, 2020, the Authority had amounts due to other governmental entities for operating leases, utilities, and other agreements of approximately $55.3 million, which are included in accounts payable and accrued liabilities in the accompanying statement of net deficit.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

As of June 30, 2020, the Authority had commitments of approximately $396.5 million related to construction contracts.

Lease Commitments

The Authority has various operating leases for office space with the PBA. These leases expired in fiscal years 2003 and 2004, and the Authority continues to use the premises on a month-to-month basis. During the fiscal year ended June 30, 2020, the total aggregate amount of rental expense recorded by the Authority on these contracts was approximately $659,307.

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal Contingencies

1. Pending Key Litigation Filed Prior to Commencement of Title III Cases Related to the Authority

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

2. *Ambac Assurance Corporation v. Puerto Rico Highways and Transportation Authority*, Case No. 16-cv-1893 (D.P.R.)

Ambac filed two claims against the Authority claiming (i) breaches in fiduciary duties, and (ii) breaches in contractual obligations. On May 16, 2016, plaintiff filed an amended complaint. On July 1, 2016, the Authority filed a motion to stay the proceeding, which the United States District Court for the District of Puerto Rico (the District Court) granted on August 23, 2016. On May 23, 2017, the Puerto Rico Department of Justice filed a notice of stay under Title III of PROMESA. On May 24, 2017, the District Court entered an order confirming the stay.

3. *Scotiabank de Puerto Rico, et al. v. Garcia-Padilla, et al.*, Case No. 16-cv-2736 (D.P.R.)

Plaintiffs filed suit against various government parties, including the Authority, claiming that the Moratorium Act and executive orders issued pursuant to the Moratorium Act violate PROMESA, the United States Constitution, and the Puerto Rico Constitution. On September 10, 2017, plaintiffs filed their amended complaint. On November 11, 2016, defendants filed a motion to stay the proceedings. On December 16, 2016, defendants filed a motion to dismiss. On January 31, 2017, plaintiffs filed an opposition to defendants' motion. That motion is pending. On May 16, 2017, the Puerto Rico Department of Justice filed a notice of stay under Title III of PROMESA. On May 17, 2017, the District Court entered an order confirming the stay.

4. *Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority*, Case No. 17-cv-01612 (D.P.R. May 9, 2017)

On May 9, 2017, Peaje Investments LLC filed a complaint for declaratory judgment and injunctive relief challenging the Authority's use of total OPEB liability revenues. On May 22, 2017, the Oversight Board filed a notice of stay under Title III of PROMESA, which the Court granted on May 23, 2017.

Key Civil Actions Filed Against, or Relating to, the Authority After the Commencement of the Title III Case

1. *Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority, et al.*, Case Nos. 17-151-LTS, 17-152-LTS (D.P.R. May 31, 2017)

On May 31, 2017, plaintiff filed a lawsuit against the Authority, the Authority's Executive Director in his official capacity, the Commonwealth, the Governor, the DOT, the Director of the Office of Management and Budget, AAFAF, and AAFAF's Executive Director in his official capacity. Plaintiff alleges that (i) it owns bonds secured by liens on pledged special revenues; (ii) the Commonwealth and the Authority evaded payment on those bonds; and (iii) defendants unlawfully paid the Authority bonds almost exclusively out of reserve account funds and that those funds are the bondholders' property. Plaintiff claims that it is entitled to certain of

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

the Authority's total OPEB liability revenues in payment of its bonds, alleging both statutory and consensual liens, and seeks declaratory and injunctive relief to that effect.

On September 8, 2017, the Title III Court denied plaintiff's motion for preliminary injunction. On August 8, 2018, the First Circuit issued an opinion affirming the Title III Court's order denying plaintiff's motion for preliminary injunction and adequate protection, finding plaintiff does not hold a statutory lien. On October 26, 2018, plaintiff filed a writ of certiorari, which the U.S. Supreme Court denied on February 19, 2019.

On October 10, 2017, plaintiff filed an amended complaint, which defendants answered on November 17, 2017. For the sake of efficiency and judicial economy, the parties agreed to continue to refrain from litigating these adversary proceedings due to overlapping issues in adversary proceedings 20-00005 and 20-00007. On August 2, 2021, the parties filed a joint motion to stay this adversary proceeding pending confirmation of the Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al., pursuant to the terms of certain plan support agreements. On August 3, 2021, the Title III Court granted such motion.

2. *The Authority Bondholder Lift Stay Motion*, Case No. 17-3283-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the monoline insurers for bonds issued by the Authority filed a motion seeking to lift the automatic stay, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue. The monoline insurers assert that the Authority bondholders are secured by (i) total OPEB liability revenues collected by the Authority, and (ii) excise taxes collected by the Commonwealth. The monoline insurers seek relief from the stay because the Authority and the Commonwealth allegedly do not have any equity in the total OPEB liability revenues or excise taxes.

On July 2, 2020, the Title III Court declined to lift the automatic stay imposed by PROMESA on the Authority bondholders. After further briefing on remaining issues, on September 9, 2020, the Title III Court denied the Authority lift stay motion. On September 23, 2020, the Authority bondholders appealed the Title III Court's denial of the lift stay motions to the First Circuit. The First Circuit heard oral argument on February 4, 2021, and on March 3, 2021, the First Circuit affirmed the Title III Court's ruling.

3. *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00005-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the Oversight Board, on behalf of the Commonwealth, filed an adversary complaint, alleging (i) that the Commonwealth is neither an issuer nor a guarantor of the bonds issued by the Authority;(ii) that pursuant to the Enabling Act and the Authority's bond documents, the Commonwealth has no liability with respect to the bonds; and (iii) that the bondholders' proofs of claim's various constitutional, statutory, tort, and contractual claims fail.

On February 11, 2020, AmeriNational Community Services, LLC, as servicer for the GDB Debt Recovery Authority, and Cantor-Katz Collateral Monitor LLC (together, the DRA Parties) filed an intervention motion. On the same day, the official committee of unsecured creditors appointed in the Commonwealth's Title III Case (the Creditors' Committee) filed an intervention motion. On February 27, 2020, the Authority bondholder parties filed a motion to dismiss the complaint in part, challenging certain of the Oversight Board's constitutional and statutory legal theories. The motion to dismiss is currently stayed.

On March 2, 2020, the Title III Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion. On March 10, 2020, the Court entered an order allowing in part and denying in part the DRA Parties' intervention motion. The same day, the Title III Court entered a final case

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

management order for revenue bonds, staying litigation of the motion to dismiss and permitting the filing of summary judgment motions for certain counts.

On April 28, 2020, the Oversight Board filed a motion for partial summary judgment, contending defendants lack security interests. The Creditors' Committee filed a limited joinder. On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. The DRA Parties filed a response to the Oversight Board's memorandum of law in support of the summary judgment motion. Replies were filed August 31, 2020. A hearing on the motion was held on September 23, 2020. On January 20, 2021, the Title III Court ordered additional discovery. On July 28, 2021, the Title III Court entered an order extending the parties' supplemental briefing schedule and set a hearing on the Oversight Board's summary judgment motion for September 15, 2021. On August 2, 2021, the parties filed a joint motion to stay this adversary proceeding pending confirmation of the Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al., pursuant to the terms of certain plan support agreements. On August 3, 2021, the Title III Court granted such motion, which also adjourned the September 15, 2021, hearing *sine die*.

4. *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as Representative of Puerto Rico Highways and Transportation Authority, et al. v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00007-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the Oversight Board and the Creditors' Committee filed an adversary complaint challenging the proofs of claims and liens asserted against the Authority by holders of bonds issued by the Authority. The Oversight Board and the Creditors' Committee argue that the defendants' secured bond claims "should be disallowed except as to amounts deposited to the credit of the 1968 Sinking Fund and the 1998 Resolution Funds." Additionally, the plaintiffs argue that the defendants' claims based on asserted constitutional and statutory violations "should be disallowed in their entirety."

On February 27, 2020, certain defendants filed a motion to dismiss the complaint in part. The litigation of the motion to dismiss is currently stayed, and the Title III Court did not permit the filing of summary judgment motions in this adversary proceeding. On August 2, 2021, the parties filed a joint motion to stay this adversary proceeding pending confirmation of the Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al., pursuant to the terms of certain plan support agreements. On August 3, 2021, the Title III Court granted such motion.

5. *Monoline Insurers' Motion for Appointment as Co-Trustees to Pursue Avoidance Actions*, Case No. 17-3283-LTS (D.P.R. July 17, 2020)

On July 17, 2020, the monoline insurers for bonds issued by the Authority filed a motion seeking appointment as co-trustees to pursue avoidance claims on behalf of the Authority under Bankruptcy Code section 926.

Plaintiffs allege (i) revenues from excise taxes belong to the Authority, (ii) the Commonwealth has no enforceable interest in them, and (iii) the Oversight Board's refusal to pursue the proposed avoidance claims is unjustifiable because the Oversight Board suffers from an irreconcilable conflict of interest in its representation of both the Authority and the Commonwealth. On August 11, 2020, the Title III Court denied the motion, holding that the monoline insurers failed to establish a colorable claim to a property interest in the excise tax revenues and that the First Circuit requires substantial deference to the Oversight Board as the sole entity authorized to propose a plan of adjustment. The monoline insurers appealed to the First Circuit on August 25, 2020. The appeal has been fully briefed and a hearing was scheduled for September 14, 2021. On August 2, 2021, the parties filed a joint motion to stay this contested matter pending confirmation of the Seventh

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al., pursuant to the terms of certain plan support agreements. On August 3, 2021, the Title III Court granted such motion.

6. *Motion Pursuant to Bankruptcy Code Sections 105(a) and 362 for Order Directing Ambac Assurance Corporation to Withdraw Complaint*, Case No. 17-3283-LTS (D.P.R. Mar. 31, 2020)

On February 19, 2020, Ambac Assurance Corporation filed a complaint in the District Court against Metropistas asserting claims for rescission of contract, unjust enrichment, and declaratory relief. On March 31, 2020, the Oversight Board filed a motion in the Commonwealth and HTA Title III cases seeking entry of an order directing Ambac to withdraw its complaint as violative of the automatic stay imposed by section 362(a) of the Bankruptcy Code. On June 16, 2020, the Title III Court granted the Oversight Board's motion, which Ambac appealed to the First Circuit. Briefing for the appeal has been completed and oral argument was heard on March 8, 2021. As of the date hereof, the First Circuit has not yet rendered its decision.

On August 2, 2021, the parties filed a joint motion to stay this appellate proceeding pending confirmation of the Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al., pursuant to the terms of certain plan support agreements. On August 4, 2021, the appellate court issued an order directing the parties to file a status report on or before January 22, 2022, advising the court of the matter's status.

Contingent Liabilities Summary

As of June 30, 2020, the Authority, based on legal advice, has recorded a liability of approximately $83.7 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $21 million of legal cases related to construction projects and other operating matters and $62.7 million related to expropriation and related costs. However, due to the estimation process, the amount accrued may change in the near term. Most of these losses may be treated as unsecured claims in the Authority's Title III case. Other claims against the Authority are principally related to the non-payment of the Authority's bonds and other long-term obligations that are fully recorded in the financial statements of the Authority, including accrued interest. These liabilities are expected to be negotiated under the Authority's reorganization under Title III of PROMESA; accordingly, no further accrual is necessary.

The Authority is also a defendant in several other lawsuits filed by different contractors for alleged breach of contracts. These Authority's contractors allege, among other things, for administrative construction claims, as a consequence of the executive orders of the Governor of Puerto Rico that decreed a government shutdown from of March to May 2020. The contractors have sent notices for claims for contractual damages, particularly extended overhead. Based on the advice of counsel, the Authority believes that those claims are completely without merit and will vigorously defend its position. Accordingly, no accrual for losses, if any, have been recorded in the basic financial statements.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, or to compliance audits by grantor agencies.

On March 31, 2014, FHWA approved $756.4 million in toll credits that may be applied toward the non-federal matching share of transit projects. These toll credits will remain available until used. Since inception, only $145 million in toll credits have been claimed, and there was an outstanding balance of $610.9 million for future

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

federally aided projects as of June 30, 2020. The toll credits balance is updated by the Authority's Budget Unit based on FHWA's approval. During the year ended June 30, 2020, the Authority used $28.5 million in toll credits.

20. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS

Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years. The total annual operation and maintenance cost, for the fiscal year ended June 30, 2020, was approximately $47.8 million, including the base fee under the contract. The Authority is committed to the payment of the base fees through the remaining life of the contract.

The Authority contracted First Transit of Puerto Rico, Inc. (First Transit) to operate the service known as Metrobus I, which consists of two express routes (Metrobus Route I) and Metrobus-Expreso, that provide service between the University of Puerto Rico and Old San Juan. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015 and was extended to June 30, 2022. The total aggregate expense amount under this contract was $6.0 million for the fiscal year ended June 30, 2020.

21. OTHER OPERATING INCOME

For the year ended June 30, 2020, other operating income includes:

Teodoro Moscoso revenues	$ 2,194,440
Rental income	1,533,828
Impact fee	1,471,928
Electronic toll revenues and label sales	580,630
Metrobus fare fees	464,709
Other	1,272,942
Total	$ 7,518,477

22. RESTATEMENT OF PRIOR YEAR NET POSITION

Pension Expense

On August 6, 2021, ERS's GASB Statement No. 73 Pension Expense report was issued, which date is subsequent to the Authority's issuance of the 2019 financial statements. As a result, the Authority recorded an adjustment of $124.9 million to the beginning net position as of July 1, 2019, to recognize pension transactions for the year ended June 30, 2019, including those related to the transition from GASB Statement No. 68 to GASB Statement No. 73.

22. RESTATEMENT OF PRIOR YEAR NET POSITION (Continued)

The Authority's beginning net position was changed as follows:

Summary of Restatement

Net position, at beginning of fiscal year as previously reported	$ 393,269,728
Prior period adjustment:	
Total pension liability under GASB Statement No. 73	(124,903,255)
Net position, at beginning of fiscal year, as restated	$ 268,366,473

23. COVID-19 PANDEMIC

Since China first alerted the World Health Organization ("WHO") of flu-like cases in Wuhan on December 31, 2019, the global community is experiencing an unprecedented health crisis caused by a novel coronavirus known as COVID-19, which can cause several severe symptoms including fever, cough, shortness of breath, and even death in extreme cases. On March 15, 2020, then Governor Wanda Vázquez Garced signed Executive Order No. OE-2020-023, which directed the closure of all non-essential businesses in Puerto Rico. Thereafter, to the date of these financial statements were issued, new Executive Orders have been issued, including those by the actual Governor Pedro Pierluisi. At the Authority, substantial closure of operations was in place for under two months. Thereafter, construction and maintenance work began, as contractors rescheduled the work in progress, and administrative employees began working under a hybrid schedule until September 30, 2021, when all employees were required to return to their workspace on a full-time basis, with proof of vaccination with certain exceptions. At the island-wide level, limited restrictions remain in public places, while vaccinations had already reached over 70% of the eligible population. Also, to prevent further contagion from abroad, Executive Orders in place have ordered the Puerto Rico National Guard to verify proof of vaccination or negative test results, at all ports of entry to Puerto Rico. As of the date these financial statements were issued, there was a marked decrease in persons getting infected or requiring hospitalization. However, the long-term effect of the pandemic is still difficult to predict.

24. SUBSEQUENT EVENTS

The Authority evaluated its subsequent events until September 29, 2021, the date on which the financial statements were ready for issuance. The Authority's management understands that no other material events occurred subsequent to June 30, 2020, that require to be disclosed in the financial statements, except as mentioned below. The Authority has determined that these events are non-adjusting subsequent events. Accordingly, the financial deficit and results of operations as of and for the year ended June 30, 2020, have not been adjusted to reflect their impact.

24. SUBSEQUENT EVENTS (Continued)

Bond Payment Defaults

Without the taxes and other revenues conditionally allocated by the Commonwealth as explained in Note 4, the Authority has been unable to make the scheduled payments on its outstanding bonds as explained below:

Fiscal Year Ended June 30,	Total defaults still outstanding	Subrogated monoline insurance company payments	Total defaults not subrogated by insurance
2021			
Principal	$ 130,568,151	$ 58,260,000	$ 72,308,151
Interest	204,442,542	90,189,300	114,253,242
2022			
Principal	145,493,895	50,820,000	94,673,895
Interest	90,586,012	44,011,100	46,574,912
Total	$ 571,090,600	$ 243,280,400	$ 327,810,200

Political Challenges and Governor Transitions Between 2019 and 2021

On July 24, 2019, then Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth, effective August 2, 2019, at 5 p.m. Atlantic Standard Time. Before his resignation became effective, then Governor Rosselló appointed former resident commissioner Pedro Pierluisi Urrutia as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was unlawfully sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez Garced was sworn in as Governor on August 7, 2019, to complete former Governor Rosselló's term through 2020. After winning the election held on November 3, 2020, Pedro Pierluisi Urrutia was sworn in as Governor for a four-year term starting January 2, 2021.

On January 8, 2021, Governor Pierluisi signed executive order EO-2021-011, which declared that any reconstruction project that is necessary due to damages from Hurricanes Irma and Maria or earthquakes will be considered a critical project that should be treated with agility and urgency. To that end, EO-2021-011 created a Council for Reconstruction (the Council) that will identify and recommend critical reconstruction projects and determine their respective priority. The Council will be required to prioritize projects to rebuild houses damaged by the hurricanes and earthquakes, projects to rebuild and modernize the electric and sewer system and projects to rebuild public schools.

Status of Federal Disaster Relief Funds

The Commonwealth continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, including the continued recovery following Hurricanes Irma and Maria and the earthquakes that impacted (and continue to impact) the southern and southwestern part of Puerto Rico. As of January 11, 2021, approximately $67 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately $43.2 billion has been committed by federal agencies for distribution and $18 billion has been disbursed. Of the amounts obligated and disbursed, Federal Emergency Management Agency (FEMA) has approved approximately $33.8 billion

24. SUBSEQUENT EVENTS (Continued)

and disbursed approximately $14.2 billion of the total amounts detailed above. The use of these funds is detailed by the Commonwealth on the COR3 website and can be accessed at: https://recovery.pr/en.

Federal Funds held in GDB

The Authority recently became aware upon the fact that funds that became impaired due to the insolvency of the GDB were actually federal funds. The Authority, with the support of FHWA, is actively seeking restitution of these deposits from the Commonwealth. The amounts of federal funding to be restituted amount to approximately $16 million. The recognition of this contingent gain will be recognized upon realization.

Proposed Title III Joint Plan of Adjustment for the Commonwealth, ERS and PBA

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, the ERS and PBA in their respective Title III Cases—filed a joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] along with a disclosure statement related thereto [ECF No. 8766]. On February 9, 2020, the Oversight Board announced that it had reached a new agreement with certain GO and PBA bondholders (collectively, the PSA Creditors) on a new framework for a plan of adjustment and, on February 28, 2020, the Oversight Board filed an amended plan of adjustment reflecting such new agreement [ECF No. 11946] along with a revised disclosure statement [ECF No. 11947]. However, in light of the COVID-19 pandemic (discussed above), the Oversight Board requested that the court adjourn court proceedings related to the proposed plan of adjustment so as to allow for the Commonwealth and the Oversight Board to prioritize the health and safety of the people of Puerto Rico and to gain a better understanding of the economic and fiscal impact of the pandemic.

After the Oversight Board certified a revised Commonwealth fiscal plan on May 27, 2020, the Oversight Board resumed formal plan of adjustment discussions with creditors on September 9, 2020. Shortly thereafter, the PSA Creditors motioned to impose plan of adjustment confirmation deadlines on the Oversight Board. On October 29, 2020, the Title III Court ordered the Oversight Board to file an informative motion presenting a term sheet disclosing the material economic and structural features of an amended plan of adjustment by February 10, 2021. In light of the Title III Court's order, the Oversight Board, AAFAF, certain creditors and parties-in-interest recommenced mediation with a view to reaching consensus on an amended plan of adjustment for the Commonwealth. The mediation sessions began on December 3, 2020 and continued through March 2021. On February 23, 2021, the Oversight Board disclosed that it had reached a new agreement with certain of the PSA Creditors and disclosed the proposed terms of an amended plan of adjustment. Over the ensuing months further amended disclosure statements and plans of adjustment were filed.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628]. The Seventh Amended Plan incorporates the terms of (i) a plan support agreement (the 2021 PSA), dated February 22, 2021, between the Oversight Board, certain Commonwealth general obligation bondholders and PBA bondholders; (ii) a restructuring support agreement with the Retiree Committee, in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,500, as well as freezes in pension benefits for teachers and judges; (iii) the HTA/CCDA Related Plan Support Agreement, dated May 5, 2021, between the Oversight Board, Assured Guaranty Corp. and National Public Finance Guarantee Corporation (the HTA/CCDA PSA); and (iv) the ERS Stipulation.

The Commonwealth has not yet determined whether it will support the 2021 PSA, the HTA/CCDA PSA or the Seventh Amended Plan given its view that the Commonwealth pensioners must be protected and must not

24. SUBSEQUENT EVENTS (Continued)

receive additional cuts to their pension benefits. Furthermore, on September 16, 2021, governor Pierluisi signed into law a project to repeal Act 3 of December 7, 1942, to in-substance require the approval of the legislature to renegotiate obligations. The Seventh Amended Plan remains subject to future amendments and Title III Court approval. It is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan or any further amended plan.

For further information, please refer to the publicly available Amended Plan and Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

The HTA / CCDA Plan Support Agreement

On May 5, 2021, the Oversight Board, as representative of the Commonwealth and the Authority in their Title III Cases, announced that, following extensive discussions, it had entered into the HTA/CCDA PSA with certain holders of in excess of $2 billion of claims against the Authority, including more than 85% of HTA 1968 Bonds and nearly 50% of HTA 1998 Senior Bonds, which include traditional municipal investors and monoline bond insurers Assured Guaranty Corp. and National Public Finance Guarantee Corporation, on the framework of plans of adjustment that proposes, among other things, to resolve asserted “clawback claims” against the Commonwealth and the issuance of certain contingent value instruments based on potential outperformance of Puerto Rico’s 5.5% Sales and Use Tax relative to projections in the Commonwealth’s 2020 Certified Fiscal Plan, as explained further in the HTA/CCDA PSA. As of the date these financial statements were issued, changes continued to be made to the PSA. The latest change is dated July 30, 2021. For further information, please refer to the publicly available Amended Plan and Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

The Commonwealth has not yet determined whether it will support the HTA/CCDA PSA and is not a party to such agreement.

Authority’s Fiscal Plan and Agreements in Principle

On November 10, 2020, after a formal request from the Oversight Board, the Board of Directors of the Authority approved the creation of a reserve account of approximately $115.5 million based on the approved budget by the Oversight Board for Fiscal Year 2021 fiscal plan. This reserve was created to pay outstanding utility obligations ($40 million), Title III litigation costs ($8.5 million) and other unforeseen events ($66.9 million).

On April 12, 2021, the Commonwealth and other component units, including the Authority, filed an Agreement in Principle (AP) with the Municipal Securities Rulemaking Board. The Authority’s portions of the AP disclosed tentative agreements reached with the Authority’s bond holders, that if materialized, will result in a significant decrease in the obligations of the Authority.

On April 23, 2021, the Oversight Board released the 2021 proposed fiscal plan for certification of the Commonwealth. This plan involves a broad reorganization of the Commonwealth, including the Authority. However, this plan is still subject to review and approval. Furthermore, the final approved plan may be significantly different from the originally proposed plan.

On June 30, 2021, the Oversight Board approved the Fiscal Year 2022 fiscal plan for the Authority and recommended certain amendments. The principal amendments were related with total OPEB liability revenues and traffic projections, total OPEB liability fines imposition, total OPEB liability plazas optimization and capital projects with CDBG funds and other discretionary funds.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Authority's Total Postemployment
Benefits other than Pensions (OPEB) Liability and Related Ratios

June 30, 2020

Total OPEB liability (Reporting Date)	2020	2019
Service Cost at end of year	$ 117,660	$ 114,893
Interest	90,625	91,351
Difference between expected and actual experience	(856,304)	-
Changes of assumptions	81,655	62,199
Benefit payments	(256,598)	(35,231)
Net change in total OPEB liability	(822,962)	233,212
Total OPEB liability - beginning	3,169,390	2,936,178
Total OPEB liability - ending	$ 2,346,428	$ 3,169,390
Covered-employee payroll	$ 29,432,004	$ 39,777,324
Total OPEB Liability as a percentage of covered employee payroll	7.97%	7.97%

Note to schedule:

The Authority's total OPEB liability as of June 30, 2020, was measured on June 30, 2019 (measurement date), by an actuarial valuation as of that date for the reporting period June 30, 2020.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.