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, 2021

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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, 2021, 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, 2021. 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.

As discussed in Note 16 to the basic financial statements, the Commonwealth of Puerto Rico has not released the GASB 75 Other Post-Employment Benefits (OPEB) Report of the Medical Insurance Plan Contribution Benefit (ERS MIPC) for the year ended June 30, 2021. Accordingly, the Authority's proportional share of the total ERS MIPC OPEB liability, deferred outflows/inflows of resources and related expense, as recorded in the financial statements are outdated, and this may have a significant effect on the financial position and results of operations of the Authority.

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, 2021, 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. Thereafter, on May 5, 2021, the Authority executed the HTA /CCDA Plan Support Agreement (PSA) to settle all outstanding bonds and debt obligations to the Government Development Bank (GDB), in exchange for the issuance of new bonds by the Authority, contingent value instruments by the Commonwealth, and certain upfront cash consideration. This agreement was made part of the Commonwealth Plan of Adjustment dated January 18, 2022. However, the Authority is still negotiating its own Debt Plan of Adjustment for final approval by the Title III Court.

Therefore, until the Authority's Debt Plan of Adjustment is ratified by the Title III Court, there is still 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.

Restatement of Prior Period Financial Statements

As discussed in Note 22 to the financial statements, as of July 1, 2020, the net deficit of the Authority has been restated to recognize the Authority's proportionate share of the pension liability of the Puerto Rico Government Employees Retirement System (ERS) under Government Accounting Standards Board (GASB) Statement 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,* which information was not available when the June 30, 2020 financial statements were issued. In addition, as of July 1, 2020, the net deficit of the Authority has been restated to recognize the Authority's proportionate share of the ERS MIPC OPEB Liability under Government GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as a result of a misunderstanding of facts available as of such date. Our opinion is not modified in respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the Authority's total postemployment benefits other than pensions (OPEB Plan) liability and related ratios, and the schedule of changes in the Commonwealth's total postemployment benefits other than pensions (ERS MIPC OPEB Plan) liability and related ratios be presented to supplement the basic financial

Required Supplementary Information (Continued)

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.

March 30, 2022

Crowe PR PSC

Stamp number E482989 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, 2021and 2020. 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, 2021. 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 GAAP has been omitted. Therefore, all historic financial information presented in the Management Discussion Analysis must be read considering the possible effects of this departure.

As discussed in Note 16 to the basic financial statements, the Commonwealth of Puerto Rico has not released the GASB 75 Other Post Employment Benefits Report of the Medical Insurance Plan Contribution Benefit for the year-end June 30, 2021. Accordingly, \$15.9 million related to the health plan benefit provided by the Employees Retirement System Medical Insurance Plan Contribution Benefit 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.

As explained in Note 22, the Authority restated the beginning of the year balance of the net deficit, to account for the total pension obligation as of June 30, 2020, and the related expense for the year then ended under GASB 73 which information had not been released by the Commonwealth of Puerto Rico when the Authority's 2020 financial statements were released. The Authority restated the beginning of the year balance of the net deficit, to account for its proportionate share of the total OPEB liability related to the health plan benefit provided by the Employees Retirement System Medical Insurance Plan Contribution Benefit under the GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which had not been previous recognized.

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). This matter raises substantial doubts about the Authority's ability to continue as a going concern. As explained in notes 4 and 24, the Authority was part of the Commonwealth Plan of Adjustment that significantly reduced the bonds payable and Government Development Bank (GDB) obligations to approximately \$1,245 million; a reduction of approximately \$6,600 million. Assuming the Authority's Plan of Adjustment is approved during 2022, these matters should allow a reasonable opportunity 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, 2021, totaled \$694.7 million as compared to net deficit of \$394.3 million as of June 30, 2020, as restated. Net deficit increased by \$300.4 million after capital grants during the fiscal year ended June 30, 2021, as compared to an increase of \$646.7 million during the fiscal year ended June 30, 2020, as restated. This change is mainly attributable to an increase of operating revenues of \$23.6 million, an increase of \$17.5 million in operating expenses, a decrease of interest on bonds and GDB Debt Recovery Authority (GDB DRA) (formerly known as GDB) obligations of \$36.1 million, an increase of \$206.1 million of operating transfers from the Commonwealth, and an increase in capital transfers and grants of \$112.1 million during fiscal year ended June 30, 2021.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled $8,856.5 million on June 30, 2021, as compared to $9,096.3 million on June 30, 2020. Net capital assets decreased by 2.7% on June 30, 2021, when compared with the balance on June 30, 2020.

The total aggregate amount of the Authority's non-current liabilities was $8,741.7 million on June 30, 2021, as compared to $8,557 million on June 30, 2020 (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. A significant portion of the liabilities have been stayed under PROMESA Title III and are in the process of being restructured through the Title III proceedings. On May 5, 2021, the Authority executed the Highways and Transportation Authority / Convention Center District Authority Plan Support Agreement (HTA/CCDA PSA) to exchange the outstanding bonds, together with the GDB Debt Recovery Authority Obligation (disclosed in Note 14), for a combination of bonds to be issued by the Authority, contingent value bonds to be issued by the Commonwealth, and certain cash consideration to be paid at the time of the exchange. The Agreement, if finally confirmed by the Title III Court, as expected, will reduce the Authority's bond payable obligations to $1,245 million, which will be payable in forty years, at 5%. This represents an estimated discharge of debt of approximately $6,600 million.

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 Deficit - 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 toll 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 Deficit

The following table reflects the condensed net deficit of the Authority as of June 30, 2021 and 2020:

	2021 [1]	2020 (Restated)
Assets		
Current assets	$ 89,537,218	$ 35,335,074
Restricted assets	316,905,109	249,296,172
Capital assets, net	8,660,384,135	8,898,393,339
Highways and bridge under concession agreements, net	196,198,857	197,896,107
Total assets	9,263,025,319	9,380,920,692
Deferred outflows of resources	64,376,495	132,970,094
Total assets and deferred outflows of resources	$ 9,327,401,814	$ 9,513,890,786
Liabilities		
Current liabilities	$ 206,324,794	$ 251,305,802
Non-current liabilities	8,741,740,083	8,556,983,498
Total liabilities	8,948,064,877	8,808,289,300
Deferred inflows of resources	1,074,080,424	1,099,973,422
Total liabilities and deferred inflows of resources	10,022,145,301	9,908,262,722
Net deficit		
Net investment in capital assets	1,521,179,877	1,759,491,091
Restricted for debt service	-	-
Restricted for constructions	119,621,153	132,436,565
Unrestricted	(2,335,544,517)	(2,286,299,592)
Total net deficit	(694,743,487)	(394,371,936)
Total liabilities, deferred inflow of resources and net deficit	$ 9,327,401,814	$ 9,513,890,786

[1] The 2021 Statement of Net Deficit lacks any adjustment related to the effects of unrecorded pension transactions for the year ended June 30, 2021, and Commonwealth OPEB transactions for the year ended June 30, 2021.

Current assets increased by approximately 153.4% to $89.5 million during the fiscal year ended June 30, 2021. The net increase in current assets of $54.2 million was principally due to an increase in cash and cash equivalents, by approximately $7.4 million and an increase in accounts receivable from the Commonwealth by approximately $46.2 million. Cash and cash equivalents increased by approximately $7.4 million mainly due to more toll revenues received during the fiscal year ended June 30, 2021. This increase is mainly due to the normalization of private and government operations after the impact of lockdown caused by the COVID-19 pandemic virus.

Restricted assets increased by approximately 27.1% to $316.9 million during the fiscal year ended June 30, 2021. Cash and cash equivalents and Investments with Trustee increased by approximately $47.8 million during the fiscal year ended June 30, 2021. This increase is mainly due to the use of capital expenditures (CAPEX) funds and "Abriendo Caminos" program by approximately $42.9 million, offset, by an increase of $85.2 million mainly due to a reserve deposit account created to pay utility obligations, other emergencies, and unforeseen events as required by the Federal Oversight and Management Board (FOMB) and Fiscal Plan. In addition, investments had interest income of approximately $3.2 million and accounts receivables from U.S. Federal government related to Federal Highway Administration (FHWA) funds increased by 40.1% to approximately $68.9 million. There were no pledged revenues deposited with the Trustee during fiscal years 2021 and 2020. All other restricted assets remained in line with prior fiscal year.

During the fiscal year ended June 30, 2021, capital assets decreased by 2.67% to approximately $8,660.4 million as compared to fiscal year 2020. 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 $236.7 million, net of depreciation expense of approximately $476.4 million for the fiscal year ended June 30, 2021.

During the fiscal year ended June 30, 2021, highways and bridges under the Service Concession Agreements (as defined below) decreased by 0.87% to approximately $196.2 million as compared to fiscal year 2020. This decrease was due to depreciation expense of approximately $1.6 million related to the Teodoro Moscoso Bridge. Note that other assets under service concession agreements are not depreciated, since the service concession agreements require the concessionaire to return the assets to the Authority in their original or an enhanced condition.

Deferred outflows of resources decreased to approximately $64.4 million during the current fiscal year. This represents a decrease of 51.6%, which is mainly due to the write offs of deferred outflows related to deferred losses on advance refundings during 2021.

During the fiscal year ended June 30, 2021, current liabilities decreased by 17.9% to approximately $206.3 million as compared to fiscal year 2020. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including vacations, increased by 2.1% to approximately $144.0 million during the fiscal year ended June 30, 2021, as compared to prior fiscal year.

Deferred revenue decreased by $34.6 million due to state grants received and incurred for repairs and maintenance of roads and bridges during the current fiscal year.

Current portion of bonds payable decreased by 41.1% to approximately $13.2 million during the fiscal year ended June 30, 2021, as compared to prior fiscal year. The current portion of bonds payable is related to bonds payable of the Teodoro Moscoso Bridge. Decrease is mainly due to the decrease in principal bond payable amounts due for fiscal year 2022 when compared to amounts that were due during fiscal year 2021.

During the fiscal year ended June 30, 2021, non-current liabilities increased by 2.2% to approximately $8,741.7 million as compared to fiscal year 2020. The increase in non-current liabilities of approximately $184.8 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 15.7% to approximately $1,790.9 million during the fiscal year ended June

30, 2021 as compared to prior fiscal year; and a decrease in bonds payable of approximately $11.5 million; a decrease of $25.2 million in accounts payable and a decrease of $3.8 million on obligations under vacations and voluntary termination incentive plan liability.

Legal claims not related to expropriation and related costs, decreased by 6.09% to approximately $19.8 million during the fiscal year ended June 30, 2021, as compared to the prior year period. Legal claims related to expropriation of properties decreased by 25.76% to approximately $46.5 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, 2021, decreased by 2.4% to $1,074.1 million as compared to fiscal year 2020. The decrease of $25.8 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, 2021, the Authority's net deficit increased by 76.1% to $694.7 million as compared to fiscal year 2020. The decrease was due to a loss of approximately $300.4 million after capital grants during the current fiscal year 2021. 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 Deficit

The following table reflects a condensed summary of the revenues, expenses, and changes in net deficit for fiscal years ended June 30, 2021 and 2020:

	2021 [2]	2020 (Restated and Reclassified)
Operating revenues:		
Toll fares	$ 151,557,243	$ 124,272,241
Other operating income	7,582,389	12,525,486
Concession agreements	41,164,686	39,945,626
Total operating revenues	200,304,318	176,743,353
Total operating expenses	349,411,742	331,955,446
Depreciation and amortization	476,415,023	471,936,881
Operating loss	(625,522,447)	(627,148,974)
Non-operating revenues (expenses):		
Operating transfers from the Commonwealth of Puerto Rico	206,136,000	-
Operating grants from U.S. Federal Government	16,565,090	24,310,201
Investment income	3,891,951	5,213,185
Interest on bonds and GDB Debt Recovery Authority Obligations	(302,106,535)	(338,226,720)
Other non-operating expenses	(558,124)	49,838
Total non-operating revenues / (expenses)	(76,071,618)	(308,653,496)
Loss Before Capital Contributions	(701,594,065)	(935,802,470)
Capital grants (U.S. Federal and Commonwealth)	401,222,514	289,140,974
Change in net deficit	(300,371,551)	(646,661,496)
Net position (deficit) at beginning of year, including ($7,996,728), restatement in 2020	(394,371,936)	252,289,560
Net deficit at end of year	$ (694,743,487)	$ (394,371,936)

[2] See footnote 1 on page 7

Operating revenues, which consisted of toll fares, concession agreements and other operating revenues increased by 13.3% to $200.3 million during the fiscal year ended June 30, 2021, as compared to fiscal year 2020. This increase is the net effect of the following:

a. The increase in toll fares of $27.2 million which is mainly attributable to the reopening of governmental and business operations after the impact of the lockdown mandates as a result of the COVID-19 pandemic virus.

b. The decrease in other operating income of approximately $4.9 million during the current fiscal year is related with less train fares due to less traffic attributable to impact of COVID-19 restrictions in schools and universities and increase in remote work in private and government entities.

c. The increase in concession revenue agreements of approximately $1.2 million during the current fiscal year is related to the increase of the Bridge Service Concession revenue for the amount of principal and interest on bonds made by Autopistas de Puerto Rico (Autopistas).

Operating expenses increased by 5.2% to approximately $349.4 million during the fiscal year ended June 30, 2021, as compared to fiscal year 2020. The increase in operating expenses of approximately $17.5 million during the current fiscal year was the aggregate effect of: 1) the net effect of an increase in salaries and related benefits of approximately $3.4 million; 2) a decrease in the proportionate share of GASB 73 Pension Expense Report of the Pension Plan for the year-end June 30, 2020 for approximately $7.9 million recorded as a prior period adjustment in fiscal year 2021; 3) an increase in toll highways administration of approximately $4.7 million due to the an increase in repairs and maintenance in highways and increase in monthly charges of the highways third party operator; 4) an increase in the train operating and maintenance expense of approximately $1.0 million; 5) an increase on the integrated transportation system of approximately $1.4 million; 6) an increase in repairs and maintenance of roads and bridges of approximately $3.2 million, and 7) a decrease in legal and professional services of approximately $9.1 million related with to the implementation of the Fiscal Plan and Title III legal services.

Operating transfers from the Commonwealth increased by approximately $206.1 million when compared to fiscal year ended June 30, 2020 as a result of an increase in amounts allocated by the Commonwealth.

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. These revenues were retained by the Commonwealth for the payment of essential government services. Such conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority will no longer be made as the Commonwealth Plan of Adjustment (defined below) provides that the statutes that authorized such allocations have been preempted and the conditional allocation discharged.

Investment income decreased by approximately $1.3 million during the fiscal year ended June 30, 2021, as a result of a decrease in the interest rate in cash balances. In addition, interest expense on bonds and GDB Debt Recovery Authority obligations decreased by approximately $36.1 million during fiscal year ended June 30, 2021, principally due to the decrease in interest payable related with GDB Debt Recovery Authority obligation outstanding balance.

Other non-operating revenues remained 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 and other operating expenses of other mass transportation systems. Such capital and operating grants amounted to approximately $234.2 and $222.6 million during the fiscal year ended June 30, 2021 and 2020, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2021, the Authority had approximately $8,660.4 million in capital assets, net of accumulated depreciation, which represents a decrease of $238.0 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 in connection with the Urban Train, 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 $16.5 million during the fiscal year ended June 30, 2021. 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, 2021, was approximately $47.3 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, 2021, the total aggregate principal amount of the Authority's bonds outstanding (net of unamortized premiums and discounts) amounted to approximately $4,372.6 million, plus accrued interest of $890.7 million. In addition, as of the same date, the aggregate principal amount of expired lines of credit owed to the GDB DRA was $1,733.7 million, plus accrued interest of $900.3 million. Payment on these obligations has been stayed in the PROMESA Title III proceedings. These obligations are to be resolved on the terms set forth in that certain *Stipulation in Connection with DRA Related Disputes* [ECF No 19100], which provides that such obligations are discharged in exchange for certain subordinated Contingent Value Instruments (CVI's) issued under the Commonwealth Plan of Adjustment and payment of certain fees and expenses.

As discussed below, upon filing for relief in 2017 under PROMESA Title III, all debt payments were stayed, except for certain debt which is currently being settled by a third party (Teodoro Moscoso Bonds). For fiscal year ended June 30, 2021, the Authority defaulted on the debt service principal and interests amounting to $351.8 million.

CURRENTLY KNOWN FACTS

COVID-19 Pandemic Event

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 May 24, 2021, when all employees were required to return to their workspace on a full-time basis, with proof of vaccination with certain exceptions. 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.

Authority's Fiscal Plan and Agreements in Principle

On February 22, 2022, the Oversight Board certified a modified version of the FY 2022 fiscal plan for the Authority that was initially approved on May 27, 2021. The modified FY 2022 fiscal plan incorporates elements of the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022 and became effective on March 15, 2022.

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 May 5, 2021, the Oversight Board (as debtor representative of the Commonwealth and Authority in their respective Title III cases) and certain of the Authority's creditors and insurers entered into the HTA/CCDA PSA, which set forth the key terms for the resolution of creditor claims against the Authority under the Commonwealth Plan of Adjustment and the HTA Plan of Adjustment.

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, 2021

Assets	
Current assets:	
Cash	$ 18,400,049
Accounts receivable, net	7,090,078
Due from Commonwealth of Puerto Rico, net	59,067,000
Prepaid expenses and other assets	4,980,091
Total current assets	89,537,218
Restricted assets:	
Cash and cash equivalents	158,169,219
Investments with trustee	89,801,845
Account receivable U.S. federal government	68,934,045
Total restricted assets	316,905,109
Other Non-current assets:	
Capital assets, net	8,660,384,135
Highways and bridge under concession agreements, net	196,198,857
Total other non-current assets	8,856,582,992
Total assets	9,263,025,319
Deferred outflows of resources:	
Pension related	64,249,240
Other postemployment benefits other than pensions	127,255
Total deferred outflows, net	64,376,495
Total assets and deferred outflows of resources	$ 9,327,401,814

Continued.

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

Statement of Net Deficit (Continued)

June 30, 2021

Liabilities	
Current liabilities:	
Accounts payable	$ 57,707,664
Accrued and other liabilities	9,763,594
Accounts payable subcontractors	76,586,137
Deferred revenue	48,955,971
Current portion of accrued legal claims	76,428
Current portion of bonds payable, Teodoro Moscoso	13,235,000
Total current liabilities	206,324,794
Non-current liabilities:	
Bonds payable	4,372,581,416
Bonds payable, Teodoro Moscoso, net	76,305,479
Accrued interest on bonds payable	890,679,364
GDB Debt Recovery Authority obligation	1,733,697,499
Accrued interest on GDB Debt Recovery Authority obligation	900,306,912
Accrued vacations, net	2,918,261
Voluntary termination incentive plan liability, net	25,864,412
Total pension liability	615,651,428
Other postemployment benefits other than pensions	18,387,663
Accounts payable	8,764,467
Accrued and other liabilities	4,021,368
Accounts payable subcontractors	26,327,475
Accrued legal claims	66,234,339
Total non-current liabilities	8,741,740,083
Total liabilities	8,948,064,877
Deferred inflow of resources:	
Service concession agreement	1,036,670,106
Other postemployment benefits other than pensions	621,700
Pension related	36,788,618
Total deferred inflows of resources	1,074,080,424
Net deficit:	
Net investment in capital assets	1,521,179,877
Restricted for debt service	-
Restricted for construction	119,621,153
Deficit	(2,335,544,517)
Total net deficit	(694,743,487)
Total liabilities, deferred inflow of resources and net deficit	$ 9,327,401,814

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, 2021

Operating revenues:	
Toll fares	$ 151,557,243
Other operating income	7,582,389
Concession agreements	41,164,686
Total operating revenues	200,304,318
Operating expenses:	
Salaries and related benefits	14,023,571
Pensions paid (PayGo)	35,037,526
Other postemployment benefits	56,387
Toll highways administration and maintenance	51,939,540
Train operating and maintenance costs	47,308,557
Integrated transportation system	9,513,372
Repairs and maintenance of roads and bridges	146,662,403
Utilities	8,681,257
Insurance	11,978,095
Other	24,211,034
Total operating expenses	349,411,742
Operating loss before depreciation and amortization	(149,107,424)
Depreciation and amortization	476,415,023
Operating loss	(625,522,447)
Non-operating revenues (expenses):	
Operating transfers from the Commonwealth of Puerto Rico	206,136,000
Operating grants from U.S. Federal Government	16,565,090
Interest on bonds and GDB Debt Recovery Obligation	(302,106,535)
Investment income	3,846,495
Net change in fair value of investments	45,456
Other	(558,124)
Total non-operating revenues (expenses), net	(76,071,618)
Loss Before Capital Contributions	(701,594,065)
Capital Grants:	
U.S. federal government	217,697,633
Commonwealth	183,524,881
Total capital grants	401,222,514
Change in net deficit	(300,371,551)
Net deficit at beginning of the year	(386,375,208)
Prior period adjustment	(7,996,728)
Net deficit at end of year	$ (694,743,487)

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, 2021

OPERATING ACTIVITIES:	
Receipt from tolls and train fares	$ 165,910,309
Receipt from other sources	(38,423,563)
Payments to employees, PayGo and related benefits	(53,802,467)
Payments to suppliers for goods and services	(335,764,043)
Net cash used in operating activities	(262,079,764)
NONCAPITAL FINANCING ACTIVITIES:	
Operating grants received	26,963,754
Operating transfers from the Commonwealth of Puerto Rico	130,805,000
Net cash provided by noncapital financing activities	157,768,754
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	446,416,084
Acquisition and construction of capital assets	(275,358,378)
Payment of bonds Teodoro Moscoso Bridge	(12,760,000)
Interest paid Teodoro Moscoso Bridge	(2,628,990)
Net cash flows provided by capital and related financing activities	155,668,716
INVESTING ACTIVITIES:	
Purchase of investments	(3,228,151)
Investments and interest income received	3,846,495
Net cash provided by investing activities	618,344
NET INCREASE IN CASH AND CASH EQUIVALENTS	51,976,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	124,593,218
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 176,569,268

Continued.

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

Statement of Cash Flows (Continued)

June 30, 2021

RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash	$ 18,400,049
Cash and cash equivalents - restricted	158,169,219
Total	$ 176,569,268
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW USED IN OPERATING ACTIVITIES:	
Operating loss	$ (625,522,447)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	476,415,023
Revenue from concession agreement	(41,164,686)
Other non-operating revenues	(558,123)
Net change in operating assets and liabilities:	
Accounts receivable	(46,483,753)
Prepaid expenses and other assets	(338,907)
Other post employment benefits	104,374
Deferred outflows of resources related to pensions	(10,535)
Accounts payable	741,941
Accrued liabilities	(18,916,713)
Accrued legal claims	(1,282,416)
Accrued vacation	(237,503)
Accrued voluntary incentive plan liability	(4,708,717)
Deferred inflows of resources related to pensions	(117,302)
Net cash flows used in operating activities	$ (262,079,764)
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Non-cash transaction:	
Interest on bonds and GDB Debt Recovery Obligations including write-off related to deferred outflows of losses from advance refundings	$ 299,541,545

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 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 PROMESA Title III in the United States District Court for the District of Puerto Rico. The PROMESA Title III cases are presiding before U.S. District Judge Laura Taylor Swain. 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. However, in the case of restricted assets, cash equivalents will be presented as investments.

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, 2021.

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, extend their useful lives, and/or enhance the capital asset’s capacity are capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021.

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 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, 2021.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 payment of sick leave was eliminated when the employee resigns or at the time of separation. 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 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 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*. Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order (each as defined and discussed below), a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 deficit that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category: (i) 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 (ii) the difference between actual and expected experience related to the OPEB obligation.

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 deficit 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 $1,036.7 million. These amounts are being amortized over the 50-year term of the agreement. Deferred inflows of resources also include pension related amounts of $36.8 million and $621.7 thousand related to OPEB amounts. Deferred outflows of resources include pension related amounts of $64.2 million and $127.3 thousand related to OPEB amounts.

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 $12.9 million for the fiscal year ended June 30, 2021 and is included as a component of interest expense in the accompanying statements of revenues, expenses, and changes in net deficit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Refunding

During prior years, the Authority defeased certain bonds related to the issuance of the concession agreements as further discussed in Note 11.

As of June 30, 2021, the outstanding balances of the bonds defeased by the Authority are as follows:

Series BB	$	22,180,000
Series AA		1,580,000
Series CC (CABS)		1,300,000
Total	$	25,060,000

Management believes that the new bond issuances, as a result of this defeasance, will be discharged according to the HTA/CCDA PSA. However, this is subject to the final approval by the Title III Court.

Interest Expense

After the Title III filing under PROMESA, the Authority continues to account for interest on all interest-bearing obligations. The final amount of interest, if any, to be paid in the future is dependent on the resolution of the Authority's Title III Case. However, on May 5, 2021, the Authority entered into the HTA/CCDA PSA (still subject to approval by the Title III Court as of the date of the issuance of the financial statements). Based on the executed PSA, management believes it is more probable than not that total interest payable will be discharged, and accordingly, the Authority discontinued to accrue interest on said date. Furthermore, the deferred outflows related to the loss from advance refunding was charged to operations (within interest expense) during the current year, since management believes that it is more probable than not that the Title III court will approve the HTA/CCDA PSA and consequently, discharge all outstanding bonds payable, including the bonds issued as part of the advance refunding defeasance transaction.

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 deficit 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 deficit. 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 deficit component (restricted or unrestricted) as the unspent amount.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted for Construction - This component of net deficit 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 deficit - Unrestricted net deficit 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 deficit. As of June 30, 2021, the Authority has an accumulated deficit of approximately $2,335.5 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.

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 year ended June 30, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

The GASB has issued the following Statements:

- ASB 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:

  (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. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2021; 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, 2021; 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, 2021.

- 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

  GASB Statement No. 98, *The Annual Comprehensive Financial Report* - This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

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, suffered an economic and fiscal crisis, which caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. 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), and the Public Building Authority (PBA) initiated proceedings under PROMESA Title III, and the Government Development Bank for Puerto Rico (GDB), Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI of PROMESA, each 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 PROMESA Title III. Litigation regarding the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority was settled pursuant to the terms of the Commonwealth Plan of Adjustment. Such allocations will no longer be made as the statutes that authorized such allocations have been preempted by the Commonwealth Plan of Adjustment and the allocations discharged.

(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 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.

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

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 PROMESA Title III has applied to continue the stay of this litigation and prevent debt service payments to bondholders. This litigation has been resolved pursuant to the Commonwealth Plan of Adjustment, which became effective on March 15, 2022.

Overview of PROMESA

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

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).

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

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."

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

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

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

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

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

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

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

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

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

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

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.

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.

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.

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

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 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, 2021.

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

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

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

Commonwealth Title III Case

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 PROMESA Title III in Title III Court.

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

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment [ECF No. 19812] (the Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). On March 15, 2022, the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

For further information, refer to Note 24 and the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Commonwealth Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

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 PROMESA Title III 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 2,290 claims were filed against the Authority in the total aggregate asserted amount of approximately $83.1 billion. Of this amount, approximately 1,255 claims in the total aggregate asserted amount of approximately $6.8 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 870 claims in the total aggregate asserted amount of approximately $76.2 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into Administrative Claims Reconciliation). The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process.

On May 5, 2021, the Oversight Board entered into the HTA/CCDA PSA with the Settling Monoline Insurers to settle certain claims against the Commonwealth regarding the bonds issued by the Authority and the Convention Center District Authority (CCDA), as well as claims against those issuers. The terms of the HTA/CCDA PSA have been incorporated into the Commonwealth Plan of Adjustment. The HTA/CCDA PSA also provides that the Authority must file its own plan of adjustment (the HTA Plan of Adjustment)—consistent with the economic provisions under the HTA/CCDA PSA—that would enable the Authority to exit its Title III

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

proceeding. The Oversight Board is currently preparing the HTA Plan of Adjustment, which is expected to be filed promptly, to allow for the HTA Plan of Adjustment to be confirmed and become effective by the end of calendar year 2022. Refer to Note 24.

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.

The actions discussed below should allow an opportunity for the Authority to continue as a going concern. However, until the Authority's Debt Agreement Plan is confirmed by the Court, reasonable uncertainty remains about the Authority's ability 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

In 2015, the Authority was experiencing significant recurring losses from operations, because among other matters, the Commonwealth retained a significant amount of allocated revenues, under a clawback process that began in that year. Thereafter, the Authority defaulted in the payment of billions of dollars in outstanding bonds, expired lines of credit, and other obligations. As a result, 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 PROMESA Title III.

Management's Remediation Plan

On February 22, 2022, the Oversight Board certified a revised fiscal plan for the Authority through fiscal year 2051 that focuses 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, which reflects updated economic projections as a result of the effects of the COVID-19 pandemic and the terms approved under the Commonwealth Plan of Adjustment. For further updates regarding the fiscal plan refer to Note 24.

4. GOING CONCERN (Continued)

Furthermore, the Authority is actively working to present its Plan of Adjustment of its obligations, before June 30, 2022, to obtain a final Court approval and certification before the end of the natural year 2022. As part of this process, on May 5, 2021, the Authority executed, the HTA/CCDA PSA. Under this Agreement, substantially all bonds payable and obligations to the GDB Debt Restructuring Authority, including accrued interest, will be exchanged for 1) $1,245 million in new notes payable to be issued by the Authority, bearing interest at 5%, and payable in 40 years; 2) contingent value bonds with a lifetime cap of $3,697,668,995, and payable from the Sales and Use Tax, in excess of certain baseline amounts, if any; and cash payments of $389 million, including certain transaction consummation costs of $125 million. Furthermore, as disclosed in Note 7, the Authority will use certain investments that would be used to offset the upfront cash payments. In relation to the repayment of these new bonds to be issued by the Authority, the Authority is evaluating alternatives to enter into public-private partnerships (PPP) for toll roads not currently under a PPP. The proceeds of any future privatization agreements reached, will be used to defray the outstanding balance of the new bonds to be issued. However, the negotiation of the liabilities, and the privatization of the remaining toll roads, is still subject to the Title III Court approval.

The Commonwealth's Plan of Adjustment was approved by the Title III Court on January 18, 2022. Therefore, the Plan became effective as of March 15, 2022, and the Commonwealth was discharged from the Title III bankruptcy proceedings, subject to the resolution of certain pending claims. This will allow the Commonwealth an opportunity to meet its obligations as they become due, for the foreseeable future. As a result, the Commonwealth shall be able to provide financial support to the Authority, which in the Authority's Certified Fiscal Plan to 2051, are projected to average $100,000,000 annually, but this could increase if the Authority is not successful in privatizing the remaining toll roads, as discussed above.

5. CASH

Cash on June 30, 2021, consisted of:

Cash in banks	$ 18,400,049

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, 2021, were fully allowed in prior years, as further described in Note 9 to the basic financial statements.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of June 30, 2021, consisted of:

Operating Receivables

Government, agencies and other	$ 57,274,345
Rent receivables	5,571,481
Repairs to highways recoverable from users	1,571,646
Toll escrow agent	4,924,968
Other	5,878,940
Total	75,221,380
Less allowance for doubtful accounts	(68,131,302)
Accounts receivable, net	$ 7,090,078

Amounts Due from Governmental Entities 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, 2021, except for current balances due by the Commonwealth amounting to $59.1 million, which $39.1 million were collected as of the date of issuance of the financial statements.

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

Restricted cash, cash equivalents, and investments with trustee as of June 30, 2021, consisted of:

Cash in Banks	$ 158,169,219
Investments with trustee:	
Mutual funds and money market funds	$ 58,912,668
Guaranteed investment contracts, FSA Capital Management Services	7,903,918
US government securities	9,820,274
Corporate bonds	13,164,985
Total	$ 89,801,845

The restricted cash in banks includes $85.2 million earmarked by the FOMB for certain operating expenses, $60.1 million earmarked by the Commonwealth of Puerto Rico for capital expenditures, and $12.9 million in other restricted cash.

As part of the HTA/CCDA PSA, as more fully disclosed in notes 4 and 24, these investments will be used to offset part of an expected down payment to PSA Creditors, including an additional payment for consummation costs related to the negotiation and execution of the HTA/CCDA PSA.

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 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, 2021:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. Government Obligations	$ -	$ 9,820,274	$ -	$ 9,820,274
Corporate Bonds	-	13,164,985	-	13,164,985
Mutual funds	37,486,083	-	-	37,486,083
Total	$37,486,083	$ 22,985,259	$ -	60,471,342
Investments valued at net asset value or amortized cost:				
Money market funds				21,426,585
Guaranteed investment contract				7,903,918
Total investments				$ 89,801,845

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.

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, 2021, the Authority's deposits maintained in commercial banks are as follows:

	Unrestricted		Restricted	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	$ 18,400,049	$ 20,335,817	$ 158,169,219	$ 158,130,716

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, 2021. 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 allowed for as of June 30, 2021.

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 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.

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, 2021, were as follows:

9. DEPOSITS AND INVESTMENTS (Continued)

	Less than One Year	One to Five Years	Five to Ten Years	Total
Mutual Funds	$ 37,486,083	$ -	$ -	$ 37,486,083
Corporate Bonds	13,164,985	-	-	13,164,985
Money market funds	21,426,585	-	-	21,426,585
U.S. Government Obligations	2,980,274	6,840,000	-	9,820,274
Guaranteed investment contract	-	-	7,903,918	7,903,918
Total	$ 75,057,927	$ 6,840,000	$ 7,903,918	$ 89,801,845

10. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, on a net-basis, held by the Authority as of June 30, 2021:

	Balance at June 30, 2020	Increases	Decreases	Balance at June 30, 2021
Assets not being depreciated				
Land	$ 1,933,484,316	$ 18,936,842	$ (2,805,023)	$ 1,949,616,135
Construction in progress	584,078,989	239,943,244	(306,446,744)	517,575,489
Total Assets not being depreciated	2,517,563,305	258,880,086	(309,251,767)	2,467,191,624
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	13,221,331,014	259,047,589	(583,266)	13,479,795,337
Bridges	3,591,941,533	28,491,438	-	3,620,432,971
Equipment vehicles and other	123,076,002	124,489	-	123,200,491
Total	19,355,724,375	287,663,516	(583,266)	19,642,804,625
Less accumulated depreciation	(12,974,894,341)	(474,717,773)	-	(13,449,612,114)
Total Assets being depreciated	6,380,830,034	(187,054,257)	(583,266)	6,193,192,511
Total capital assets, net	$ 8,898,393,339	$ 71,825,829	$ (309,835,033)	$ 8,660,384,135

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS

Highways and bridge under Service Concession Agreements as of June 30, 2021, is summarized as follows:

	Balance at June 30, 2020	Increases	Decreases	Balance at June 30, 2021
Toll roads (PR 5 and PR 22)	$ 310,362,533	$ -	$ -	$ 310,362,533
Toll roads concession improvements	51,173,315	-	-	51,173,315
Teodoro Moscoso bridge	109,500,000	-	-	109,500,000
Total	471,035,848	-	-	471,035,848
Less accumulated depreciation	(273,139,741)	(1,697,250)	-	(274,836,991)
Total	$ 197,896,107	$ (1,697,250)	$ -	$ 196,198,857

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 years. 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.

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, 2021, 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, 2021, the Authority did not capitalize improvements made by Metropistas to the Toll Roads.

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

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, 2021, the net book value of the Teodoro Moscoso Bridge was $54.3 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, 2021, Autopistas paid the Authority approximately $1.9 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.
The activity of the bonds during the fiscal year ended June 30, 2021, as recorded in the accompanying financial statements is as follows:

	Balance at June 30, 2020	Increases / Accretions	Payments / Amortization	Balance at June 30, 2021
Term bonds	$ 57,700,000	$ -	$ (12,760,000)	$ 44,940,000
Capital appreciation bonds	42,035,489	2,564,990	-	44,600,479
Total	$ 99,735,489	$ 2,564,990	$ (12,760,000)	$ 89,540,479

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 $15.3 million during the fiscal year ended June 30, 2021, 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

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

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 $1,036.7 million, as of June 30, 2021, were related to the Toll Roads Concession Agreement. The deferred inflows related to the Toll Roads Concession Agreement significantly reduce the net deficit for net investment in capital assets by $1,036.7 million as of June 30, 2021.

12. BONDS PAYABLE

As explained in notes 4 and 24 to the basic financial statements, as of the date these financial statements were issued, the Authority is still under relief protection and the debt service for its bond series continues to be stayed. However, on May 5, 2021, the Authority executed the HTA/CCDA PSA to exchange the outstanding bonds, together with the GDB Debt Recovery Authority Obligation (disclosed in Note 14), for a combination of bonds to be issued by the Authority, contingent value bonds to be issued by the Commonwealth, and certain cash consideration to be paid at the time of the exchange. The Agreement, if finally confirmed by the Title III Court, as expected, will reduce the Authority’s bond payable obligations to $1,245 million, which will be payable in forty years, at 5%.

At present, the bonds are expected to begin amortization during fiscal year 2022-2023. Therefore, a current portion presentation is not required. As of the date these financial statements were issued, no amortization tables had been prepared. If the Authority is able to privatize the toll roads not previously privatized, the proceeds of the privatization will be used to defray these liabilities. In the event the Authority is not able to privatize the toll roads, based on the Authority’s approved Certified Fiscal Plan’s projections, the Authority may lack sufficient resources to settle these bonds as they become due, without additional financial support of the Commonwealth. Therefore, the historic information of the bonds, as presented in this note is substantially stale, and should only be read for informative purposes only.

The Bond Resolutions historically authorized the Authority to issue revenue bonds to raise funds for the construction and related costs of transportation facilities. As of June 30, 2021, bonds outstanding under the Bond Resolutions, were as follows:

12. BONDS PAYABLE (Continued)

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%	32,079,630
Total Resolution 68-18	821,564,627
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	4,190,434,031
Add: Net unamortized premium	182,147,385
Net bonds payable	$ 4,372,581,416

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 conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority for repayment of the Bonds will no longer be made as the statutes that authorized such allocations have been preempted by the Commonwealth Plan of Adjustment and such conditional allocation discharged.

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, 2021.

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

12. BONDS PAYABLE (Continued)

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, 2021.

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, 2021.

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, 2021.

Long-term debt activity for the fiscal year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Increases / Accretions	Payments / Amortization	Balance at June 30, 2021	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	30,662,498	1,417,132	-	32,079,630	
Resolution 1998-06	81,264,404	-	-	81,264,404	-
Total	111,926,902	1,417,132	-	113,344,034	-
Total before bond premium	4,189,016,899	1,417,132	-	4,190,434,031	-
Add net bond premium amortization	195,092,776	-	(12,945,391)	182,147,385	-
Total bonds outstanding subject to compromise	$ 4,384,109,675	$ 1,417,132	$ (12,945,391)	$ 4,372,581,416	$ -

12. BONDS PAYABLE (Continued)

The outstanding bonds as of June 30, 2021, require future payments of principal and interest as follows:

Fiscal Years started July 1,	Principal	Interest	Total
2022 (including amounts in arrears)	$ 671,244,401	$ 1,007,800,449	$ 1,679,044,850
2023	153,750,000	193,636,083	347,386,083
2024	150,079,058	185,774,044	335,853,102
2025	157,021,525	178,396,853	335,418,378
2026	164,290,890	170,637,788	334,928,678
2027-2031	878,093,157	731,402,818	1,609,495,975
2032-2036	1,036,960,000	498,357,239	1,535,317,239
2037-2041	843,560,000	225,418,987	1,068,978,987
2042-2046	121,560,000	50,443,998	172,003,998
2047	13,875,000	693,750	14,568,750
Total	$ 4,190,434,031	$ 3,242,562,009	$ 7,432,996,040

Bonds defaults

Upon the filing for relief under PROMESA Title III, as explained in Note 3, through June 30, 2021, the Authority stayed all debt service, other than the Teodoro Moscoso bonds. However, payments under 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	247,524,261	112,581,380	134,942,881
2019			
Principal	128,035,000	112,235,000	15,800,000
Interest	242,089,354	119,320,846	122,768,508
2020			
Principal	127,101,793	72,745,000	54,356,793
Interest	241,459,632	113,186,409	128,273,223
2021			
Principal	130,568,151	58,260,000	72,308,151
Interest	220,195,929	90,567,163	129,628,766
Total	$ 1,465,478,745	$ 790,055,923	$ 675,422,822

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. 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.

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, 2021, are as follows:

Term bonds, maturing through 2027 with interest ranging from 5.55% to 5.85%	$ 44,940,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 5.90% to 6.15%	44,600,479
Total Teodoro Moscoso bonds	89,540,479
Less: Current portion	13,235,000
Long-term portion	$ 76,305,479

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, 2021, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2022	$ 13,235,000	$ 2,458,170	$ 15,693,170
2023	12,954,501	2,170,644	15,125,145
2024	13,264,770	1,776,938	15,041,708
2025	14,989,438	1,294,606	16,284,044
2026	16,779,138	690,008	17,469,146
2027-2028	18,317,632	410,962	18,728,594
Total	$ 89,540,479	$ 8,801,328	$ 98,341,807

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 of certain non-revolving Lines of credit bearing interest at variable rates plus a margin of 150 basis points or a 6.00% floor ($1,232.9 computed at Daily/360 and $500.8 million computed at 30/360). The total aggregate amount outstanding was approximately $1,733.7 million as of June 30, 2021, plus accrued and unpaid interest of $900.3 million.

On May 5, 2021, the Authority executed the HTA/CCDA PSA, that in substance, will include the settlement of this obligation, as part of the exchange of bonds payable with bond holders.

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 PROMESA Title III 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. On January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment, which includes the restructuring of ERS's outstanding debts and other financial obligations. The Commonwealth Plan of Adjustment became effective on March 15, 2022.

Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth

15. RETIREMENT PLAN (Continued)

Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

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, 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. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS, Teachers Retirement System (TRS), and Judicial Retirement System (JRS).

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

15. RETIREMENT PLAN (Continued)

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.

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, 2021, 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, 2021 amounted to $35.0 million, which represents 100% of the contributions required under the law.

15. RETIREMENT PLAN (Continued)

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)

The Authority participates in two OPEB plans. One plan is sponsored by the Commonwealth and the other is sponsored by the Authority:

Total OPEB liability	
OPEB Liability – Authority (Reporting Date June 30, 2021)	$ 2,450,802
OPEB Liability – Commonwealth (Reporting Date June 30, 2020)	15,936,861
Total OPEB liability	$ 18,387,663

OPEB Sponsored by the Commonwealth

The Authority participates in the OPEB plan of the Commonwealth for retired participants of the Employees Retirement System Medical Insurance Plan Contribution Benefit (ERS MIPC). The Plan is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded cost sharing, multiple employers defined benefit OPEB plan (other than pension) sponsored by the Commonwealth. This ERS MIPC was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth. For ERS MIPC, Commonwealth and Authority employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013, (Act No. 483, as amended by Act No. 3). The ERS MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

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

Actuarial methods and assumptions

The total ERS MIPC OPEB liability as of June 30, 2019, was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	3.50%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Compensation increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

Most other demographic assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2019, and 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including, for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated, future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The Authority's Proportion of Total OPEB Liability of the ERS MIPC

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2019 (measurement date), was approximately \$15.94 million and 1.91%, respectively. As the ERS MIPC is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Commonwealth of Puerto Rico and its component units are considered to be one employer. Other employers also participate in the ERS MIPC. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

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

Sensitivity of total ERS MIPC OPEB liability to changes in the discount rate

The following table presents the Authority's proportionate share of the ERS MIPC OPEB liability at June 30, 2020 (measurement date June 30, 2019), for ERS calculated using the discount rate of 3.50%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Assumption (3.50%)	1% Increase (4.50%)
Total OPEB liability	$ 17,465,992	$ 15,936,861	$ 14,636,302

Deferred outflows of resources and deferred inflows of resources

OPEB adjustments recognized by the Authority for the year ended June 30, 2020 (reporting date), related to the ERS MIPC amounted to approximately $83,000. Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date. Additional information on the ERS MIPC OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2018, and 2017, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Reporting Year for OPEB Liability of the ERS MIPC

The GASB 75 Expense Report of the Commonwealth for the year ended June 30, 2021, was not available when the Authority released these financial statements. Accordingly, the total ERS MIPC OPEB Liability, deferred outflows / inflows of resources and GASB 75 expense, as recorded in these financial statements are different from actual amounts. These differences may be material to the basic financial statements.

The Authority's Health Benefit Plan

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.

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

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.

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, 2021, the date of the most recent actuarial valuation, membership in the OPEB Plan was as follows:

Description	Number
Inactive Employees or Beneficiaries Currently Receiving Benefits	1
Inactive Members Entitled To But Not Yet Receiving Benefits	-
Active Employees	838
Total Membership	839

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

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2021, using the following key actuarial assumptions and other inputs:

Inflation	2.40%
Salary Increases	N/A
Municipal Bond Index Rate at Measurement Date	2.66%
Long-Term Expected Rate of Return	2.66%
Health care cost trend rate	5.6% decreasing to 4.7%

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 2.79% to 2.66%. 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 Plan Liability to Changes in the Discount Rate and Health Care Trend

The following presents the total OPEB liability calculated using the discount rate of 2.66%, 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 (1.66%)	Current Assumption (2.66%)	1% Increase (3.66%)
Total OPEB liability	$ 2,710,302	$ 2,450,802	$ 2,214,240

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

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	$ 2,255,139	$ 2,450,802	$2,681,353

Annual OPEB Plan Cost and OPEB Plan Liability

The total OPEB Plan liability as of June 30, 2021 (reporting date), is based upon an actuarial valuation performed as of the Valuation Date, June 30, 2020. An expected total OPEB Plan liability is determined as of June 30, 2020, using standard roll forward techniques. The roll forward calculation begins with the total OPEB Plan liability as of the prior Measurement Date, June 30, 2019, 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 Plan liability and the actual total OPEB Plan 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 Plan 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 Plan cost components for the year ended June 30, 2021:

Total OPEB Liability as of June 30, 2020 (Valuation Date)	$ 2,346,428
Changes for the year:	
Service Cost at the end of the year	85,610
Interest on OPEB Liability and Cash Flows	64,351
Change in benefit terms	-
Difference between expected and actual experience	2,213
Changes of assumptions or other inputs	32,050
Benefit payments	(79,850)
Net changes	104,374
Total OPEB Liability as of June 30, 2021 (Reporting Date)	$ 2,450,802

For the year ended June 30, 2021, the Authority recognized OPEB Plan expense of approximately $56,387.

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

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 Plan 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.

The following table provides a summary of the Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2021:

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	$ 1,918	$ 621,700
Changes of assumptions or other inputs	125,337	-
Total	$ 127,255	$ 621,700

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 Plan expense.

The following table illustrates the OPEB Plan cost components for the year ended June 30, 2021:

OPEB Expense:	
Service Cost at end of year	$ 85,610
Interest on the Total OPEB Liability	64,351
Expensed portion of current-period difference between expected and actual experience in the Total OPEB Liability	295
Assumption change	4,273
Recognition of beginning Deferred Outflows of Resources as OPEB Expense	19,160
Recognition of beginning Deferred Inflows of Resources as OPEB Expense	(117,302)
OPEB expense	$ 56,387

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

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

Fiscal Year Ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expenses increase/(decrease)
2022	$ 23,728	$ 117,302	$ (93,574)
2023	23,728	117,302	(93,574)
2024	23,728	117,302	(93,574)
2025	23,728	117,302	(93,574)
2026	22,135	117,302	(95,167)
Thereafter	10,208	35,190	(24,982)
Total	$ 127,255	$ 621,700	$ (494,445)

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB Plan liability on June 30, 2021, 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, 2021, the Authority's total outstanding liability under this program was approximately $22.6 million, discounted at 1.85%.

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, 2021, the outstanding balance under Act No. 211 amounted to $9.3 million. The liability under this program was discounted at 1.5%.

The aggregate adjustment for changes in discount rate under Act No. 70 and Act No. 211 during the fiscal year ended June 30, 2021, resulted in a loss of $2.3 million.

18. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2021, operating expenses included approximately $8.1 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 $7.9 million. In addition, during the year ended June 30, 2021, the Authority received charges from the PBA, a component unit of the Commonwealth, building rent amounting to approximately $1 million. During the year ended June 30, 2021, the Authority made the rent payments each month as required.

As of June 30, 2021, the Authority had an amount due from Commonwealth of approximately $59.1 million, of which $39.1 million were collected as of the date of issuance of the financial statements. The amount due from the Commonwealth relates to CAPEX appropriation transfers made to the Authority.

As further discussed in Note 14, the balance of the now terminated GDB lines of credit, was assumed by the GDB DRA. As of June 30, 2021, the Authority has an outstanding balance to GDB DRA of approximately $1,733.7 million plus $900.3 million in accrued interest.

Bonds payable includes $200 million variable rate bonds, purchased by the GDB (as formerly known) from a third party on May 19, 2014, and subsequently assumed by the GDB DRA.

During the year ended June 30, 2021, the Authority used from the Commonwealth capital grant approximately $183.5 million for repair maintenance and resurfacing of certain roads and bridges.

As of June 30, 2021, the Authority had amounts due to other governmental entities for operating leases, utilities, and other agreements of approximately $26.4 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, 2021, the Authority had commitments of approximately $248.6 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, 2021, the total aggregate amount of rental expense recorded by the Authority on these contracts was approximately $1 million.

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.

19. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 PROMESA Title III. On May 24, 2017, the District Court entered an order confirming the stay. As of the date of issuance of the financial statements, there has been no further docket activity.

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 PROMESA Title III. On May 17, 2017, the District Court entered an order confirming the stay. As of the date of issuance of the financial statements, there has been no further docket activity.

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 toll revenues. On May 22, 2017, the Oversight Board filed a notice of stay under PROMESA Title III, which the Court granted on May 23, 2017. As of the date of issuance of the financial statements, there has been no further docket activity.

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

1. The following civil actions were resolved pursuant to the Commonwealth Plan of Adjustment:
    a. Peaje Investments LLC v. Puerto rico Highways & Transportation Authority, et. Al., Case Nos. 17-151-LTS
    b. The Authority Bondholder Lift Stay Motion, Case No. 17-3283-LTS (D.P.R. Jan 16, 2020).
    c. The Fin. Oversight & Mgmnt. 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)
    d. 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)
    e. Monoline Insurers' Motion for Appointment as Co-Trustees to Pursue Avoidance Actions, Case No. 17-3283-LTS (D.P.R. July 17, 2020)
    f. 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)

19. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

2. Title III Claims

The deadline by which all creditors were required to file their proofs of claim against the Authority under its Title III case was June 29, 2018. Approximately 2,290 claims were filed against the Authority in the total aggregate asserted amount of approximately $83.1 billion. Of this amount, approximately 1,255 claims in the total aggregate asserted amount of approximately $6.8 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 870 claims in the total aggregate asserted amount of approximately $76.2 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into Administrative Claims Reconciliation). The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process.

Contingent Liabilities Summary

As of June 30, 2021, the Authority, based on legal advice, has recorded a liability of approximately $66.3 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $19.7 million of legal cases related to construction projects and other operating matters and $46.5 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 PROMESA Title III; 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 $166 million in toll credits have been claimed, and there was an outstanding balance of $590.3 million for future federally aided projects as of June 30, 2021. The toll credits balance is updated by the Authority's Budget Unit based on FHWA's approval. During the year ended June 30, 2021, the Authority used $20.6 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, 2021, was approximately $51.5 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 $7.5 million for the fiscal year ended June 30, 2021.

21. OTHER OPERATING INCOME

For the year ended June 30, 2021, other operating income includes:

Teodoro Moscoso revenues	$ 1,886,596
Rental income	1,503,917
Electronic toll revenues and label sales	1,419,760
Urban train revenues	1,117,165
Impact fee	851,868
Metrobus fare fees	200,351
Other	602,732
Total	$ 7,582,389

22. RESTATEMENT OF PRIOR YEAR NET DEFICIT

Pension Expense

On January 22, 2022, ERS's GASB Statement No. 73 Pension Expense report for the reporting period June 30, 2020 was issued, which date was subsequent to the Authority's issuance of the 2020 financial statements. As a result, the Authority recorded an adjustment of $7.9 million to the beginning net deficit as of July 1, 2020, to recognize pension transactions for the year ended June 30, 2020.

22. RESTATEMENT OF PRIOR YEAR NET DEFICIT (Continued)

Other Post-Employment Benefits (OPEB)

The Authority adjusted its OPEB liabilities to recognize the Authority's proportional share of the health plan benefit provided by the ERS MIPC under GASB Statement No. 75 which had not been previously recognized.

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

Net deficit, at beginning of fiscal year as previously reported	$ (386,375,208)
Prior period adjustments:	
Total pension liability under GASB Statement No. 73	7,940,133
Total other post emloyment benefits GASB Statement No. 75	(15,936,861)
Total prior period adjustments	(7,996,728)
Net deficit, at beginning of fiscal year, as restated	$ (394,371,936)

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. With respect to the Authority, substantial closure of operations remained 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 May 24, 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. 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 March 30, 2022, 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, 2021, 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, 2021, 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
2022			
Principal	$ 145,493,895	$ 50,820,000	$ 94,673,895
Interest	181,882,019	86,707,190	95,174,829
Total	$ 327,375,914	$ 137,527,190	$ 189,848,724

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 March 24, 2022, approximately $78.5 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately $65.7 billion has been committed by federal agencies for distribution and $22.9 billion has been disbursed. Of the amounts obligated and disbursed, Federal Emergency Management Agency (FEMA) has approved approximately $37.6 billion and disbursed approximately $14.9 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: https:\\recovery.pr\en.

Federal Funds held in GDB

The Authority became aware upon the fact that some of the Authority's funds that became impaired due to the insolvency of the GDB were actually federal funds. The GDB's restructuring under Title VI was specifically structured to not impair federal funds. In addition, the Confirmation Order, as issued by the court, confirms that no such funds were impaired, so the offset should not have legally been deemed not to apply to these federal funds and as a result, they should be restored. 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.

Confirmation of the Commonwealth Plan of Adjustment

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 Disclosure Statement).

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate monthly pension cut provisions, among other things.

24. SUBSEQUENT EVENTS (Continued)

The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment [ECF No. 19812] (the Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total debt from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, executing the Commonwealth Plan of Adjustment provides an opportunity for Puerto Rico to access the credit markets and develop balanced annual budgets.

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

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

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from March 15, 2022, which is the Commonwealth Plan of Adjustment's Effective Date.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Eighth

24. SUBSEQUENT EVENTS (Continued)

Amended Plan are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) GO CVIs and (ii) Clawback CVIs. The GO CVIs will be allocated to various GO bondholder claims and the Clawback CVIs will be allocated to claims related to the Authority, CCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of $3.5 billion, with maximum annual payments of $200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding $400 million. Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

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

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

- Various categories of PBA Bond Claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their CW Guarantee Claims.

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

- ERS Bond Claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio.

- Various categories of General Unsecured Claims (Classes 13, 58, and 66): 21% recovery in cash.

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

The Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, JRS and TRS participants will be subject to benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

24. SUBSEQUENT EVENTS (Continued)

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

The HTA/CCDA Plan Support Agreement and Proposed HTA Plan of Adjustment

On May 5, 2021, the Oversight Board, as representative of the Commonwealth and the Authority in their Title III Cases, 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 for the Commonwealth Plan of Adjustment and an HTA Plan of Adjustment to resolve, among other things, 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 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.

The HTA/CCDA PSA and the Commonwealth Plan of Adjustment provide that, among other things, that within 10 business days after the satisfaction of certain "HTA Distribution Conditions," including agreement on the terms of the HTA Plan of Adjustment, the Authority must make cash payments in the total aggregate amount of $264 million to holders of HTA bonds, as follows: (i) $184.8 million to holders of HTA 68 Bonds; and (ii) $79.2 million to holders of HTA 98 Senior Bonds. In addition, the HTA/CCDA PSA requires the Authority to pay certain creditor parties an HTA Restriction Fee in exchange for their execution of the HTA/CCDA PSA in an amount not to exceed $125 million, less any Consummation Costs (as defined in the HTA/CCDA PSA). The HTA Plan of Adjustment has not yet been filed and remains subject to confirmation by the Court.

On February 22, 2022, the Oversight Board certified its fiscal plan for the Authority, which provides that the Commonwealth will provide the Authority with a one-time loan to the Authority for fiscal year 2022 in the amount of $314 million to implement the Authority's cash payment obligations under the Commonwealth Plan of Adjustment and additional payments under the HTA/CCDA PSA that will be implemented as part of the HTA Plan of Adjustment. The Authority will also use funds held by the trustee for those purposes, as required. The Oversight Board also certified a modified General Budget of Expenses of the Government of Puerto Rico for Fiscal Year 2022 on February 21, 2022 that, among other things, authorized the Secretary of Treasury to make one or more loans to the Authority to satisfy the Authority's payment obligations under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order. As of the date hereof, the Oversight Board, Commonwealth, and the Authority are currently negotiating the terms of a $314 million loan from the Commonwealth to the Authority for the cash payment obligations of the Authority under the Commonwealth Plan of Adjustment and the HTA Plan of Adjustment. In addition, the Board is currently negotiating and finalizing the terms of an HTA Plan of Adjustment that has not yet been filed with the Title III Court but is expected to be filed soon so that it can be confirmed before the end of calendar year 2022.

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 Plan) Liability and Related Ratios (Unaudited)

June 30, 2021

Total OPEB liability (Reporting Date)	2021	2020	2019
Service Cost at end of year	$ 85,610	$ 117,660	$ 114,893
Interest	64,351	90,625	91,351
Difference between expected and actual experience	2,213	(856,304)	-
Changes of assumptions	32,050	81,655	62,199
Benefit payments	(79,850)	(256,598)	(35,231)
Net change in total OPEB liability	104,374	(822,962)	233,212
Total OPEB liability - beginning	2,346,428	3,169,390	2,936,178
Total OPEB liability - ending	$ 2,450,802	$ 2,346,428	$ 3,169,390
Covered-employee payroll	$ 27,658,668	$ 29,432,004	$ 39,777,324
Total OPEB Liability as a percentage of covered employee payroll	8.86%	7.97%	7.97%

Note to schedule:

The Authority's total OPEB liability as of June 30, 2021, was measured on June 30, 2019 (measurement date), by an actuarial valuation as of that date for the reporting period June 30, 2021.

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

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Commonwealth's Total Postemployment Benefits other than Pensions (ERS MIPC OPEB Plan) Liability and Related Ratios (Unaudited)
($ in Thousands)

June 30, 2021

Total OPEB liability (Reporting Date)	2020	2019 ($ in Thousands)	2018
Service Cost at end of year	$ -	$ -	$ -
Interest	36,210	36,770	37,891
Effect of economic/demographic gains or (losses)	6,082	(18,937)	(13,832)
Effect of assumption changes or inputs	26,337	(28,381)	(240,535)
Benefit payments	(80,341)	(81,511)	(90,417)
Net change in total OPEB liability	(11,712)	(92,059)	(306,893)
Total OPEB liability - beginning	975,433	1,067,492	1,374,385
Total OPEB liability - ending	$ 963,721	$ 975,433	$ 1,067,492
Covered-employee payroll	N/A	N/A	N/A
Total OPEB Liability as a percentage of covered employee payroll	N/A	N/A	N/A

Note to schedule:

The Commonwealth's total OPEB liability as of June 30, 2020, was measured on June 30, 2018 (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.