

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information
June 30, 2020

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Basic Financial Statement and Required Supplementary Information
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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Infrastructure Financing Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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. 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 risk 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 that we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

As discussed in Note 3 to the basic financial statements, the Authority's government-wide statement of net position (deficit) reflect a net deficit of approximately \$2.2 billion in its governmental activities. This situation occurs because the Authority's normal operation is to acquire and/or construct capital assets that are transferred to other Commonwealth's agencies or other component units and funded by the Commonwealth with future appropriations. The Authority is completely dependent on the Commonwealth to effectively reverse its deficit position.

Also, as discussed in Notes 12, 13 and 20 to the basic financial statements, the Authority has defaulted on certain of its bonds and loans obligations; as such, is currently involved in various litigation actions. Also, the Commonwealth is involved in litigation that may also have an impact the Authority. The final resolution of such litigation and its impact on the Authority financial condition is currently unknown.

Current cash flows shortage and liquidity uncertainties affecting the Commonwealth of Puerto Rico and events in the Commonwealth's Title III case, and activities pertaining to the Commonwealth's Fiscal Plan and Budget could have a significant impact on the Authority's continuing operations and its ability to pay obligations as they become due.

The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 to 20 and the schedule of proportionate share of collective total pension liability on page 78, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

San Juan, Puerto Rico
April 22, 2022.

Stamp No. E490541 was affixed
to the original of this report.





Management's Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2020

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing Authority (the Authority) and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2020, the Authority's restricted investment in bonds of Puerto Rico Sales Tax Financing Corporation (COFINA, by its acronym in Spanish) reported a decrease of approximately \$83.3 million. The decrease was due to sale of approximately \$96,120,000 aggregated principal amount of the Series 2019 A-2 maturing on July 1, 2040 (the "COFINA-PRIFA Bonds"), which were used in connection with the restructuring of the PRIFA-Ports Bonds (discussed below). The Authority realized a loss due to the sale of the COFINA-PRIFA Bonds of approximately \$4.8 million.
- Capital assets reflected a net increase of approximately \$2.6 million, mainly due to: (i) the construction in progress of approximately \$3.2 million related to "Malecon de Santa Isabel" and "Intersección la Muda" (ii) certain additions of furniture and equipment made for the World Plaza Building, amounting to approximately \$74.7 thousand, additions to building improvements amounting to approximately \$295.7 thousand, and (iii) the effect of the depreciation expense for the fiscal year ended June 30, 2020, amounting to approximately \$937 thousand.
- Total liabilities reflected an increase of approximately \$71.1 million, mainly due to: (i) an increase in accrued interest of approximately \$64.8 million, (ii) an increase in bonds payable of approximately \$14.6 million as a result of the net amortization of discounts/premiums, (iii) an increase in accounts payable and accrued expenses of approximately \$7.6 million, (iv) a decrease in the due to Commonwealth of approximately \$29.8 million, (v) an increase in the due to other governmental entities of approximately \$14 million, and (vi) an increase of approximately \$62 thousand in total pension liability.
- As of June 30, 2020, the central government of the Commonwealth of Puerto Rico (the Commonwealth) and most of its public corporations were in the midst of a profound fiscal and economic crisis, which was the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's finances is (i) the vulnerability of revenue streams during times of major economic downturns, (ii) natural disasters, and (iii) large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues have been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other essential services. On December 1, 2015, the Governor of Puerto Rico (the Governor) signed Executive Order No. OE-2015-46, which provided that the Commonwealth would begin to redirect certain revenues in light of recently revised revenue estimates and its deteriorating liquidity situation.

Pursuant to the Executive Order, certain available revenues that were historically appropriated to pay debt service on the debt of the Authority were redirected, pursuant to constitutional requirements, to pay debt issued or guaranteed by the Commonwealth. On April 2016, the Legislature of Puerto Rico enacted Act 21 of 2016, known as the *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act* (the Moratorium Act). Based on the provisions of the Moratorium Act, the Commonwealth, the Authority, and certain other governmental instrumentalities suspended the payment of debt service on their respective debts.



*Management's Discussion and Analysis
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Subsequent to the enactment of the Moratorium Act, the Governor adopted a series of additional executive orders pursuant thereto, declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth, the Authority, and certain other governmental instrumentalities. As a result, the Authority is in default in relation to payment of principal and interest related to Series 2005, Series 2006, Series 2007 and BANs 2015A. As of June 30, 2020, the total of unpaid obligations under default amounted to approximately \$594 million.

Additionally, on May 3, 2017, the Commonwealth initiated a debt adjustment case pursuant to Title III of PROMESA (each term as defined therein). Certain provisions of PROMESA and rulings in the Commonwealth's Title III case have impacted the Authority's ability to pay its obligations and have addressed the legal ownership of revenues historically used to pay certain of the Authority's obligations. The Authority is not a party to those litigations, and refers the reader to the publicly available docket in the Commonwealth's Title III case for further details: <https://cases.primeclerk.com/puertorico/Home-DocketInfo>

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business. The statements provide both short- and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means the statements follow methods that are similar to those used by private non-governmental organizations. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- **Statement of Net Position (Deficit)** - This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position (deficit) may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- **Statement of Activities** - This statement presents information showing how the Authority's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The government-wide financial statements present the following columns segregated by activities:

- **Governmental Activities** - These activities are mostly supported by intergovernmental revenue (Contributions from the Commonwealth of Puerto Rico). Most services normally associated with the Authority fall into general government, economic development, education, aqueduct and sewers, transportation, recreation and sports, edification.



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- **Business Type Activities** - These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business type activities of the Authority include the rental operations of the World Plaza Building.

The government-wide financial statements can be found immediately following this Management's Discussion and Analysis.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has two types of funds: governmental funds and proprietary funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both, the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental Funds Financial Statements - The Authority has three major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Authority's major governmental funds are:

- General Fund
- Capital Projects Fund
- Debt Service Fund

Proprietary Funds Financial Statements - These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT- WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in the United States of America (US GAAP), as prescribed by the GASB, to report on their net position (deficit). The Statement of Net Position (Deficit) presents the value of all of the Authority's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position (deficit).



Management's Discussion and Analysis
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The following was derived from the Statement of Net Position (Deficit) as of June 30, 2020, and 2019:

	Governmental Activities				Business Type Activities			
	2020	2019	Change	Percentage	2020	2019	Change	Percentage
Assets:								
Current assets	\$ 5,308,536	\$ 4,476,691	\$ 831,845	18.6%	\$ 9,489,088	\$ 7,669,016	\$ 1,820,072	23.7%
Capital assets, net	13,214,490	10,030,049	3,184,441	31.7%	26,557,375	27,120,301	(562,926)	-2.1%
Noncurrent assets	249,502,580	342,122,841	(92,620,261)	-27.1%	-	-	-	0.0%
Total assets	268,025,606	356,629,581	(88,603,975)	-24.8%	36,046,463	34,789,317	1,257,146	3.6%
Deferred outflows of resources	29,737,916	33,335,222	(3,597,306)	-10.8%	-	-	-	0.0%
Liabilities:								
Liabilities due within one year	796,309,542	673,758,560	122,550,982	18.2%	52,517,723	49,848,451	2,669,272	5.4%
Liabilities due after one year	1,712,361,230	1,763,823,649	(51,462,419)	-2.9%	-	-	-	0.0%
Total liabilities	2,508,670,772	2,437,582,209	71,088,563	2.9%	52,517,723	49,848,451	2,669,272	5.4%
Deferred inflow of resources	165,046	170,232	(5,186)	-3.0%	-	-	-	0.0%
Net position / deficit:								
Net investment in capital assets	13,214,490	10,030,049	3,184,441	31.7%	(2,803,775)	(2,240,849)	(562,926)	25.1%
Restricted for:								
Other purposes	61,051,656	144,327,031	(83,275,375)	-57.7%	-	-	-	0.0%
Unrestricted / (Deficit)	(2,285,338,442)	(2,202,144,718)	(83,193,724)	3.8%	(13,667,485)	(12,818,285)	(849,200)	6.6%
Total net position (deficit)	\$ (2,211,072,296)	\$ (2,047,787,638)	\$ (163,284,658)	8.0%	\$ (16,471,260)	\$ (15,059,134)	\$ (1,412,126)	9.4%

Governmental Activities

Overall, the Authority's deficit for governmental activities increased by approximately \$163.3 million or 8%, as a result of a decrease in revenues of approximately \$74 million due, in large part, to a decrease in contributions from the Commonwealth of approximately \$30.6 million, and decrease in expenses of approximately \$15.3 million related primarily to decrease in loan principal expense of \$7.2 million. Also, there is an increase in special item related to a contribution made to Puerto Rico Ports Authority totaling approximately \$85.3 million.



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Total assets for governmental activities decreased approximately \$88.6 million or 24.8 %, mainly driven by sale of investment in debt securities of approximately \$96.1 million and a increase of the fair value of the investment in debt securities of approximately \$387 thousand, a decrease in cash and cash equivalents (unrestricted and restricted) of approximately \$28.5 million, a decrease in accrued interest receivable of approximately \$1.5 million, an increase in restricted assets due from other governmental entities of approximately \$31.5 million, and an increase in construction in progress of approximately \$3.2 million.

Deferred outflows of resources decreased approximately \$3.6 million or 10.79%, due to decrease in deferred charges on debt refunding of approximately \$3.6 million and increase of approximately \$37 thousand on changes in the deferred outflows related to pensions and deferred unamortized loss on advance refunding for the year ended June 30, 2020.

Total liabilities for government activities increased by approximately \$71.1 million or 2.92%, mainly due to an increase in accrued interest of approximately \$64.8 million, net increase in bonds payable of approximately \$14.6 million as a result of the net amortization of discounts/premiums, an increase in accounts payable and accrued expenses of approximately \$7.6 million, a decrease in the due to Commonwealth of approximately \$29.8 million, an increase in the due to other governmental entities of approximately \$14.0 million and an increase in total pension liability of approximately \$62 thousand related to the implementation of GASB 73.

Deferred inflows of resources related to pensions decreased by approximately \$5 thousand or 3% due to the implementation of the PayGo System in prior years, as provided by Act. No. 106 of 2017 (Act 106).

Business-Type Activities

The deficit in business-type activities increased approximately \$1.4 million or 9.4%, from approximately \$15.1 million in 2019 to approximately \$16.5 million in 2020. The increase in deficit was mainly due to a decrease in operating revenues of \$103 thousand, decrease in proceeds from insurance and casualty losses recoveries of approximately \$180 thousand, and an overall increase in the expenses of approximately \$1.2 million from which \$635 thousand corresponds to bad debt expense.

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Condensed program net revenues or expenses and changes in net position (deficit) are presented below:

	Governmental Activities				Business-Type Activities			
	2020	2019	Change	Percentage	2020	2019	Change	Percentage
Revenues:								
Program revenues:								
Operating grants and contributions	\$ 8,960,506	\$ 39,609,273	\$ (30,648,767)	-77.4%	\$ -	\$ -	\$ -	0.0%
Charges for services	163,510	7,669,851	(7,526,341)	100.0%	6,176,515	6,279,632	(103,117)	-1.6%
General revenues (expenses):								
Change in fair value in investments	2,680,870	17,607,332	(14,926,462)	84.8%	-	-	-	0.0%
Realized loss on sale of investments	(4,788,402)	-	(4,788,402)	100.0%	-	-	-	0.0%
Investments earnings	5,119,312	18,231,516	(13,112,204)	-71.9%	41,237	70,018	(28,781)	-41.1%
Transfers	-	2,998,400	(2,998,400)	100.0%	-	-	-	0.0%
Other	-	-	-	0.0%	105,301	169,167	(63,866)	-44.0%
Total revenues	12,135,796	86,136,372	(74,000,576)	-85.9%	6,323,053	6,537,817	(214,764)	-3.3%
Expenses:								
Functions/Programs:								
General government	5,260,817	(1,225,902)	6,486,719	-529.1%	-	-	-	0.0%
Education, aqueduct and sewers, and transportation	9,098	3,112,426	(3,103,328)	-99.9%	-	-	-	0.0%
Economic development program	-	135,421	(135,421)	100.0%	-	-	-	0.0%
Recreation and sports	839,879	40,322	799,557	1982.9%	-	-	-	0.0%
Edifications	1,015,819	4,455,279	(3,439,460)	-77.2%	-	-	-	0.0%
Loan principal expense	-	7,196,685	(7,196,685)	100.0%	-	-	-	0.0%
Loss on due from commonwealth	-	706,916	(706,916)	100.0%	-	-	-	0.0%
Interest on long-term debt	82,946,980	84,959,636	(2,012,656)	-2.4%	-	-	-	0.0%
World Plaza Building	-	-	-	0.0%	7,735,179	6,574,423	1,160,756	17.7%
Total expenses	90,072,593	105,380,783	(15,308,190)	-14.5%	7,735,179	6,574,423	1,160,756	17.7%
Special item:								
Puerto Rico Ports Authority contribution	85,347,861	-	85,347,861	100.0%	-	-	-	0.0%
Increase (decrease) in net position before transfers								
	(163,284,658)	(19,244,411)	(144,040,247)	748.5%	(1,412,126)	(36,606)	(1,375,520)	3757.6%
Beginning deficit								
	(2,047,787,638)	(2,028,543,227)	(19,244,411)	0.9%	(15,059,134)	(15,022,528)	(36,606)	0.2%
Ending deficit								
	\$ (2,211,072,296)	\$ (2,047,787,638)	\$ (163,284,658)	8.0%	\$ (16,471,260)	\$ (15,059,134)	\$ (1,412,126)	9.4%



Governmental Activities

Revenues - Total revenues decreased approximately \$69.2 million or 80.4%, due, in large part, to a decrease in contributions from the Commonwealth of approximately \$30.6 million, a decrease in interest bearing demand deposits of \$13.1 million, and a decrease of \$7.5 million in other revenues related to the COFINA bonds. In addition, the effect of the total gain on investments for 2020 amounted to approximately \$2.6 million, a decrease in gain on investment of \$14.9 million from the prior year. Due to the fiscal and economic crisis confronted by the Commonwealth, the agency has not received charges for services of approximately \$3 million of rent revenues from the tenant ASSMCA (by its Spanish acronym) in the last three years.

Expenses - Total expenses decreased approximately \$15.3 million or 15.3%, mainly due to a net loss associated with the sale of the COFINA-PRIFA Bonds of approximately \$4.8 million, a decrease in loan principal expense of approximately \$7.2 million, decrease in interest expense on long-term debt of approximately \$2 million, a decreases in education, aqueduct and sewers, and transportation expenses of \$9.1 million related to construction of new projects, a decrease in edifications of approximately \$3.4 million and an increase in general government expenses of \$6.5 million. Also, there is an increase in special item related to a contribution made to Puerto Rico Ports Authority totaling approximately \$85.3 million.

Business-Type Activities

Revenues - Revenues decreased approximately \$215 thousand or 3.3%, mainly due to a decrease in insurance and casualty losses recoveries received for the World Plaza Building because of the damages caused by Hurricane María, amounting to approximately \$180 thousand received in prior year and decrease in charges for services of approximately \$103 thousand.

Expenses - Total expenses increased approximately \$1.2 million or 17.7%, due, in large part, to an increase of approximately \$678 thousand in operating expenses (mainly utilities), an increase of approximately \$635 thousand in bad debt expense, an increase in depreciation expense of approximately \$68 thousand, and a decrease in interest expense of approximately \$221 thousand when compared with the prior fiscal year.

4. GOVERNMENTAL FUNDS RESULTS

General Fund - Total assets in the general fund decreased approximately \$82.7 million as a direct result of the sale of a portion of the investment in COFINA Bonds of approximately \$90.1 million and an increase of the fair value of the investment in debt securities of approximately \$387 thousand, a decrease in interest receivable of approximately \$1.4 million and an overall increase in cash and cash equivalents amounting to approximately \$12.3 million. The fund balance decreased from approximately \$150.4 million in 2019 to approximately \$67.5 million in 2020 or 55%, due primarily to the sale of a portion of the investment in COFINA Bonds.

Revenues in the general fund decreased from approximately \$45 million in 2019 to revenues of approximately \$9.4 million in 2020, mainly due to a decrease in interest bearing demand deposits of \$12.6 million, a decrease of approximately \$1.1 million in the contributions from the Commonwealth, decrease in other revenues of \$4.9 million, decrease in recovery on deposits held on GDB of approximately \$2.1 million and a decrease in fair value of the restricted non-spendable investment in COFINA Bonds of \$14.9 million. General government expenditures increased from approximately \$12 million for 2019 to \$92.3 million in 2020; due to the loss associated with the sale of the COFINA-PRIFA Bonds totaling approximately \$4.7 million and bond liquidation related to a contribution to Ports Authority of approximately \$85.3 million and decrease in interest expense of approximately \$2.2 million.



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Capital Projects Fund - Total assets decreased from approximately \$160.1 million in 2019 to approximately \$150.8 million in 2020, or 5.82%. This decrease is related primarily to a decrease in the restricted cash and cash equivalents of approximately \$40.8 million and an increase in the due from other governmental entities of approximately \$31.5 million.

Total liabilities decreased from approximately \$135.7 million in 2019 to approximately \$127.1 million in 2020 or 6.36%. The decrease is related primarily to a decrease in the due to Commonwealth of approximately \$29.8 million, an increase in the due to other governmental entities of approximately \$14 million, and an increase in the accounts payable and accrued liabilities of approximately \$7.4 million.

Total revenues decreased from approximately \$38.1 million in 2019 to approximately \$7.5 million in 2020, for a decrease of approximately \$19.5 million, driven primarily by a decrease in contributions from the Commonwealth of approximately \$16.4 million and decrease in other revenues of \$2.6 million.

Debt Service Fund - Total assets decreased from approximately \$3.15 million in 2019 to approximately \$3.13 million in 2020, resulting in a decrease of approximately \$20 thousand, or 0.65%. The decrease was in cash and cash equivalent balance.

Total liabilities increased from approximately \$469.1 million in 2019 to approximately \$584.1 million in 2020 or 25%. The increase is related primarily to an increase in bonds payable of approximately \$48.9 million and increase in accrued interest of \$66.0 million.

5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles, and buildings. The following is a schedule of the Authority's capital assets activity:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 6,689,828	\$ 6,689,828	\$ 4,438,534	\$ 4,438,534	\$ 11,128,362	\$ 11,128,362
Construction in progress	6,482,921	3,295,163	-	-	6,482,921	3,295,163
Building	-	-	22,561,474	22,561,474	22,561,474	22,561,474
Building improvements	-	-	4,764,204	4,468,508	4,764,204	4,468,508
Furniture and equipment	1,095,284	1,085,807	1,049,186	983,938	2,144,470	2,069,745
Vehicles	57,692	57,692	-	-	57,692	57,692
Total capital assets	14,325,725	11,128,490	32,813,398	32,452,454	47,139,123	43,580,944
Less accumulated depreciation and amortization	1,111,235	1,098,441	6,256,023	5,332,153	7,367,258	6,430,594
Capital assets - net	\$ 13,214,490	\$ 10,030,049	\$ 26,557,375	\$ 27,120,301	\$ 39,771,865	\$ 37,150,350



Capital assets reflected a net increase of approximately \$2.6 million, due primarily to the increase in construction in progress of approximately \$3.2 million related to “Malecon de Santa Isabel” and “Intersección la Muda”, certain additions of furniture and equipment related to the World Plaza Building, amounting to approximately \$75 thousand net of adjustments, additions to building improvements amounting to approximately \$296 thousand, and the effect of the depreciation expense for the fiscal year ended June 30, 2020, amounting to approximately \$937 thousand.

Debt Outstanding

As of June 30, 2020, the Authority had approximately \$2,027 million in long-term and other liabilities, mainly composed of approximately \$2,017.7 million of bonds payable (net of premiums and discounts), \$41 million of loans payable, \$2.8 million of total pension liability and \$2.5 million of accrued legal expenses. Total long-term and other liabilities include bonds and loans payable, termination benefits, total pension liability, accrued legal expense and accrued compensated absences. Overall, long-term and other liabilities increased by approximately \$14.6 million, mainly as a result of net effect of the discount accretion and amortization of premiums of approximately \$14.6 million.

6. CURRENTLY KNOWN FACTS

Public Finance Corporation (PFC) Notes

The Authority has defaulted on the PFC Notes since fiscal year 2016 due to a non-appropriation of funds for payment of such funds in the annual budget of the Commonwealth. See Notes 13 and 20 for further details regarding the cancellation and extinguishment of such PFC Notes.

Investments

On June 13, 2017, Standard & Poor's Rating Services downgraded the rating of the COFINA subordinated sale tax bonds to D from CC. See Note 6 for further details.

COFINA Plan of Adjustment

On November 29, 2018, the Authority received a notice to elect to receive a Taxable bond distribution. The Authority held “Class 5 Junior COFINA Bond Claims” under the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment) and voted to accept the COFINA Plan of Adjustment. Each holder of a Class 5 Junior COFINA Bond Claim will receive its pro rata share of the “Junior COFINA Bond Distribution,” which generally will be a distribution of COFINA's new “Restructured Sales Tax Bonds” equal to 56.41% of the Authority's current holdings. It is expected that these Restructured Sales Tax Bonds primarily will be federally tax-exempt securities.

On January 11, 2019, the Authority made the taxable election to receive the federally taxable securities and the 2.00% cash fee. By making the taxable election, the Authority will get the benefit of receiving the 2.00% cash fee upfront, and, when the securities are subsequently disposed or used for a particular purpose, a tax analysis will be made to determine eligibility, and the federally taxable securities will be converted into federally tax-exempt COFINA Bonds. The federally tax-exempt COFINA Bonds are expected to be more marketable than the federally taxable bonds. Accordingly, it is expected that ERS will have greater optionality to sell the tax-exempt COFINA Bonds in the market and subsequently use the cash proceeds in accordance with its restructuring objectives—e.g., by sale in the open market, settlement with certain of the Authority's current bondholders, or otherwise for any other purpose in accordance with the Authority's organic act.



*Management's Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2020*

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which became effective on February 12, 2019. Pursuant to the COFINA Plan of Adjustment, COFINA issued new sales tax revenue bonds in the aggregate amount of approximately \$12 billion, and its total outstanding debt was reduced by approximately 32 percent.

On June 10, 2019, COFINA launched an invitation to exchange and consent to amendments towards bondholders owning an aggregate principal amount of approximately \$3.6 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 of its COFINA Bonds (collectively, the Invited Bonds), originally issued on February 12, 2019, as part of the COFINA Plan of Adjustment.

COFINA provided the opportunity to exchange all or a portion of the Invited Bonds to bondholders for an equal aggregate principal amount of converted bonds that will have the same terms as the Invited Bonds, except for: (1) interest rate on converted bonds have 25 basis points lower than the Invited Bonds exchanged (2) interest on converted bonds is excluded from gross income for federal tax purposes under Section 103 of the Tax Code.

On August 1, 2019 (settlement date), COFINA exchanged an aggregate principal amount of approximately \$3.1 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 and accrued interest of approximately \$12.1 million and \$177 thousand, respectively, with bondholders who accepted the exchange. Also, bondholders who accepted the invitation consented to certain amendments to certain documents described in the invitation.

As a result of the exchange described above, the Series 2019A-2 consisted of (i) \$3,108,661,000 aggregate principal amount series 2019A-2 converted bonds and (ii) \$483,148,000 aggregate principal amount of Series 2019A-2 unconverted bonds.

In November 2019, the Authority decided to sell a portion of the \$139,355,000 aggregate principal amount of the Series 2019 A-2 maturing on July 1, 2040, with CUSIP 74529JQY4 that it held (the PRIFA Series 2019A-2 Bonds) and requested to qualify interest on a portion of such bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Tax Code.

COFINA, after consultation with bond counsel, clarified and amended certain provisions of the first supplemental indenture to reflect the new tax status of the portion of PRIFA Series 2019A-2 Bonds that qualified to be sold. All terms and conditions of the PRIFA Series 2019A-2 Bonds, including interest rate and maturity, remained equal to the Invited Bonds except that they will be dated July 1, 2019.

Litigation Regarding the 2015A Notes and Proposed Settlement

On April 1, 2019, certain holders of the Series 2015A Bonds filed a complaint, styled Puerto Rico BAN (VL) LLC, et al. v. United States of America, Case No. 19-482C (Fed. Cl. Filed Apr. 1, 2019), currently pending in the United States Court of Federal Claims, seeking a declaratory judgment against the United States of America and just compensation for the alleged unconstitutional taking of the Bondholders' property by the Oversight Board.

On May 1, 2019, the Special Claims Committee of the Oversight Board (the SCC), together with the Statutory Committee of Unsecured Creditors appointed in the Commonwealth Title III case (the Creditors' Committee), filed a complaint, styled The Special Claims Committee of the Financial Oversight and Management Board, et al. v. The Bank of New York Mellon, et al., Adv. Pro. No. 19-00269, currently pending in the Title III Court, with respect to, among other things, the Series 2015A Bonds, payments made with respect to the Series 2015A Bonds and the validity and scope of any liens and security interests asserted by the Trustee and holders of Series 2015A Bonds.



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On May 2, 2019, the Oversight Board, the SCC and the Creditors' Committee filed the complaints styled (i) The Financial Oversight and Management Board, et al. v. Ada R. Valdivieso, et al., Adv. Pro. No. 19-00295, and (ii) The Special Claims Committee of the Financial Oversight and Management Board, et al. v. Alan Friedman, et al., Adv. Pro. No. 19-00296, each currently pending in the Title III Court, seeking declaratory relief with respect to the Commonwealth's guarantee of the Series 2015A Bonds and the avoidance of liens, if any, securing such guarantee obligation.

On January 8, 2020, the Creditors' Committee filed that certain Official Committee of Unsecured Creditors' Omnibus Objection on Constitutional Debt Limit Grounds to (I) Claim of Government Development Bank for Puerto Rico [Claim Number 29485] Based on Certain Commonwealth-Issued Notes and on Commonwealth Guaranty of Certain Bonds Issued by Port of Americas Authority, (II) Claim of ScotiaBank de Puerto Rico [Claim Number 47658] Based on Full Faith and Credit Note Issued by Puerto Rico General Services Administration, and (III) Claims Filed or Asserted Against Commonwealth. Based on Commonwealth Guaranty of Certain Notes Issued by Puerto Rico Infrastructure Authority, dated January 8, 2020, objecting to the proofs of claim asserted against the Commonwealth in respect of the Commonwealth's guarantee of payment of the Series 2015A Bonds.

On February 22, 2021, PRIFA, by and through Puerto Rico Fiscal Agency and Financial Advisory (FAFAA), the Oversight Board, on behalf of itself and as representative of the Commonwealth, and Silver Point Capital, L.P., in its capacity as Owner Representative of the 2015A Notes entered into a stipulation resolving the above litigations and claim objections (the PRIFA Stipulation). The PRIFA Stipulation contemplates a settlement of the 2015A Notes in exchange for a payment of (i) \$12,657,508.81 from PRIFA, and (2) allowing a claim against the Commonwealth in the amount of \$83,589,101.67 on account of the Commonwealth's guarantee of the 2015A Notes, which claim will be treated in accordance with the terms of the Eighth Amended Plan (defined below). In exchange, holders of the Series 2015A Bonds agree to dismiss, with prejudice, all of their claims relating to their holdings in the Series 2015A Bonds, including all claims against the Commonwealth in connection with their guarantee on the bonds, and claims against the U.S. Government for allegedly effectuating a taking of bondholder property in connection with PROMESA and the Commonwealth's Title III case. Pursuant to the PRIFA Stipulation, PRIFA escrowed approximately \$12.7 million, which will be released in accordance with the terms of such escrow agreement.

For a further discussion of the PRIFA Stipulation, refer to Note 20, Subsequent Events, related to the 2015A Notes.

Executive Order

On December 1, 2015, the Governor signed Executive Order No. OE-2015-046, which provided that the Commonwealth would not provide revenues to the Authority in light of the Commonwealth's deteriorating liquidity situation. Pursuant to the Executive Order, certain revenues budgeted to pay debt service on the debt of the Authority were retained by the Commonwealth.

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Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Legislature enacted Act No. 21, known as the “Emergency Moratorium and Financial Rehabilitation Act” (the Moratorium Act). The Moratorium Act provides for the following: (a) it authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico (EDB) or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) it amends GDB’s Enabling Act to give GDB options and tools that it may need to address in its own resolution (these amendments modernize GDB’s Organic Act related to a receivership for GDB, and authorizes the creation of a temporary “bridge” bank to carry on certain of GDB’s functions and honor its deposits); (c) it amends the Enabling Act of the EDB to modernize its receivership provisions; and (d) it creates a new fiscal agency and financial authority. As a result, on April 30, 2016, the Governor signed Executive Order 2016-014, declaring the Authority in a state of emergency and providing for a moratorium on the payment of certain of the Authority’s obligations.

In addition, since the enactment of the Moratorium Act, the Governor adopted a series of executive orders pursuant thereto, declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth and certain other governmental instrumentalities.

Consequently, the Authority failed to make certain debt service payments. Pursuant to the executive orders referred to above, the Commonwealth retained certain revenues that would have otherwise been transferred to the Authority and other public corporations for the payment of their respective debt obligations. In addition, the Authority was in default in relation to payment of principal and interest related to the following bond series: Series 2005, Series 2006, Series 2007 and BANs 2015A. As of June 30, 2020, the total of unpaid obligations under default amounted to approximately \$582.7 million. See Note 12 for further details.

The implementation of the Moratorium Act and its related executive orders has been the subject of ongoing litigation. Since the commencement of the Commonwealth’s Title III case on May 3, 2017, the automatic stay under Title III of PROMESA and the outcome of certain litigations has prevented debt service payments to holders of certain securities issued by the Authority.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order confirming the Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al. [ECF No. 19813-1] (the Eighth Amended Plan), which incorporates several agreements reached with creditors and other parties in interest to resolve Puerto Rico’s Title III cases, including resolving the litigation related to the retention of certain revenues that were historically transferred to the Authority. For a further discussion of the Eighth Amended Plan and litigation related thereto, refer to the Subsequent Events in Note 19.

Act No. 5 of 2017

On January 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Financial Emergency and Fiscal Responsibility Act (Act 5-2017), declaring an emergency period commencing on the effective date of the Act and ending upon May 1, 2017. During such period, Act 5-2017 granted the Governor certain powers to provide services essential for the public health, safety, and welfare of the residents of Puerto Rico. The Act also provided that the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth have been provided for; or (b) the Governor has been ordered to pay debt service by the Oversight Board created under PROMESA or by any other board created under federal law. The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.



On July 19, 2017, the emergency period that prevailed under Act 5-2017 was extended until December 31, 2017, with the enactment into law of Act No. 46-2017. This new legislation allows the Governor to sign executive orders to extend the emergency period for successive periods of six months while the Oversight Board maintains its oversight and operations in Puerto Rico. See Note 19 for further details.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

On June 30, 2016, President Obama signed PROMESA into a law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territories. More specifically, PROMESA did the following: (a) it established an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well.

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and other instrumentalities 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 Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) Title I - Establishment of Oversight Board and Administrative Matters

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 (some of whom have been replaced with new members in the interim).

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".

(b) 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".



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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.

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.

(c) Title III - In-Court Restructuring Process

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

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, 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.

(d) 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.



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

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 28, 2019, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) 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.

(f) 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.

(g) 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".

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Commonwealth Title III Process

On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation. All claims against the Commonwealth that arose prior to the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III. As of the date of these financial statements, the Authority is not the subject of a Title III case; however, certain matters in the Commonwealth's Title III case have affected the Authority. Refer to Note 20 of the financial statements for additional information regarding the Commonwealth Title III process.

Commonwealth Fiscal Plan

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions.

On January 27, 2022, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

- (i) *Human Capital and Welfare Reform*
- (ii) *Ease of Doing Business Reform*
- (iii) *Energy and Power Regulatory Reform*
- (iv) *Infrastructure and Capital Investment Reform*
- (v) *Establishment of the Office of the Chief Financial Officer (CFO)*
- (vi) *Agency Efficiency Measures*
- (vii) *Healthcare Reform*
- (viii) *Tax Compliance and Fees Enhancement*
- (ix) *Reduction in UPR and Municipality Appropriations*
- (x) *Pension Reform*
- (xi) *Fiscal Controls and Transparency*

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

In addition, the Oversight Board must certify an annual budget for the Commonwealth prior to the beginning of each fiscal year based upon the Oversight Board Fiscal Plan (either as currently certified or as subsequently amended and recertified). Accordingly, any appropriations to the Authority in the Commonwealth's annual budget are ultimately subject to Oversight Board approval.



Commonwealth Plan of Adjustment

On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order confirming the Eighth Amended Plan, which incorporates several agreements reached with creditors and other parties in interest to resolve Puerto Rico's Title III cases. Upon its effective date, the Eighth Amended Plan will reduce 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 legacy general obligation bonds, ERS bonds, and PBA bonds will be discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto will be discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities shall be deemed preempted, and the Commonwealth will have no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Eighth Amended Plan will provide a path for Puerto Rico to access the credit markets and develop balanced annual budgets. As of the date hereof, the effective date of the Eighth Amended Plan has not yet occurred. For further information, refer to Note 20 and the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>

GDB's Restructuring Support Agreement and Title VI Process

On November 29, 2018, the Government Development Bank (the GDB or the Bank) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

In accordance with Act No. 109 of August 24, 2017 (the GDB Restructuring Act)—the legislation enacted to facilitate the Qualifying Modification—the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at the GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Authority's deposits at GDB were fully extinguished and the Authority obtained its pro rata share of interests in the PET (which included a total PET claim of approximately \$19.9 million).

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets.



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The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. In addition, all or some of the PET Claim includes loans only payable from Commonwealth appropriations. Under the proposed Eight Amended Plan (as defined below), the Commonwealth's appropriation obligations (including with respect to such appropriation loans held by the PET) are classified in Class 63 (CW Appropriation Claims) and the Eight Amended Plan proposes to provide no distribution on account of such claims.

Rating Rationale

On July 1, 2016, Standard & Poor's Rating Services downgraded the Authority's Special Tax Revenue Bonds to a level D rating. On March 2, 2018, Standard & Poor's Rating Services discontinued the unenhanced rating on the Authority's Special Tax Revenue Bonds and Special Tax Revenue Refunding Bonds.

On February 8, 2019, Moody's upgraded the Authority's Special Tax Revenue Bonds to a level Caa3 rating from its previous ratings of Ca.

7. REQUEST FOR INFORMATION

This financial report is designed to provide all interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, PO Box 41207, Minillas Station, San Juan, PR 00940.

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Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)
June 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents in commercial banks	\$ 3,928,784	\$ 9,048,400	\$ 12,977,184
Accounts receivable, net	301,753	764,211	1,065,964
Due from Commonwealth of Puerto Rico	486,036	-	486,036
Internal balances	330,084	(330,084)	-
Prepaid expenses and other assets	261,879	6,561	268,440
Other	23,481	-	23,481
Restricted assets:			
Cash and cash equivalents in commercial banks	119,640,250	-	119,640,250
Accrued interest receivable	983,742	-	983,742
Investments in debt securities	40,167,477	-	40,167,477
Due from Commonwealth of Puerto Rico	6,547,979	-	6,547,979
Due from other governmental entities	47,339,651	-	47,339,651
Net investment in direct financing lease	34,800,000	-	34,800,000
Capital assets, net:			
Non-depreciable:			
Land	6,689,828	4,438,534	11,128,362
Construction in progress	6,482,921	-	6,482,921
Depreciable assets, net			
	41,741	22,118,841	22,160,582
Total assets	<u>268,025,606</u>	<u>36,046,463</u>	<u>304,072,069</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Loss on debt refunding	29,069,318	-	29,069,318
Pension related	668,598	-	668,598
Total deferred outflows of resources	<u>29,737,916</u>	<u>-</u>	<u>29,737,916</u>
Total assets and deferred outflows of resources	<u>297,763,522</u>	<u>36,046,463</u>	<u>333,809,985</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION (DEFICIT)			
LIABILITIES:			
Accounts payable and accrued expenses	47,845,305	1,472,805	49,318,110
Accrued interest payable	356,803,794	13,683,768	370,487,562
Due to the Commonwealth of Puerto Rico	60,580,014	-	60,580,014
Due to other governmental entities	16,693,152	-	16,693,152
Liabilities due in one year:			
Compensated absences	156,332	-	156,332
Termination benefits	2,596	-	2,596
Total pension liability	439,513	-	439,513
Loans payable	3,643,836	37,361,150	41,004,986
Bonds payable	310,145,000	-	310,145,000
Liabilities due in more than one year:			
Accrued legal expenses	2,493,533	-	2,493,533
Total pension liability	2,322,504	-	2,322,504
Bonds payable	1,707,545,193	-	1,707,545,193
Total liabilities	<u>2,508,670,772</u>	<u>52,517,723</u>	<u>2,561,188,495</u>
DEFERRED INFLOW OF RESOURCES:			
Pension related	165,046	-	165,046
Total deferred inflow of resources	<u>165,046</u>	<u>-</u>	<u>165,046</u>
NET POSITION (DEFICIT):			
Net investment in capital assets	13,214,490	(2,803,775)	10,410,715
Restricted for:			
Investment in bonds of COFINA	61,051,656	-	61,051,656
Unrestricted	<u>(2,285,338,442)</u>	<u>(13,667,485)</u>	<u>(2,299,005,927)</u>
TOTAL NET POSITION (DEFICIT)	\$ (2,211,072,296)	\$ (16,471,260)	\$ (2,227,543,556)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities
June 30, 2020

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (expense) / revenue and changes in net position (deficit)		
		Operating Grants and Contributions	Charges for Services	Governmental Activities	Business - Type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	\$ 5,260,817	\$ 8,960,506	\$ 163,510	\$ 3,863,199	\$ -	\$ 3,863,199
Education, aqueduct and sewers, and transportation	9,098	-	-	(9,098)	-	(9,098)
Recreation and sports	839,879	-	-	(839,879)	-	(839,879)
Edifications	1,015,819	-	-	(1,015,819)	-	(1,015,819)
Interest on long-term debt	82,946,980	-	-	(82,946,980)	-	(82,946,980)
Total governmental activities	90,072,593	8,960,506	163,510	(80,948,577)	-	(80,948,577)
BUSINESS - TYPE ACTIVITIES:						
World Plaza Building	7,735,179	-	6,176,515	-	(1,558,664)	(1,558,664)
Total	\$ 97,807,772	\$ 8,960,506	\$ 6,340,025	(80,948,577)	(1,558,664)	(82,507,241)
GENERAL REVENUES:						
Change in fair value in investments				2,680,870	-	2,680,870
Realized loss on sale of investments				(4,788,402)	-	(4,788,402)
Investment earnings				5,119,312	41,237	5,160,549
Other revenues				-	105,301	105,301
Total general revenues				3,011,780	146,538	3,158,318
SPECIAL ITEM:						
Puerto Rico Ports Authority contribution				85,347,861	-	85,347,861
CHANGE IN NET POSITION (DEFICIT)				(163,284,658)	(1,412,126)	(164,696,784)
NET POSITION (DEFICIT) - Beginning of year				(2,047,787,638)	(15,059,134)	(2,062,846,772)
NET POSITION (DEFICIT) - End of year				\$ (2,211,072,296)	\$ (16,471,260)	\$ (2,227,543,556)

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet-Governmental Funds
June 30, 2020

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents in commercial banks	\$ 3,928,784	\$ -	\$ -	\$ 3,928,784
Due from other governmental entities	301,753	-	-	301,753
Due from other funds	3,302,544	493,439	3,000	3,798,983
Due from Commonwealth of Puerto Rico	142,948	-	-	142,948
Other	23,481	-	-	23,481
Restricted assets:				
Cash and cash equivalents in commercial banks	19,900,583	99,686,411	53,256	119,640,250
Accrued interest receivable	983,596	146	-	983,742
Investments	40,167,477	-	-	40,167,477
Due from other governmental entities	-	47,339,651	-	47,339,651
Due from Commonwealth of Puerto Rico	236,022	3,239,207	3,072,750	6,547,979
	<u>\$ 68,987,188</u>	<u>\$ 150,758,854</u>	<u>\$ 3,129,006</u>	<u>\$ 222,875,048</u>

Continues

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet-Governmental Funds
June 30, 2020

<i>Continued</i>	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 1,053,227	\$ -	\$ 10,435	\$ 1,063,662
Liabilities payable from restricted assets:				
Loans payable	-	-	469,960	469,960
Bonds payable	-	-	258,620,000	258,620,000
Accrued interest payable	-	-	325,046,719	325,046,719
Accounts payable and accrued liabilities	236,022	46,545,621	-	46,781,643
Due to Commonwealth of Puerto Rico	-	60,580,014	-	60,580,014
Due to other governmental entities	-	16,693,152	-	16,693,152
Due to other funds	201,455	3,267,444	-	3,468,899
Total liabilities	1,490,704	127,086,231	584,147,114	712,724,049
FUND BALANCES:				
Non-spendable	61,051,656	-	-	61,051,656
Restricted for Capital Projects	-	23,672,623	-	23,672,623
Unassigned	6,444,828	-	(581,018,108)	(574,573,280)
Total fund balances	67,496,484	23,672,623	(581,018,108)	(489,849,001)
	\$ 68,987,188	\$ 150,758,854	\$ 3,129,006	\$ 222,875,048

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2020

FUND BALANCES - GOVERNMENTAL FUNDS		\$ (489,849,001)
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These amounts are:</p>		
Non-depreciable capital assets	13,172,749	
Depreciable capital assets, net	<u>41,741</u>	13,214,490
<p>Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds</p>		
	<u>261,879</u>	261,879
<p>Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds:</p>		
Net investment in direct financing lease	<u>34,800,000</u>	34,800,000
<p>Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds</p>		
Deferred charges on debt refunding	29,069,318	
Pension related	<u>668,598</u>	29,737,916
<p>Deferred inflows of resources are not reported in the funds</p>		
Pension related	(165,046)	
Due from Commonwealth	<u>343,088</u>	178,042
<p>Liabilities, including bonds payable, loans payable, net pension liability, and accrued interest payable are not due and payable currently and, therefore, are not reported in the funds</p>		
Bonds and loans payable	(1,762,244,069)	
Total pension liability	(2,762,017)	
Accrued legal expenses	(2,493,533)	
Accrued interest payable	(31,757,075)	
Termination benefits	(2,596)	
Compensated absences	<u>(156,332)</u>	<u>(1,799,415,622)</u>
DEFICIT OF GOVERNMENTAL ACTIVITIES		\$ <u>(2,211,072,296)</u>

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2020

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES:				
Intergovernmental revenues:				
Contributions from Commonwealth of Puerto Rico	\$ 2,505,506	\$ 6,455,000	\$ -	\$ 8,960,506
Interest and investment income:				
Interest bearing demand deposits	4,200,482	918,153	677	5,119,312
Change in fair value in investments	2,680,870	-	-	2,680,870
Realized loss on sale of investments	(4,788,402)	-	-	(4,788,402)
Charges for services	1,571	-	-	1,571
Other	13,100	148,839	-	161,939
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	4,613,127	7,521,992	677	12,135,796
EXPENDITURES:				
Current:				
General government	2,131,529	3,187,758	-	5,319,287
Education, aqueduct and sewers and transportation	-	9,098	-	9,098
Recreation and sports	-	839,879	-	839,879
Edifications	-	1,015,819	-	1,015,819
Debt service:				
Maturing bonds and loans	-	-	48,986,134	48,986,134
Interest	-	-	66,037,558	66,037,558
Capital outlays:				
General government	9,477	-	-	9,477
Education, aqueduct and sewers, and transportation	-	568,575	-	568,575
Recreation and sports	-	2,619,183	-	2,619,183
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	2,141,006	8,240,312	115,023,692	125,405,010

Continues

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2020

<i>Continued</i>	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES OVER (UNDER) EXPENDITURES	2,472,121	(718,320)	(115,023,015)	(113,269,214)
OTHER FINANCING SOURCES:				
Transfers in	-	21,051	-	21,051
Transfers out	-	-	(21,051)	(21,051)
Total other financing sources	-	21,051	(21,051)	-
REVENUES OVER (UNDER) EXPENDITURES BEFORE SPECIAL ITEM	2,472,121	(697,269)	(115,044,066)	(113,269,214)
SPECIAL ITEM:				
Puerto Rico Ports Authority contribution	(85,347,861)	-	-	(85,347,861)
NET CHANGES IN FUND BALANCES	(82,875,740)	(697,269)	(115,044,066)	(198,617,075)
FUND BALANCES - beginning of year	150,372,224	24,369,892	(465,974,042)	(291,231,926)
FUND BALANCES - end of year	<u>\$ 67,496,484</u>	<u>\$ 23,672,623</u>	<u>\$ (581,018,108)</u>	<u>\$ (489,849,001)</u>

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance - Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2020**

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (198,617,075)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are:

Capital outlays	3,197,235	
Depreciation expense	(12,794)	
		3,184,441

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were:

Deferred charges on debt refunding	(3,633,896)	
Amortization of bonds premium, net	(14,557,344)	
		(18,191,240)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount includes:

Long term debt	48,986,134	
Total pension liability	61,526	
Accrued expenses	(58,007)	
Pension expense	(19,750)	
Insurance expense	87,495	
Accrued interest expense	1,281,818	
		50,339,216

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (163,284,658)**

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) - Proprietary Fund
June 30, 2020

	Business -Type Activities
ASSETS:	
Current assets:	
Cash and cash equivalents in commercial banks	\$ 9,048,400
Accounts receivable, net	764,211
Prepaid expenses	6,561
Due from other funds	40,000
Total current assets	<u>9,859,172</u>
Non current assets:	
Capital assets, net:	
Nondepreciable:	
Land	4,438,534
Depreciable, net	<u>22,118,841</u>
Total assets	<u>\$ 36,416,547</u>
LIABILITIES AND NET DEFICIT:	
Current liabilities:	
Accounts payable and accrued expenses	\$ 1,472,805
Accrued interest payable	13,683,768
Line of credit	37,361,150
Due to other funds	370,084
Total current liabilities	<u>52,887,807</u>
NET DEFICIT:	
Net investment in capital assets	(2,803,775)
Deficit	<u>(13,667,485)</u>
TOTAL NET DEFICIT	<u>\$ (16,471,260)</u>

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and changes in Fund Net Position (Deficit)
Proprietary Fund
For the Fiscal Year Ended June 30, 2020

	Business -Type Activities
Operating revenues:	
Rent income	\$ 6,176,515
Total operating revenue	<u>6,176,515</u>
Operating expenses:	
General, administrative, and other operating expenses	3,900,385
Bad debt expense	635,266
Depreciation expense	923,871
Total operating expenses	<u>5,459,522</u>
Operating income	<u>716,993</u>
Non-operating revenues (expenses):	
Interest and investment earnings	41,237
Other income	105,301
Interest expense	<u>(2,275,657)</u>
Total non-operating expenses, net	<u>(2,129,119)</u>
Net change in net deficit	(1,412,126)
Net deficit - beginning of year	<u>(15,059,134)</u>
Net deficit - end of year	<u>\$ (16,471,260)</u>

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - Proprietary Fund
For the Fiscal Year Ended June 30, 2020

	Business -Type Activities
Cash flows from operating activities:	
Receipts from customers and users	\$ 5,513,240
Payments to suppliers	(2,939,556)
Net cash provided by operating activities	<u>2,573,684</u>
Cash flows from non-capital and related financing activities:	
Other Income	105,301
Advances from other funds	21,979
Net cash provided by non-capital and related financing activities	<u>127,280</u>
Cash flows from capital and related financing activities:	
Capital expenditures, net	(360,945)
Net cash used in capital and related financing activities	<u>(360,945)</u>
Cash flows from investing activities:	
Interest collected on deposits, investments and loans	41,237
Net cash provided by investing activities	<u>41,237</u>
Net change in cash and cash equivalents	2,381,256
Cash and cash equivalents, at beginning of year	<u>6,667,144</u>
Cash and cash equivalents, at end of year	<u>\$ 9,048,400</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 716,993
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	923,871
Changes in operating assets and liabilities:	
Increase in accounts and loans receivable	(28,009)
Increase in prepaid expenses	567,214
Increase in accounts payable and accrued liabilities	393,615
Total adjustments	<u>1,856,691</u>
Net cash provided by operating activities	<u>\$ 2,573,684</u>

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements
June 30, 2020

1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 44 of June 21, 1988, as amended (Act No. 44), and an affiliate of the Government Development Bank for Puerto Rico (GDB), another Component Unit of the Commonwealth. On March 23, 2018, GDB ceased its operations, and it is currently winding down its operations in an orderly fashion under Title VI of PROMESA. The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The accompanying financial statements present the net position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) for governments as prescribed by the Governmental Accounting Standard Board (GASB).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Following is a description of the Authority's most significant accounting policies:

Government-Wide Financial Statements - The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities.

The statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- **Net Investment in Capital Assets** - This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements
June 30, 2020

- *Restricted* - This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the assets result from a resource flow that also results in the recognition of a liability or if a liability will be liquidated with the restricted assets reported.
- *Unrestricted* - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of activities demonstrates the degree to which the expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Certain indirect costs have been allocated and are reported as direct program expenses of individual functions or programs. Program revenues include: (1) interest and investment income, including the changes in the fair value of investments; (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function; and (3) certain charges for services to customers that purchase, use or directly benefit from services given by a particular function. Other items not meeting the definition of program revenue are instead reported as general revenue.

Governmental Funds Financial Statements - Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are considered major funds.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows and balances of available resources. The Authority reports the following governmental funds:

- **General Fund** - The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- **Capital Projects Fund** - The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.
- **Debt Service Fund** - The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Proprietary Funds

These funds account for those activities that are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public. The only major proprietary fund is the World Plaza Building Fund, which is used to account for the activities related to the rental of office space and parking lots.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements
June 30, 2020

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements - The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred. However, principal and interest on long term debt, loans and notes payable are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt, notes and loans and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements - The basic financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements. The proprietary fund accounts for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenue is generated from rental, investing, and other related activities. Operating expenses include general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less.

Investments - To the extent available, the Authority's investments, except for money market investments, which use a cost base measure, are recorded at fair value as of June 30, 2020. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements
June 30, 2020

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

- Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Accounts Receivable - Accounts receivable are stated net of estimated allowances for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Write-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance and revenue is recognized when received. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Prepaid Expenses - Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Restricted Assets - Certain resources are set aside for the repayment of bonds payable, construction of capital projects and other purposes. All of these assets are classified as restricted assets on the accompanying statement of net position (deficit) and governmental funds balance sheet because these resources are limited for these purposes by applicable agreements.

Direct Financing Lease - Aggregate rental payment due over the term of the lease less unearned income are included in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

Capital Assets - Capital assets include land, construction in progress, buildings, furniture and equipment, vehicles, and building improvements. The threshold for capitalizing furniture and equipment, vehicles, and building improvements is \$750. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair value at the time received. Capital assets and related depreciation are recognized in the government-wide financial statements and proprietary funds financial statements. Depreciation is determined using the straight-line method over the related asset's estimated useful lives. There is no depreciation recorded for land and construction in progress. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation expense is recognized.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements
June 30, 2020

The ranges of the useful lives are as follows:

Description	Years
Building	40
Building improvements	15
Furniture and equipment	3–5
Vehicles	3–5

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

Capital assets are evaluated for impairment, using the guidance provided by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage, among others. The Authority's management determined that there were no impairment losses for the year ended June 30, 2020.

Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position (Deficit) reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category in the government-wide Statement of Net Position (Deficit): (i) the deferred amount on refunding debt, and (ii) certain pension-related items. Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense. In relation to the pension related items, which are related with the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, the changes in proportional share of contributions and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date according to the requirements of GASB Statement No. 71. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category in the government-wide Statement of Net Position (Deficit), which is related to certain pension-related items (GASB Statement No. 73).

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Changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. There were no deferred inflows of resources at the governmental funds level.

Long-term debt obligations - In the government-wide financial statements, long-term debt obligations include bonds payable, due to Commonwealth of Puerto Rico and due to other governmental entities.

Compensated Absences - Based on the provisions of Act No. 26 of April 29, 2017, known as the Fiscal Plan Compliance Act (Act No. 26-2017), employees earn vacation benefits at a rate of 15 days per year, with 60 days as the maximum permissible accumulation at the end of any natural year. In addition, employees accumulate sick leave at the rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year. After the enactment of Act No. 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sick leave balances are no longer liquidated upon employment termination, as provided by Act No. 26-2017. The Authority records as a liability and as expense the vested accumulated vacation benefits accrued to employees, as provided by Act No. 26-2017. No accrual is recognized as related to sick leave. Accrued vacation as of June 30, 2020, amounted to \$156,332.

Bond Premiums/Discounts - In the government-wide financial statements, premiums and discounts related to long-term debt are deferred and are amortized or accreted over the life of the related debt, using systematic and rational methods that approximate the interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, Dedicated Tax Revenue Bonds Anticipation Notes, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements are shown net of unamortized premium or discount.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued, as well as any related premium is reported as other financing source while discounts on debt issuances are reported as other financing use. Issuance costs are recorded as expenditures when paid.

Interfund Transactions - The Authority has the following types of interfund transactions:

- **Loans** - Represent amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender fund and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by the nonspendable fund balance, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.
- **Reimbursements** - Represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- **Transfers** - Represent flow of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

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Fund Balance - Fund balances for each governmental fund are displayed into the following classifications, when applicable, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable** - Amounts that cannot be spent because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.
- **Committed** - Amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned** - Amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- **Unassigned** - Represent the residual classification for the general funds, and includes all spendable amounts not contained in the other classifications. In the other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted.

For classification of governmental fund balances, the Authority considers expenditures to be made from restricted resources first, then in the following order: committed, assigned, and unassigned resources.

The Authority has no committed or assigned fund balances.

Risk Management - The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority evaluates the information regarding all property owned and the respective replacement values, and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2020 remained similar to those of prior years. For the last five years, insurance settlements have not exceeded the amount of coverage.

Accounting for Pension Costs - 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 fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Termination Benefits - The Authority accounts for 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.

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A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Future accounting pronouncements - GASB has issued the following accounting pronouncements that have effective dates after June 30, 2020:

- **GASB Statement No. 84, *Fiduciary Activities*.** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for periods beginning after December 15, 2019.
- **GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for periods beginning after June 15, 2021.
- **GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.
- **GASB Statement No. 90, *Majority Equity Interests*.** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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- **GASB Statement No. 91, *Conduit Debt Obligations*.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

- **GASB Statement No. 92, *Omnibus 2020*.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve 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 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 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*, as amended, and 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 Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to 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 related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The requirements related to the application of Statement 84 and those related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for reporting periods beginning after June 15, 2021.

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- **GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*.** The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

This Statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended.
- Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements are effective for reporting periods beginning after June 15, 2020, except for the requirements related to lease modifications, which are effective for reporting periods beginning after June 15, 2021.

- **GASB Statement No. 94, *Public Private and Public-Public Partnership and Availability Payment Arrangement*.** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

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Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.** This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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

- **GASB Statement No. 97, *Certain Component 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 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 No. 67 or paragraph 3 of Statement No. 74, respectively, are effective immediately.

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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 performs 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 requirements as specified within this Statement.

- ***GASB Statement 98, The Annual Comprehensive Financial Report Statement 98 changes the term “comprehensive annual financial report”.*** This statement changes the term “comprehensive annual financial report” to “annual comprehensive financial report.” The standard is effective for fiscal years ending after December 15, 2021.

Management is evaluating the impact that these Statements will have on the Authority's basic financial statements.

3. UNCERTAINTY

Governmental Activities - The accompanying Statement of Net Position (Deficit) presents an accumulated deficit of approximately \$2.2 billion. This situation occurs because the Authority's normal operation is to issue long-term debt to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other component units and will be funded by the Commonwealth with future appropriations. Accordingly, the Authority is completely dependent on the Commonwealth to effectively reverse its deficit position. Current cash flow shortage and liquidity uncertainties affecting the Commonwealth and events in the Commonwealth's Title III case, and activities pertaining to the Commonwealth's Fiscal Plan and Budget could have a significant impact on the Authority's continuing operations and its ability to pay obligations as they become due. See notes 12, 13 and 20 for further details.

Business-type Activities - The accompanying statement of net position presents an accumulated deficit of approximately \$16.5 million. This situation occurs mainly due to the debt issued to acquire and refurbish the World Plaza building and other costs incurred in connection with the acquisition of the building, that by their nature were not considered capital assets, and the net effect of the depreciation of capital assets. During fiscal year 2020, overall operations continue to deteriorate as a direct result of decrease in rent income and increase in interest expense related to the line of credit since the Authority did not make any payments of principal or interest during the year. As a result, on September 16, 2020 the building was transferred to GDB in full satisfaction of the loan. Refer to Note 20 for subsequent event.

Management Plan

Management recognizes the financial situation of the Authority and the consequences it may have on its future operations and capacity to meet its obligations. Commonwealth's financial crisis has been the main cause of the Authority's financial situation. At this time, the Authority depends entirely on the decisions made by the Commonwealth, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), and/or the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), related to the restructuring of the Authority's long-term obligations.

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In addition, the Authority’s financial situation is directly impacted by the Oversight Board Fiscal Plan and appropriations allocated under annual Commonwealth budgets. As discussed in Note 6, the Oversight Board certified the Oversight Board Fiscal Plan for the Commonwealth on April 23, 2021 but is subject to a revision process in which the Oversight Board is expected to certify a new fiscal plan for the Commonwealth in October 2021. There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. In addition, the Oversight Board must certify an annual budget prior to the beginning of each fiscal year based upon the Oversight Board Fiscal Plan. Accordingly, any appropriations to the Authority in the Commonwealth’s annual budget are ultimately subject to Oversight Board approval. Refer to Note 20 for the Authority’s Title IV Process.

4. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that, in the event of bank failure, the Authority’s deposits might not be recovered. However, the Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. The balance and carrying amount of the Authority’s accounts with commercial banks as of June 30, 2020, amounted to \$132.6 million and \$132.8 million, respectively.

As of June 30, 2020, the Authority’s cash and cash equivalents are as follows:

<u>Description</u>	<u>Cash and Cash Equivalents as of June 30, 2020</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Unrestricted:				
Cash in commercial banks	\$ 3,928,784	\$ 3,929,340	\$ 9,048,400	\$ 9,080,160
Restricted:				
Cash in commercial banks	102,059,706	102,244,531	-	-
Money market funds	17,580,544	17,580,691	-	-
	<u>\$ 123,569,034</u>	<u>\$ 123,754,562</u>	<u>\$ 9,048,400</u>	<u>\$ 9,080,160</u>

Restricted Funds relates to governmental agencies for the purpose of capital projects development.

After Hurricane Maria, the Authority was eligible to receive funds under the Federal Emergency Management Agency (FEMA) Public Assistance Program (PA). FEMA approved reimbursement claims to the Authority related to Debris Removal (Category A) and Emergency Measures (Category B) performed in the Work Plaza Building in the amount of \$701,000, which amount was received on May 2018. The approved funds are classified as unrestricted to be used only for the Authority’s operations and were transferred to an account in Banco Popular of Puerto Rico and have not been obligated at this time.

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5. PUBLIC ENTITY TRUST CLAIM RECEIVABLE

The Authority was historically authorized to deposit funds in Government Development Bank (GDB) and/or in the custody of financial institutions approved by the Commonwealth. Commonwealth laws and regulations required domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage, but GDB was historically exempt from collateral requirements established by the Commonwealth. On March 23, 2018, GDB ceased its operations.

On November 6, 2018, the United States District Court for the District of Puerto Rico approved a Qualifying Modification for GDB under Title VI of PROMESA.

On November 29, 2018, the Qualifying Modification went effective. Under the Qualifying Modification, holders of the GDB Senior Notes and certain deposit claims against GDB (each a Participating Bond Claim) exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets, and its unencumbered cash.

In addition, as discussed above, under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and each Non-Municipal Government Entity, including the Authority, and the GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity’s name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in the Public Entity Trust (the PET), which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. In the Authority’s case, this adjustment resulted in a claim against the PET of approximately \$19 million:

Based on this adjustment, all deposits that the Authority held at GDB were extinguished as of the closing of the Qualifying Modification, and the Authority received a claim against the PET in the amount of approximately \$19 million.

<u>Description</u>	<u>Balance as of June 30, 2020</u>	<u>Allowance of Doubtful Accounts</u>	<u>Book Balance</u>
PET Claimed balance	\$ (19,010,794)	\$ 19,010,794	\$ -

The PET Assets consist of, among other items, the PET Claim (i.e. an unsecured claim of \$578 million, which is the subject of a proof of claim filed in the Commonwealth’s Title III case). Non-Municipal Government Entities’ recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. As of the date hereof, the Title III Court has not determined what, if any, portion of the PET Claim is an allowed claim that will be entitled to a distribution under the Eighth Amended Plan.

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Pursuant to PROMESA, the Qualifying Modification is valid and binding on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of Participating Bond Claims, and any trustee, any collateral agent, any indenture trustee, any fiscal agent, and any bank that receives or holds funds related to such Participating Bonds. The Qualifying Modification, including all settlements, compromises, releases, discharges, and injunctions, were deemed by the District Court to be full, final, complete, binding, and conclusive as to the Commonwealth, all Commonwealth instrumentalities, and any creditors of such entities, and shall not be subject to any collateral attack or other challenge by any such entities in any court or other forum. Claims that the Commonwealth and other governmental entities may have had against GDB, including the Authority, have been released pursuant to the GDB Restructuring Act.

6. INVESTMENTS

In accordance with investment guidelines promulgated under Act No. 113 of August 3, 1995, and Executive Order 1995-50A (the Investment Guidelines), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt

The Investment Guidelines also establish other limitations and guidelines. Investments related to bond issuances are purchased in accordance with the related bond indenture.

The investment in COFINA capital appreciation bonds (which, as described below were discharged as part of COFINA’s Title III proceeding) was a permanently restricted investment, which the Authority could not dispose of without certain permissions. In addition, the Authority is not allowed to use the interest earned to support its programs. Refer to Note 20 for subsequent events related to COFINA bonds.

Fair value of investments based on the hierarchy of inputs are determined as follows:

	Fair Value	Classification Level
Investments by Fair Value Level		
Debt Securities:		
COFINA Revenue Bonds	\$ 40,167,477	2

Debt securities classified in Level 2 are valued using prices quoted in non-active markets for those securities.

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Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The investment in Sales Tax Revenues Bonds Junior Subordinate, Series 2011A, issued by COFINA, are not subject to redemption prior to maturity; maturity dates range from August 1, 2046, to August 1, 2050. The Authority may not dispose of this investment or its earnings, unless approved by the Legislature of Puerto Rico.

The credit quality ratings for investments as of June 30, 2020, are as follows:

Counterparty	Credit Risk Rating	
	Standard & Poor's	Moody's
U.S. Bank Trust National Association	AA-	A1
Government Development Bank of Puerto Rico	N/R	WR
Federated Government Obligations	AAAm	Aaa-mf
Money Market Funds	AAAm	Aaa-mf
COFINA Revenue Bonds	N/R	Caa3

The credit quality rating for time deposits are based on the credit quality ratings of the counterparties with whom those contracts are entered. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

COFINA Revenue Bonds

In November 2019, the Authority decided to sell a portion of the \$139,355,000 aggregate principal amount of the COFINA-PRIFA Bonds (i.e., the Series 2019 A-2 maturing on July 1, 2040, with CUSIP 74529JQY4) and requested to qualify interest on a portion of such bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Tax Code.

COFINA, after consultation with bond counsel, clarified and amended certain provisions of the first supplemental indenture to reflect the new tax status of the portion of PRIFA Series 2019A-2 Bonds that qualified to be sold. All terms and conditions of the PRIFA Series 2019A-2 Bonds, including interest rate and maturity, remained equal to the Invited Bonds except that they will be dated July 1, 2019.

7. DUE FROM OTHER GOVERNMENTAL ENTITIES

Accounts receivable presented in Balance Sheet - Governmental Funds as of June 30, 2020, are as follows:

Description	General Fund	Capital Projects Fund	Total
Due from other governmental entities	\$ 301,753	\$ 47,339,651	\$ 47,641,404

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In December 2011, the Authority entered into an Agreement with the Municipality of San Juan (the Municipality) to sell a parcel of land owned by the Authority for \$5 million. Pursuant to provisions set forth by this agreement, the Municipality committed to settle a legal claim against the Authority in the amount of approximately \$3.7 million and to pay the remaining \$1.3 million in three equal installments, which were due at the date of closing, in July 2012 and in July 2013. As of June 30, 2020, accounts receivable due from the Municipality related to this transaction amounted to \$381,956. Receivables from other governmental entities are related to construction projects managed by the Authority.

ACCOUNTS RECEIVABLE - BUSINESS TYPE ACTIVITY

The Authority earns income from the leasing of office space in the World Plaza Building. The World Plaza Building is a commercial space building owned by the Authority that is located in San Juan, Puerto Rico, with approximately 368,585 square feet available for rent. The occupancy rate is 92%. Rental income is accounted as it is earned, and the related expenses as incurred.

Accounts receivable, net, presented as of June 30, 2020, in the Statement of Net Position (Deficit) - in the amount of \$764,000 is composed of rent and related receivables, net of allowance for doubtful accounts of \$2.9 million.

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2020:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,528,554

Refer to Note 20 for subsequent events related to the settlement agreement of the World Plaza Building.

9. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities known as the MEPSI Center located in the Municipality of Bayamón. Concurrent with the transaction, the Authority assumed a loan payable to GDB for \$34,225,725 and entered into a lease agreement (the Lease Agreement) with the Mental Health and Anti-Addiction Services Administration (MHAASA).

On October 24, 2007, the Authority issued \$39,800,000 in Revenue Bonds, Series 2007 A, and \$3,530,000 in Series 2007 B (collectively, the Series 2007 Bonds). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay the GDB loan related to the acquisition of the MEPSI Center. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to GDB amounting to \$3,305,780.

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As part of the transaction, the Authority entered into a trust agreement with Banco Popular de Puerto Rico (the Trustee), pursuant to which the Lease Agreement was assigned to the Trustee and payments by MHAASA under the Lease Agreement were to be made directly to GDB to cover the principal and interest required on the Series 2007 Bonds. The Lease Agreement provides that payments will be for 30 years after the commencement of the Series 2007 Bond's term and the lease payments will be equal to the annual principal and interest required to repay the Series 2007 Bonds. MHAASA's annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sub lessors of MHAASA were assigned to the Trustee as security interest for the lease payments. MHAASA has the option to purchase the leased premises for \$1 at the end of the lease term.

The total rentals receivable under the Lease Agreement, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the Lease Agreement is recognized monthly at a constant periodic rate of return on the unrecovered investment.

For the year ended June 30, 2020, the Authority did not receive the required payments as established by the Lease Agreement. As such, it did not amortize the asset and liability accounts related to the direct financing lease.

As of June 30, 2020, the minimum future lease payments that were due under the direct financing lease are as follows:

Years Ending June 30	Principal	Interest	Total Amount
2021	\$ 3,500,000	\$ 7,435,875	\$ 10,935,875
2022	1,100,000	1,988,375	3,088,375
2023	1,100,000	1,919,625	3,019,625
2024	1,200,000	1,847,750	3,047,750
2025	1,300,000	1,769,625	3,069,625
2026-2030	7,700,000	7,439,250	15,139,250
2031-2035	10,700,000	4,488,250	15,188,250
2036-2038	8,200,000	819,000	9,019,000
	\$ 34,800,000	\$ 27,707,750	\$ 62,507,750

On November 16, 2021, the Authority completed an exchange of the Series 2007 Bonds for certain Sales Tax Financing Corporation Bonds maturing July 1st 2040 held by the Authority (the MEPSI Exchange) and such Bonds are no longer outstanding. Refer to Note 20 for subsequent events related to the Mental Health Infrastructure Revenue Bonds Restructuring.

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10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets:				
Nondepreciable:				
Land	\$ 6,689,828	\$ -	\$ -	\$ 6,689,828
Construction in progress	3,295,163	3,187,758	-	6,482,921
Depreciable:				
Furniture and equipment	1,085,807	9,477	-	1,095,284
Vehicles	57,692	-	-	57,692
Total capital assets	<u>11,128,490</u>	<u>3,197,235</u>	<u>-</u>	<u>14,325,725</u>
Less: Accumulated depreciation				
Furniture and equipment	1,040,749	12,794	-	1,053,543
Vehicles	57,692	-	-	57,692
Total accumulated depreciation	<u>1,098,441</u>	<u>12,794</u>	<u>-</u>	<u>1,111,235</u>
Governmental activities capital assets, net	<u>10,030,049</u>	<u>3,184,441</u>	<u>-</u>	<u>13,214,490</u>
Business-type activities:				
Capital assets:				
Nondepreciable:				
Land	4,438,534	-	-	4,438,534
Depreciable:				
Building	22,561,474	-	-	22,561,474
Building improvements	4,468,508	295,696	-	4,764,204
Furniture and equipment	983,938	65,248	-	1,049,186
Total capital assets	<u>32,452,454</u>	<u>360,944</u>	<u>-</u>	<u>32,813,398</u>
Less: Accumulated depreciation				
Building	4,125,966	565,582	-	4,691,548
Building improvements	918,286	300,129	-	1,218,415
Furniture and equipment	287,901	58,159	-	346,060
Total accumulated depreciation	<u>5,332,153</u>	<u>923,870</u>	<u>-</u>	<u>6,256,023</u>
Business-type activities capital assets, net	<u>27,120,301</u>	<u>(562,926)</u>	<u>-</u>	<u>26,557,375</u>
Total capital assets, net	<u>\$ 37,150,350</u>	<u>\$ 2,621,515</u>	<u>\$ -</u>	<u>\$ 39,771,865</u>

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The Authority issued certain bonds and notes and received legislative appropriations to finance the construction of certain capital projects for the benefit of the Puerto Rico Aqueduct and Sewer Authority (PRASA), various municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations.

These capital projects, including land acquired, are included as part of the Authority’s capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2020, the Authority incurred construction costs for the benefit of other instrumentalities, which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds, as follows:

<u>Function/Programs</u>	<u>Amount</u>
Education, aqueduct and sewers and transportation	\$ 9,098
Recreation and sports	839,879
General Government	<u>4,203,577</u>
	<u>\$ 5,052,554</u>

During the year ended June 30, 2020, depreciation expense of approximately \$924,000, was charged to Business-type activities, respectively, in the accompanying statement of activities.

11. INTERFUND BALANCES AND TRANSFERS

The summary of the amounts due from/to other funds as of June 30, 2020, is as follows:

<u>Fund</u>	<u>Receivable By</u>	<u>Payable By</u>	<u>Purpose</u>	<u>Amount</u>
Governmental	General Fund	Capital Projects Fund	Reimbursement of administrative costs	\$ 3,224,444
Governmental	Capital Projects Fund	General Fund	Reimbursement of administrative costs	201,455
Governmental	Debt Service Fund	Capital Projects Fund	Reimbursement of administrative costs	3,000
				<u>\$ 3,428,899</u>
Business Type	Capital Projects Fund	Proprietary Fund	Reimbursement of administrative costs	\$ 291,984
Business Type	General Fund	Proprietary Fund	Reimbursement of administrative costs	78,100
				<u>\$ 370,084</u>
Business Type	Proprietary Fund	Capital Projects Fund	Rent Receivable	40,000
				<u>\$ 40,000</u>

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The summary of the transfer in/out as of June 30, 2020, is as follows:

Transfer Out	Transfer In	Purpose	Amount
Debt Service	Capital Projects Fund	Reimbursement of administrative costs	<u>\$ 21,051</u>

12. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2020, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year	Due in More than One Year
Governmental Activities:						
Special Tax Revenue Bonds:						
Series 2005 A, B and C Bonds	\$ 1,928,594,999	\$ -	\$ -	\$ 1,928,594,999	\$ 202,065,000	\$ 1,726,529,999
Series 2006 Bonds	444,375,000	-	-	444,375,000	26,435,000	417,940,000
Mental Health Infrastructure Revenue Bonds —						
Series 2007 A and B Bonds	34,800,000	-	-	34,800,000	3,500,000	31,300,000
Dedicated Tax Revenue Bonds Anticipation Notes:						
Series 2015 A Bonds	78,145,000	-	-	78,145,000	78,145,000	-
Subtotal	2,485,914,999	-	-	2,485,914,999	310,145,000	2,175,769,999
Net premium/(discount)	49,678,848	-	(7,106,365)	42,572,483	6,606,917	35,965,566
Unaccreted discount on capital appreciation bonds	(532,465,633)	-	21,668,344	(510,797,289)	(22,687,936)	(488,109,353)
Total bonds payable	2,003,128,214	-	14,561,979	2,017,690,193	294,063,981	1,723,626,212
Loans payable:						
Principal	3,606,473	-	-	3,606,473	3,606,473	-
Net premiums	41,998	-	(4,635)	37,363	37,363	-
Other Liabilities:						
Compensated absences	115,936	40,396	-	156,332	156,332	-
Total pension liability	2,700,491	208,865	(147,339)	2,762,017	439,513	2,322,504
Accrued legal expense	2,493,533	-	-	2,493,533	-	2,493,533
Termination benefits	46,511	-	(43,915)	2,596	2,596	-
Total governmental activities	2,012,133,156	249,261	14,366,090	2,026,748,507	298,306,258	1,728,442,249
Business-type activities:						
Loans payable:						
Principal	37,361,150	-	-	37,361,150	37,361,150	-
Total	<u>\$ 2,049,494,306</u>	<u>\$ 249,261</u>	<u>\$ 14,366,090</u>	<u>\$ 2,064,109,657</u>	<u>\$ 335,667,408</u>	<u>\$ 1,728,442,249</u>

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Employee Benefits

On June 17, 2014, the Commonwealth signed into law Act No. 66 (also known as the *Fiscal Operation and Sustainability Act*), which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditure reduction measures and a structured management in order to satisfy the commitments of the Commonwealth.

Act No.66 provides for, among other things, cost reduction measures including a prohibition on public corporations increasing salaries or benefits; the establishment of a maximum amount of \$600 for Christmas bonuses and \$200 for summer bonuses. The elimination of sick leave and vacation accruals beyond certain set maximums, compensated absences, including vacations and sick leave, are available to be liquidated by the employees during the calendar year.

Bonds Payable

Special Tax Revenue Bonds - On June 16, 2005, the Authority issued \$309,102,577 in Special Tax Revenue Bonds, Series 2005 A (the Series 2005 A Bonds), \$324,625,000 in Special Tax Revenue Bonds, Series 2005 B (the Series 2005 B Bonds), and \$699,235,339 in Special Tax Revenue Refunding Bonds, Series 2005 C (the Series 2005 C Bonds) (collectively, the Special Tax Revenue Bonds). The Series 2005 A Bonds mature at various dates from July 1, 2029, through July 1, 2045, inclusive; the Series 2005 B Bonds mature on July 1, 2037 and 2041, and the Series 2005 C Bonds mature on July 1, 2028. The Series 2005 B Bonds may be redeemed by the Authority prior to maturity upon not less than 30 days' prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C, which are not subject to redemption prior to maturity, were issued as Capital Appreciation Bonds.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1, at rates ranging from 4% to 5.5%. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value.

The Series 2005 A and B Bonds were issued primarily for the purpose of providing approximately \$292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately \$26 million for certain advances made to the Authority by GDB for the purpose of providing funds to pay certain capital improvements of the Authority or of other Commonwealth instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately \$317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and Series 2005 B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority's Capital Projects Fund.

The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority's Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest, and to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements. The transaction resulted in a deferred loss on refunding of \$76,267,097.

The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in a special redemption fund under the terms of an escrow deposit agreement.

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Such net proceeds, together with such other available moneys, were invested in government obligations, whose principal and interest when due, together with any other non-invested moneys deposited with the Trustee, will provide moneys sufficient to pay the principal redemption of premium and interest on the refunded bonds through the date of redemption.

On September 28, 2006, the Authority issued \$469,770,000 in Special Tax Revenue Bonds, Series 2006 (the Series 2006 Bonds), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the Games). The proceeds of this issuance provided for: (1) the acquisition, improvement and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010, to July 1, 2046.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies.

Act No. 44, as amended, provides that in each fiscal year through fiscal year 2057, the first \$117 million of certain federal excise taxes received by the Commonwealth “shall be covered into a Special Fund to be maintained by-or on behalf of the Authority” subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. Ownership of these federal excise taxes and the extent to which any party has a security interest therein is the subject of ongoing litigation.

Rum is the only product currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit certain of the federal excise taxes and other moneys in a sinking fund maintained by the Bond trustee in order to meet the debt service requirements with respect to the Special Tax Revenues Bonds.

Federal excise taxes are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. Future levels of federal excise taxes received by the Commonwealth are expected to decline, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Legislature of the Commonwealth, however, is not obligated to make the necessary appropriation to cover such deficiency. Subsequent to the enactment of PROMESA, appropriations for the Commonwealth are subject to annual budgets certified by the Oversight Board.

The trust agreement required that the Bond trustee establish a reserve account in the sinking fund for the Authority to deposit therein an amount equal to the reserve requirements, as defined in the trust agreement. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

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Since November 30, 2015, the Commonwealth has retained Rum Tax revenues previously allocated to the Authority. Refer to Note 20 for subsequent events related to the Commonwealth Revenue Bond Litigation.

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the qualifying modification for the Special Tax Revenue Bonds (the “PRIFA Qualifying Modification”). The conditions precedent to the effective date for the PRIFA Qualifying Modification include, among other things, that the effective date for the Eighth Amended Plan becomes effective. As of the date hereof, the Eighth Amended Plan remains subject to its own conditions precedent and is not currently effective. Upon the effective date of the PRIFA Qualifying Modification, the Special Tax Revenue Bonds will be canceled and discharged, and the bondholders will release all remaining claims related to the Special Tax Revenue Bonds. For a further discussion of the notes, refer to the subsequent events in Note 20 to the PRIFA Qualifying Modification.

The Series 2015A Notes - On March 16, 2015, the Authority issued the Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015, under and pursuant to Act No. 1 of 2015, as amended by Act No. 2 of 2015 of the Legislature of Puerto Rico, approved January 15, 2015, as amended, in the aggregate principal amount of \$245,955,000, with a maturity date of May 1, 2017, with an interest rate of 8.25% payable monthly on the first business day of each month, commencing on April 1, 2015.

The Series 2015A Notes are subject to redemption in whole or in part in Authorized Denominations at any time, at the option of the Authority upon not less than 20 days’ prior written notice. The Series 2015A Notes are also subject to mandatory sinking fund redemption prior to maturity, and to redemption from funds in the redemption fund.

Proceeds of the Series 2015A Notes, together with funds contributed by the Puerto Rico Highways and Transportation Authority (PRHTA), were used to (i) redeem the PRHTA Special Revenue Bonds 2013A Bond Anticipation Notes (the PRHTA Notes), (ii) make a deposit to the Note Account established under the Trust Agreement to pay debt service on the Series 2015A Notes, and (iii) pay certain costs of issuance of the Series 2015A Notes.

The Series 2015A Notes are payable from, and are secured by the pledge of a Trust Estate comprising certain assets and revenues of the Authority, which include (i) a \$6.25/barrel Petroleum Products Tax on Non Diesel products, (ii) any funds received by the Authority pursuant to the terms of a Financial Assistance Agreement between the Authority and PRHTA and (iii) any additional revenues pledged to the Authority in accordance with the Trust Agreement. The revenues pledged to the payment of the Series 2015A Notes could be applied to pay general obligation debt of the Commonwealth if its available resources are insufficient to cover all approved appropriations.

The Commonwealth guarantees the Series 2015A Notes. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of principal and interest on the Series 2015A Notes.

The Commonwealth does not guarantee any payments in excess of scheduled principal and interest payments on the Series 2015A Notes. During the year ended June 30, 2020, the Authority did not receive appropriations from the Commonwealth to repay the required principal and interest installments of the Dedicated Tax Fund Revenue Bonds Anticipation Notes.

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As of June 30, 2020, debt service requirements for Special Tax Revenue Bonds were as follows:

Years Ending		Principal	Interest	Total
June 30				
2021	\$	306,645,000	\$ 379,800,687	\$ 686,445,687
2022		53,275,000	58,271,900	111,546,900
2023		56,175,000	55,293,313	111,468,313
2024		59,235,000	52,152,388	111,387,388
2025		62,455,000	48,840,400	111,295,400
2026-2030		365,045,000	192,977,850	558,022,850
2031-2035		403,845,000	159,837,500	563,682,500
2036-2040		423,870,000	135,300,875	559,170,875
2041-2045		506,495,000	52,277,875	558,772,875
2046		214,074,999	8,648,751	222,723,750
		2,451,114,999	<u>\$ 1,143,401,539</u>	<u>\$ 3,594,516,538</u>
Add — Net Premium/(Discount)		42,268,824		
Less:				
Unaccreted discount on capital appreciation bonds		<u>(510,797,289)</u>		
		<u>\$ 1,982,586,534</u>		

On February 22, 2021, PRIFA, by and through FAFAA, the Oversight Board, on behalf of itself and as representative of the Commonwealth, and Silver Point Capital, L.P., in its capacity as Owner Representative of the 2015A Notes entered into the PRIFA Stipulation, which contemplates a full resolution of the Series 2015A Notes. For a further discussion of the PRIFA Stipulation, refer to the Subsequent Events related to the 2015A Notes.

Mental Health Infrastructure Revenue Bonds - As discussed above, on October 24, 2007, the Authority issued \$39,800,000 in Revenue Bonds, Series 2007 A, and \$3,530,000 in Series 2007 B (collectively, the Series 2007 Bonds). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to GDB amounting to \$34,225,725 related to the acquisition of the MEPSI Center. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to GDB amounting to \$3,305,780.

The Series 2007 A Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and GDB, which provides for the assignment of the Lease Agreement with an option to purchase, dated October 24, 2007, as disclosed in Note 9.

The Series 2007 A Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

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As of June 30, 2020, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2021	\$ 3,500,000	\$ 7,435,875	\$ 10,935,875
2022	1,100,000	1,988,375	3,088,375
2023	1,100,000	1,919,625	3,019,625
2024	1,200,000	1,847,750	3,047,750
2025	1,300,000	1,769,625	3,069,625
2026-2030	7,700,000	7,439,250	15,139,250
2031-2035	10,700,000	4,488,250	15,188,250
2036-2037	8,200,000	819,000	9,019,000
Subtotal	34,800,000	\$ 27,707,750	\$ 62,507,750
Add - premium	303,659		
Total	\$ 35,103,659		

On November 16, 2021, the Authority completed an exchange of the Series 2007 A Bonds and such Bonds are no longer outstanding. For a further discussion of the exchange, refer to the Subsequent Events related to the Series 2007 A Bonds.

Default

Due to the implementation of Executive Order No. OE-2015-46 and the Emergency Moratorium and Financial Rehabilitation Act described above, the Authority did not transfer sufficient funds to the Trustee to make the required payments of principal and interest related to Series 2005, Series 2006, Series 2007 and BANs 2015A.

The following obligations were not paid as contracted as of June 30, 2020:

Description	Unpaid Obligations		
	Principal	Interest	Total
Series 2005ABC Bonds	\$ 157,350,000	\$ 207,276,668	\$ 364,626,668
Series 2006 Bonds	20,625,000	97,960,247	118,585,247
Series 2007 Bonds	2,500,000	5,381,875	7,881,875
BANs 2015A Bonds	78,145,000	13,467,159	91,612,159
	\$ 258,620,000	\$ 324,085,949	\$ 582,705,949

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Deferred Charges on debt refunding

Changes in deferred outflows or resources related to losses on the refunding of some of the bonds were as follows:

<u>Series</u>	<u>Balance at June 30, 2019</u>	<u>Reduction</u>	<u>Balance at June 30, 2020</u>
2007	\$ 32,685,893	\$ 3,631,767	\$ 29,054,126
2011A	12,349	1,394	10,955
2011B	4,328	463	3,865
2012A	644	272	372
	<u>\$ 32,703,214</u>	<u>\$ 3,633,896</u>	<u>\$ 29,069,318</u>

13. LOANS PAYABLE

Public Finance Corporation (PFC) Notes

On January 16, 2002, the Authority entered into a loan agreement (the Note) with PFC, a Component Unit of GDB. The Note was originally a loan granted by GDB (the Old Note), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the PFC Bonds). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

During the fiscal year 2014, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority. The note matures in June 2031. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164. During the years ended June 30, 2017, June 30, 2018, June 30, 2019 and June 30, 2020, the Authority did not receive the Commonwealth's appropriations to pay the principal and interest due on the Note; as a result, the Authority was unable to pay in full the required debt payment service, and is not expected to make any additional debt service payments while the Emergency Moratorium and Financial Rehabilitation Act is in effect. As of June 30, 2020, the principal balance and the related accrued interest amounted to \$3,606,473 and \$960,770, respectively; these balances will remain unpaid and in default until the Commonwealth's appropriations (which are now subject to a budget certified by the Oversight Board) resume. There is no guarantee any such appropriations will resume. For a further discussion of the impact of the Eighth Amended Plan on such appropriation, refer to the Subsequent Events related to PFC.

On January 20, 2022, AAFAP, on behalf of PFC, entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of the PFC Bonds. The PFC RSA contemplates that the Note will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to the Note. For a further discussion of the PFC RSA, refer to the Subsequent Events related to the Series 2007 A Bonds.

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Default

Due to the implementation of Executive Order No. OE-2015-46 and the Moratorium Act and Financial Rehabilitation Act described above, the Authority did not make the required payments of principal and interest related to the debt service fund, PFC loan.

The following loan was not paid as per agreement as of June 30, 2020:

<u>Description</u>	<u>Unpaid Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
PFC Loan	\$ 469,960	\$ 960,770	\$ 1,430,730

World Plaza Building Loan

On March 8, 2012, the Authority entered into a \$35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property and is payable from future appropriations of the Commonwealth.

The line of credit matures on June 30, 2017, and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2020, the principal balance and the related accrued interest amounted to \$37,361,150 and \$13,683,768, respectively. During the year ended June 30, 2020, the Authority did not make payments of principal or interest on this line of credit.

As of June 30, 2020, debt service requirements for PFC and World Plaza Building loan agreements are as follows:

<u>Years Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 37,931,223	\$ 14,825,145	\$ 52,756,368
2022	104,473	175,921	280,393
2023	109,228	170,805	280,032
2024	32,496	168,559	201,055
2025	134,825	164,238	299,063
2026-2030	2,310,119	516,162	2,826,281
2031-2033	345,259	9,495	354,754
TOTAL	40,967,622	\$ 16,030,325	\$ 56,997,946
Add: Net Premium	37,363		
	<u>\$ 41,004,984</u>		

On September 16, 2020, pursuant to Section 207 of PROMESA, the Oversight Board approved a settlement agreement whereby the Authority transferred the World Plaza Building to GDB in full satisfaction of the line of credit. For a further discussion, refer to the Subsequent Events related to the World Plaza Building Loan.

14. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations (FAR). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made in June 2015 with no arbitrage exposure reflected. The next arbitrage calculation will be in June 2021. An arbitrage calculation for the Special Tax Revenue Bonds 2006 Series was made in September 2016 with no arbitrage exposure reflected. The next calculation will be in September 2021. As of June 30, 2020, there is no arbitrage exposure.

15. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the Plan) based on Act No. 70, enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010.

The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employee Retirement System of the Commonwealth of Puerto Rico (the Retirement System) for a maximum period of ten years.
- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.
- The employee will receive the benefits of health and dental insurance for a period of one year.

Only one employee was voluntarily separated from employment under the Plan. Total cost related to his termination benefits was \$424,000 and was discounted presented to the value of expected future benefit payments at 1.12%. As of June 30, 2020, the total liability related to this Plan was approximately \$3,000.

Early Retirement Programs

During the fiscal year ended June 30, 2017, the Authority extended to its employees a new voluntary early retirement program. This program was approved by the Authority's Board of Directors based on provisions established on Act No. 211, which was enacted December 8, 2015. Act No. 211 provides that eligible employees may retire from employment with the Authority in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participation in ERS, as created pursuant to Act No. 447 of 1951, and that have not reached 61 years of age.

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Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015, and until the participating member attains 61 years of age, which is the age at which the employee will become part of ERS. The Authority is responsible for the payment of the employer contribution to Social Security and Medicare, based on 60% of the average compensation, as of December 31, 2015. The Authority is also responsible for the payment of the related employee and employer contributions to ERS, based on 100% of average salary as of December 31, 2015, for amounts which guarantee a 50% minimum compensation to eligible employees of their average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period of not more than two years, and until he or she reaches 61 years of age.

From fiscal year 2011 through fiscal year 2013, the Authority extended to its employees voluntary early retirement programs, based on provisions established by Act. No. 70, which was enacted on July 2, 2010. Act No. 70 provided that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. Act. No. 70 only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans. One employee voluntarily separated from employment under the provisions of Act No. 70. Payments of such voluntary termination plans are expected to be made until November 1, 2030. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of return of unpledged investments.

In addition, during fiscal years 1995, 2000 and 2007, the Authority's Board of Directors authorized early retirement programs for certain Authority employees, subject to different eligibility provisions that are detailed in the corresponding laws signed by the Governor of the Commonwealth. The costs incurred and accounted for during the fiscal year ended June 30, 2020, consisted principally of the incremental actuarial costs, if any, of retiring earlier than under the original retirement plan, specifically costs related to medical and life insurance plans for such employees until they reach a certain age.

As of June 30, 2020, approximately four employees continue to benefit from the voluntary separation programs. Employer contributions to the medical and life insurance plans for the applicable period were discounted based on management's best estimate of the expected long-term plan performance.

16. CONDUIT DEBT OBLIGATION

In December 2011, the Authority issued \$669,215,000 in Special Revenue Bonds (the PRPA Bonds), pursuant to a Loan and a Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority (PRPA), another component unit of the Commonwealth. The proceeds from the PRPA Bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. The PRPA bonds are limited obligations of the Authority and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement.

Under the terms of the Loan and Trust Agreement, PRPA is required to make loan payments sufficient to cover the payment of principal and interest due on the PRPA Bonds. The PRPA Bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB (the GDB Letters of Credit).

The Authority is not obligated in any manner for the repayment of the PRPA Bonds. Accordingly, the PRPA Bonds are not reported as liabilities in the basic financial statements of the issuing entity.

On May 16, 2017, the Trustee made a demand for payment under the GDB Letters of Credit in the amounts of approximately \$9.4 million on account of interest due on the PRPA Bonds and \$190.6 million on account of principal due on the PRPA Bonds as a result of the acceleration of the PRPA Bonds.

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The Trustee’s claim was thereafter treated as a Participating Bond Claim in the GDB Qualifying Modification and the Trustee, on behalf of the PRPA Bondholders. As such, PRPA Bondholders received new bonds issued by the DRA with a value of approximately \$116.3 million for the unfunded letter of credit. Under the terms of the Qualifying Modification, the GDB Letters of Credit were extinguished.

Thereafter, on December 27, 2019, PRIFA and PRPA also completed a private exchange that resulted in the resolution of over 92% of the PRPA Bonds. At the time of the exchange, the PRPA Bonds were outstanding in an amount of approximately \$190.6 million. Bondholders holding approximately \$177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRPA Bonds outstanding) of a cash payment of approximately \$82.4 million, resulting in the full resolution of such participating PRPA Bonds. The recovery the PRPA Bondholders received in the exchange is in addition to the DRA Bonds received by the Trustee in connection with the Qualifying Modification. After the exchange, the PRPA Bonds remain outstanding in the amount of approximately \$13.5 million, which is the remaining outstanding balance as of June 30, 2020.

17. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2020, the Authority entered into the following related party transactions:

- Contributions from the Commonwealth of \$2.5 million were used for operating expenses.
- The Authority made a contribution of approximately \$85.3 million related to the sale of the COFINA Bonds, which were used in connection with the PRIFA-Ports Bond exchanged discussed above. This contribution was presented as part of Special Item section in the accompanying statements of activities and statement of revenues, expenditures and changes in fund balance.

18. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Authority leases equipment under non-cancelable operating leases. Rent expense for the year ended June 30, 2020, amounted to approximately \$48,000.

Construction Commitments

The Authority has active construction projects as of June 30, 2020, under various bond issuances. As of June 30, 2020, the Authority’s commitments with contractors are as follows:

Description	Commitment	Incurred-to-Date	Remaining Commitment
Special Tax Revenue Bonds, Series 2006	\$ 26,232,933	\$ 15,550,613	\$ 10,682,320

Contingencies

As of June 30, 2020, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority’s financial statements.

19. RETIREMENT PLAN

Structure of Retirement System and Accounting for Pension Costs

This summary of Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)'s pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017.

The ERS is a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including ERS.

This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. 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 participating employers.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) were covered by ERS, including the Authority.

Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) were required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that were being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017. The benefits provided to members of ERS were established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

Certain provisions of Act No. 3 were different for the three groups of members who entered the ERS before July 1, 2013, as described below:

- Members of Act No. 447 were generally those members hired before April 1, 1990.

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- Members of Act No. 1 were generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 (or System 2000) were generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 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, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by private third party.

On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan for the Commonwealth, ERS, and PBA. The Eighth Amended Plan preserves all accrued pension benefits for current retirees and employees at ERS. However, upon the effective date of the Eighth Amended Plan (which has not yet occurred as of the date hereof), certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans will be eliminated or modified consistent with the terms of the Eighth Amended Plan.

For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

Cost-Sharing, Multiple-Employer, Defined Benefit Program

Pursuant to Act No. 447, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of ERS, under the Defined Benefit Program, as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

The Defined Benefit Program provided retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depended upon age at retirement and the number of years of creditable service. Benefits vested after 10 years of plan participation. Disability benefits were available to members for occupational and non-occupational disabilities. However, a member must have had at least 10 years of service to receive non-occupational disability benefits.

Members who attained 55 years of age and completed at least 25 years of creditable service, or members who attained 58 years of age and have completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant was eligible, was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation, as defined.

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Participants who had completed 30 years of creditable service were entitled to receive the Merit Annuity. Participants who had not attained 55 years of age received 65% of the average compensation, as defined; otherwise, they received 75% of the average compensation, as defined. The contribution requirement to ERS was determined by law and not actuarially determined. Commonwealth legislation required employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary.

The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% that would have been effective July 1, 2020.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining ERS effective April 1, 1990. These changes consisted principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish System 2000 Program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under ERS, including the Defined Benefit Program.

Defined Contribution Program-System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things, a new benefit structure, similar to a cash balance plan, known as the System 2000 Program. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who were participants of the Defined Benefit Program as of December 31, 1999, had the option to irrevocably transfer their prior Defined Benefit Program contributions (plus interest thereon) to the System 2000 Program until March 31, 2000.

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the System 2000 Program. Employees had the option to elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions were credited to individual accounts established under the Systems 2000 Program. Participants had three options to invest their contributions to the System 2000 Program. Investment income was credited to the participant's account semi-annually.

The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Under the System 2000 Program, contributions received from participants were pooled and invested by ERS, together with the assets corresponding to the Defined Benefit Program.

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Future benefit payments under the Defined Benefit Program and the System 2000 Program were to be paid from the same pool of assets. As a different benefit structure, the System 2000 Program was not a separate plan and the Commonwealth did not guarantee benefits at retirement age. Corresponding employers' contributions were to be used by ERS to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account was to be used to purchase an annuity contract, which provided for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement received a lump-sum payment. In case of death, the balance in each participant's account was to be paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

As discussed further below, on April 4, 2013, the Legislature enacted Act No. 3, which further amended the provisions of the different benefit structures under ERS, including the System 2000 Program and the Defined Benefit Program.

Pursuant to a settlement incorporated into the Eighth Amended Plan, on the effective date of the Eighth Amended Plan, all participants in the System 2000 Program will receive a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program will be discharged.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447 and Act. No. 305 to establish the Contributory Hybrid Program, among other things. 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, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans became part of the Contributory Hybrid Program.

Participants in the Defined Benefit Program, who as of June 30, 2013, were entitled to retire and receive some type of pension, could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013, had not reached the age of 58 and completed 10 years of service or had not reached the age of 55 and completed 25 years of service could retire depending on the new age limits defined by the Contributory Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013, had not reached the age of 60 could retire depending on the new age limits defined by the Contributory Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Contributory Hybrid Program.

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Act. No. 3 required employees to contribute 10% of their monthly gross salary to the Contributory Hybrid Program. Employee contributions were to be credited to individual accounts established under the Contributory Hybrid Program. In addition, a mandatory contribution equal to or less than 0.25% was required for the purchase of disability insurance.

The Authority was required to contribute 16.525% of each participant's gross salary for fiscal year 2017. ERS would use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate was annually increased by 1%. Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that was in effect on June 30 of every year was to be annually increased on every successive July 1st by 1.25%.

Upon retirement, the balance in each participant's account would be used to purchase an annuity contract, which would provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries would continue receiving the monthly benefit until the contributions of the participant were completely consumed. In case of the participants in active service a death benefit would be paid in one lump sum in cash to the participant's beneficiaries.

Participants with a balance of less than \$10,000 or less than five years of computed services at retirement would receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

To improve the liquidity and solvency of ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to fiscal year 2033. This additional uniform contribution was to be determined annually based on actuarial studies to be performed by ERS actuaries. Pursuant to the Treasury Department Circular Letter No. 1300-46-17 issued on June 27, 2017, the additional uniform contribution was eliminated as of the start of fiscal year 2018 on July 1, 2017.

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

As of June 30, 2020, the Authority reported a liability of approximately \$2.8 million for its proportionate share of the total pension liability.

The June 30, 2020 total pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. The Authority's proportion of the total pension liability was actuarially determined based on the ratio of the Authority's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

As of June 30, 2020, the Authority's proportionate share was .01111%, which resulted in an increase of .00008% from its proportionate share as of June 30, 2019.

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For the year ended June 30, 2020, the Authority recognized pension expense of \$135,000. As of June 30, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ -	\$ 93,640
Changes of assumptions	89,690	71,406
Change in proportion and difference between the employer's contributions and proportionate share of contributions	139,395	-
Pension paid subsequent to measurement date	439,513	-
Total	\$ 668,598	\$ 165,046

The deferred outflows of resources related to pensions resulting from the Authority's pension paid subsequent to measurement date amounting to approximately \$440,000 at June 30, 2020, will be recognized as a reduction of the total pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as adjustment to pension expense as follows:

Years Ending June 30,	Amount
2021	\$ 16,010
2022	16,010
2023	16,010
2024	16,009
Total	\$ 64,039

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Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value of assets
Inflation rate:	Not applicable
Salary increases:	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

The mortality tables used in the actuarial valuations were as follows:

- *Pre-retirement Mortality* - For ERS general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis. For ERS general employees covered under Act No. 127, RP-2014 Employee Mortality Rates were assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis.

As generation tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service were assumed to be occupational only for members covered under Act No. 127.

- *Post-retirement Healthy Mortality* - Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study the 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-2019 on a generational basis. As a generational table, it reflected 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 were projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Discount Rate

The asset basis for the date of depletion projection is the ERS' fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the ERS fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed.

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The ERS fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to measure the total pension liability was 3.50% as of June 30, 2019.

Sensitivity of the Authority's proportionate share of total pension liability to change in the discount rate

The following table presents the Authority's proportionate share of the total pension liability calculated using the current discount rate of 3.50% as well what the Authority's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	<u>At 1% decrease (2.50%)</u>	<u>At current discount rate (3.50%)</u>	<u>At 1% increase (4.50%)</u>
Total pension liability	\$ 3,140,851	\$ (2,762,017)	\$ (2,454,247)

20. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 22, 2022, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2020 financial statements.

Commonwealth Plan of Adjustment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to \$30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

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

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

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

Litigation Regarding the 2015A Notes and Proposed Settlement

On February 22, 2021, PRIFA, by and through FAFAA, the Oversight Board, on behalf of itself and as representative of the Commonwealth, and Silver Point Capital, L.P., in its capacity as Owner Representative of the 2015A Notes entered into the PRIFA Stipulation. The PRIFA Stipulation contemplates a settlement of the 2015A Notes in exchange for a payment of (i) \$12,657,508.81 from PRIFA, and (2) allowing a claim against the Commonwealth in the amount of \$83,589,101.67 on account of the Commonwealth's guarantee of the 2015A Notes, which claim will be treated in accordance with the terms of the Seventh Amended Plan. In exchange, holders of the Series 2015A Bonds agree to dismiss, with prejudice, all of their claims relating to their holdings in the Series 2015A Bonds, including all claims against the Commonwealth in connection with their guarantee on the bonds, and claims against the U.S. Government for allegedly effectuating a taking of bondholder property in connection with PROMESA and the Commonwealth's Title III case. Pursuant to the PRIFA Stipulation, PRIFA escrowed approximately \$12.7 million, which will be released in accordance with the terms of such escrow agreement.

The PRIFA Stipulation is subject to certain termination conditions.

Commonwealth Revenue Bond Litigation

Key Bondholder Lift Stay Motions, Case No. 17-3283-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the monoline insurers for bonds issued by PRIFA, PRCCDA, and PRHTA filed three separate motions seeking to lift the automatic stay, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue. In the PRIFA motion, the monoline insurers assert that the Commonwealth is not entitled to use revenues generated from rum taxes, which they assert were pledged to PRIFA bondholders as collateral. The PRIFA motion seeks relief from stay to pursue enforcement of the PRIFA bondholders' alleged liens against the rum tax revenues in two proceedings outside of the Title III cases. In the PRCCDA motion, the monoline insurers argue that the PRCCDA bondholders have a lien against certain hotel occupancy taxes collected by the Tourism Company and seek a lift of the automatic stay to bring an action to enforce their alleged liens. In the PRHTA motion, the monoline insurers assert that the PRHTA bondholders are secured by (i) toll revenues collected by PRHTA, and (ii) excise taxes collected by the Commonwealth. The PRHTA motion seeks relief from the stay because PRHTA and the Commonwealth allegedly do not have any equity in the toll revenues or excise taxes.

On February 4, 2020, the Oversight Board (as joined by FAFAA) objected to each of the stay motions. The monoline insurers' filed their replies on April 30, 2020. On September 9, 2020, the Title III Court denied all stay relief sought in the motions.

On July 2, 2020, the Title III court declined to lift the automatic stay imposed by PROMESA on PRHTA and PRIFA bondholders. With respect to PRCCDA, Judge Swain confirmed that collection on PRCCDA debt is also subject to the automatic stay, though there will be further litigation on whether the bank account into which certain PRCCDA revenue is deposited is subject to bondholders' liens.

On July 10, 2020, the Title III Court ordered further briefing to address (i) whether "cause" exists under Bankruptcy Code section 362(d)(1) (as incorporated under PROMESA) to lift the automatic stay; and (ii) in the case of the PRCCDA lift stay motion only, whether stay relief is warranted under Bankruptcy Code section 362(d)(2) (also as incorporated under PROMESA).

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On September 9, 2020, the Title III Court denied the PRHTA and PRIFA lift stay motions and stayed the PRCCDA lift stay motion pending a final ruling in the PRCCDA adversary proceeding (Adv. Pro. No. 20-00004). On September 23, 2020, the PRHTA and PRIFA bondholders appealed the Title III Court's denial of the lift stay motions to the First Circuit. The First Circuit denied the appeal on March 3, 2021.

On January 18, 2022, the Title III Court entered its orders confirming the Eighth Amended Plan. Upon the Effective Date of the Eighth Amended Plan, which has not yet occurred, the clawback funds at issue in these motions will constitute property of the Commonwealth and the motions will be denied.

The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al., Adv. Pro. No. 20-00003-LTS (D.P.R. Jan. 16, 2020).

On January 16, 2020, the Oversight Board filed an adversary complaint challenging the proofs of claims and liens asserted against the Commonwealth by holders of bonds issued by PRIFA. The Oversight Board asserts that the Commonwealth is "neither an issuer nor a guarantor" of the bonds and thus is not liable under the PRIFA enabling act or PRIFA bond documents.

On February 11, 2020, the Creditors' Committee filed an intervention motion. On February 27, 2020, U.S. Bank filed a motion to dismiss the complaint in part, challenging certain of the Oversight Board's constitutional and statutory legal theories. On February 27, 2020, the monoline insurers filed a motion to dismiss the complaint in part. The motions to dismiss are currently stayed. On March 2, 2020, the Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion.

On March 10, 2020, the Title III Court entered a final case management order for revenue bonds, staying litigation of the motion to dismiss in this adversary proceeding and permitting the filing of summary judgment motions for certain counts. On April 28, 2020, the Oversight Board filed a motion for summary judgment, contending movants lack security interests and any contrary statute is preempted by PROMESA. The Creditors' Committee filed a limited joinder. FAFAA did not file a joinder to the summary judgment motion.

On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. Replies were filed August 31, 2020. A hearing on the motion was held on September 23, 2020. On January 20, 2021, the Title III Court ordered additional discovery, which concluded on June 11, 2021. On June 22, 2021, the Title III Court entered a scheduling order for supplemental briefing and scheduled a hearing on the summary judgment motion for September 15, 2021. On August 3, 2021, the Title III Court entered an order staying further proceedings in this case pending confirmation of the plan of adjustment for the Commonwealth, ERS, and PBA.

On January 18, 2022, the Title III Court entered its orders confirming the Eighth Amended Plan. Upon the Effective Date of the Eighth Amended Plan, which has not yet occurred, the clawback funds at issue in this case will constitute property of the Commonwealth and this case will be dismissed.

Settlement Agreement with GDB (World Plaza Building)

On September 16, 2020, pursuant to Section 207 of PROMESA, the Oversight Board approved a settlement agreement whereby the Authority transferred the World Plaza Building (the Property) to GDB in full satisfaction of the loan, which at such date approximated \$50 million.

Mental Health Infrastructure Revenue Bonds Restructuring

On November 16, 2021, the Authority completed an exchange of the Series 2007 Bonds for certain Sales Tax Financing Corporation bonds maturing July 1, 2040 held by the Authority (the MEPSI Exchange). Under the MEPSI Exchange, all claims related to the Series 2007 Bonds were permanently released and discharged in exchange for receipt by each holder of the Series 2007 Bonds of their pro rata share of COFINA Bonds with a par amount totaling \$26.42 million. The Authority thus is free and clear of all obligations and liabilities associated with the Series 2007 Bonds.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread.

In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

Management has not yet identified the extent of the impact, if any, that the Coronavirus pandemic may have had (or will have in the future) on the Authority's operations and to what extent revenue sources have been adversely depleted.

The Authority's Title VI Process

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the qualifying modification for PRIFA's Rum Bonds (the PRIFA Qualifying Modification). The conditions precedent to the effective date for the PRIFA Qualifying Modification include, among other things, that the effective date for the Eighth Amended Plan for the Commonwealth, ERS, and PBA becomes effective. As of the date hereof, the Eighth Amended Plan remains subject to its own conditions precedent and is not currently effective.

Upon the effective date of the PRIFA Qualifying Modification, all claims related to PRIFA's Rum Bonds, including extensive litigation related thereto, will be resolved in exchange for the following distributions being made under the Eighth Amended Plan and the PRIFA Qualifying Modification:

- \$193.5 million in cash from the Commonwealth;
- Contingent value instruments triggered by both (i) outperformance of general fund rum tax collections relative to the projections contained in the Oversight Board's Fiscal Plan for the Commonwealth, and (ii) a 27% allocation of outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020 certified fiscal plan for the Commonwealth; and

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- Approximately \$34.7 million and \$21.7 million for the fees of certain monoline insurers for supporting the Eighth Amended Plan and the PRIFA Qualifying Modification, respectively, among other fees.

The total distributions to PRIFA creditors on account of the PRIFA-related CVIs are subject to a lifetime aggregate cap of approximately \$1.3 billion. The CVIs will be general obligations of the Commonwealth issued pursuant to the Eighth Amended Plan.

Upon the effective date of the PRIFA Qualifying Modification, PRIFA's legacy Rum Bonds will be canceled and discharged, and the bondholders will release all remaining claims related to PRIFA's Rum Bonds.

For additional information, refer to the publicly available docket in the Commonwealth's Title IV case for further details: <https://cases.primeclerk.com/puertorico/Home-DocketInfo>

PFC Bonds Restructuring

Under the Eighth Amended Plan, all claims against the Commonwealth arising from or related to indebtedness payable from appropriations of the Commonwealth Legislature are classified as "CW Appropriation Claims" and treated in Class 63 of the Plan. CW Appropriation Claims include, among other things, "all notes from the Commonwealth or its agencies or instrumentalities held by PFC for the repayment of PFC indebtedness." CW Appropriations Claims will not receive a distribution pursuant to the Plan and each such CW Appropriations Claim is deemed discharged by the Eighth Amended Plan. The Confirmation Order further provides that "all laws, rules, and regulations giving rise to obligations of the Debtors discharged by the Plan and [the] Confirmation Order pursuant to PROMESA are preempted by PROMESA and such discharge shall prevail over any general or specific provisions of territory laws, rules, and regulations. Such preempted laws include, without limitation, laws enacted prior to June 30, 2016, that provide for transfers or other appropriations after the enactment of PROMESA, including transfers from the Commonwealth or one of its instrumentalities to any agency or instrumentality, whether to enable such agency or instrumentality to pay or satisfy indebtedness or for any other purpose, to the extent inconsistent with the Plan's discharge of the Debtors' obligations." Accordingly, upon the effective date, all such preempted laws are not enforceable to the extent they are inconsistent with the Plan's discharge of the Commonwealth's obligations.

Although the Eighth Amended Plan does not grant a release of the Authority's PFC Notes, as a result of the Eighth Amended Plan's discharge and preemption provisions, there will not be future appropriations related to the PFC indebtedness. As a result, the contingency that would trigger the Authority's contingent obligation to pay the PFC indebtedness once it receives appropriations will not occur. In addition, on January 20, 2022, AAFAF, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and Court approval of the restructuring.

REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Proportionate Share of Collective Total Pension Liability (Unaudited)
For the year ended June 30, 2020

The schedule of Proportionate Share of Collective Total Pension Liability for the Authority for the year ended June 30, 2020:

	GASB 73		GASB 68		
	2020	2019	2018	2017	2016
Proportion (percentage) of the net collective total pension liability	<u>0.01111%</u>	<u>0.01103%</u>	<u>0.02240%</u>	<u>0.02095%</u>	<u>0.01972%</u>
Proportion (amount) of the net collective total pension liability	<u>\$ 2,762,017</u>	<u>\$ 2,700,491</u>	<u>\$ 7,665,002</u>	<u>\$ 7,899,363</u>	<u>\$ 6,573,847</u>

The Authority's net pension liability as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date as of June 30, 2019).

As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

The Authority's proportion of the total pension liability was actuarially determined based on the ratio of the Authority's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

There are no assets accumulated in a trust to pay related benefits.