



**PUERTO RICO AND MUNICIPAL
ISLANDS MARITIME TRANSPORT
AUTHORITY**

**(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements, Required Supplementary
Information and Independent Auditors' Report
For the Year Ended June 30, 2022**



PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements and Independent Auditors' Report
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

Hon. Eileen Vélez Vega, Secretary
Department of Transportation and Public Works

Opinion

We have audited the accompanying financial statements of the Puerto Rico and Municipal Islands Maritime Transport Authority (the Authority), (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 87 *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in

accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the Schedule of the Authority's Proportionate Share of the Total Pension Liability and Related Ratios on page 37, and the Schedule of the Authority's Proportionate Share of the Total OPEB Liability on page 38 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
November 2, 2023

Valdes, Garcia, Marin & Martinez, LLP

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**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)**

Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2022

The following Management’s Discussion and Analysis Section (the MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico and Municipal Islands Maritime Transport Authority (“the Authority”) for the fiscal year ended June 30, 2022. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2022

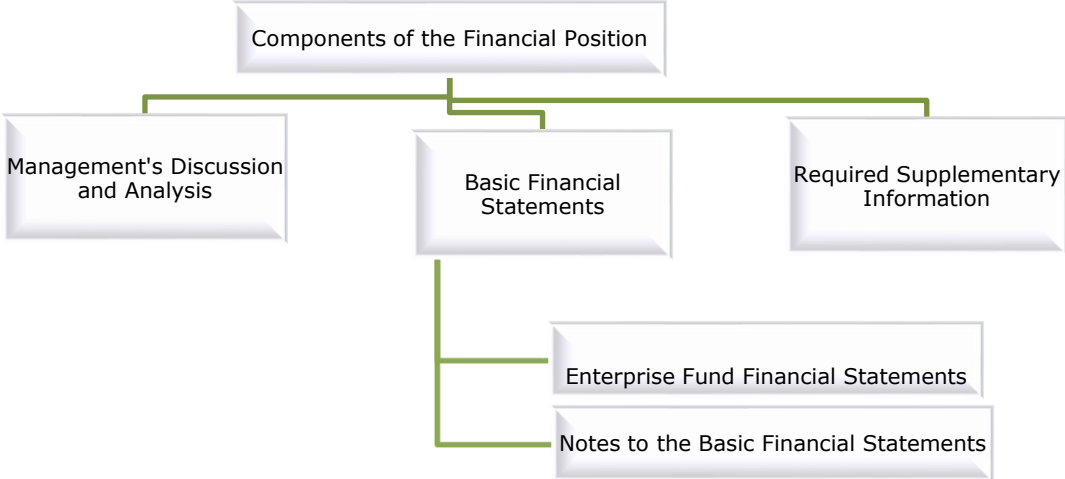
- Net position deficiency totaled approximately \$41.7 million at June 30, 2022.
- Net position deficiency decreased by approximately \$5.7 million in 2022.
- Total assets increased approximately \$4.9 million or 8% in comparison with year 2021.
- Capital assets, net totaled approximately \$46.3 million at June 30, 2022.
- Total liabilities decreased approximately \$1.2 million or 1% in comparison with year 2021.
- Total operating revenue increased approximately \$2.2 million or 75% in comparison with year 2021.
- Total operating expenses increased approximately \$14 million or 25% in comparison with year 2021.

Overview of the Basic Financial Statements

The basic financial statements provide information about the Authority’s business-type activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The MD&A is intended to serve as an introduction to the Authority’s basic financial statements. The basic financial statements consist of the (1) statement of net position, (2) statement of revenue, expenses, and changes in net position, (3) statement of cash flows, (4) notes to the financial statements, and (5) required supplementary information. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.



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Year Ended June 30, 2022

Statement of Net Position

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

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

- Investment in Capital Assets – this component of net position consists of all capital assets, reduced by the outstanding balance of any bonds, notes, or borrowings that are attributable to the acquisition, construction, or improvement of those assets. The resources required to repay this debt must be provided annually from operations and from operating grants allocated annually by the Commonwealth of Puerto Rico (the Commonwealth), since the capital assets themselves cannot be used to liquidate liabilities.
- Unrestricted – this component includes all net position that do not meet the definition of net position invested in capital assets.

Statement of Revenue, Expenses and Changes in Net Position

The statement of revenue, expenses, and changes in net position includes operating revenue, which consists of passenger and cargo revenues and equipment and property rentals, and operating expenses, such as salaries and employees' benefits, depreciation of capital assets, repairs and maintenance, vessels rent and other general administrative expenses, and non-operating revenue and expenses, such as the operating grants from the Commonwealth, interest income, and interest expense. The focus of the statement of revenue, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash flows

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

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and provide detailed information about significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, pension plan, and commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management's discussion and analysis and the financial statements.

Required Supplementary Information

The basic financial statements and notes are followed by the required supplementary information that includes the schedules related to pension and OPEB liabilities as required by GASB No. 73 and GASB No. 75, respectively.

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Management's Discussion and Analysis (Unaudited)
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Financial Analysis of the Authority's Business-Type Activities

Statement of Net Position

The following table reflects a condensed summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Authority as of June 30, 2022, and 2021:

	June 30,		Change	
	2022	2021, as restated	In Dollars	Percent
Current assets	\$ 16,398,508	\$ 13,963,398	\$ 2,435,110	17%
Capital assets, net	46,328,073	43,292,379	3,035,694	7%
Other assets	<u>57,341</u>	<u>653,400</u>	<u>(596,059)</u>	-91%
Total assets	62,783,922	57,909,177	4,874,745	8%
Deferred outflows	<u>6,189,926</u>	<u>6,660,369</u>	<u>(470,443)</u>	-7%
Total assets and deferred outflows of resources	<u>\$ 68,973,848</u>	<u>\$ 64,569,546</u>	<u>\$ 4,404,302</u>	7%
Current liabilities	\$ 17,427,300	\$ 21,695,412	\$ (4,268,112)	-20%
Non-current liabilities	<u>92,144,587</u>	<u>89,076,772</u>	<u>3,067,815</u>	3%
Total liabilities	109,571,887	110,772,184	(1,200,297)	-1%
Deferred inflows of resources related to pension and lease	<u>1,057,879</u>	<u>1,126,962</u>	<u>(69,083)</u>	-6%
Total liabilities and deferred inflows of resources	<u>\$ 110,629,766</u>	<u>\$ 111,899,146</u>	<u>\$ (1,269,380)</u>	-1%
Net position				
Investment in capital assets	46,328,073	43,292,379	3,035,694	7%
Deficit	<u>(87,983,991)</u>	<u>(90,621,979)</u>	<u>2,637,988</u>	-3%
Total net position (deficit)	<u>(41,655,918)</u>	<u>(47,329,600)</u>	<u>5,673,682</u>	-12%
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 68,973,848</u>	<u>\$ 64,569,546</u>	<u>\$ 4,404,302</u>	7%

Total assets increased by 8% or approximately \$4.9 million mainly due to an increase in capital assets of approximately \$3 million. The increase in capital assets was due mainly to the recognition of several leased assets in accordance to the provisions of the GASB Statement No. 87.

Net capital assets balance had a fluctuation of \$3 million during fiscal year 2022, when compared with the fiscal year 2021. During the year 2022, capital additions were approximately \$6.1 million and the depreciation and amortization expense for the year amounted to approximately \$3.1 million including the transactions related with the implementation of GASB No. 87, *Leases*. Capital assets are funded with the proceeds from operations and operating and capital grants from the Commonwealth of Puerto Rico. In addition, the Authority is a recipient of certain federal funds granted by the U.S. Federal Transit Administration, which are used to finance the acquisition and maintenance of capital assets.

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Current liabilities decreased by 20% to an amount of approximately \$17.4 million as of June 30, 2022, due to a decrease in accounts payable and accrued expenses. Non-current liabilities had an increase of approximately \$3 million. The increase was due mainly to a lease obligation recorded in accordance with the provisions of the GASB Statement No. 87.

Total net position (deficit) decreased by 12% to a net deficiency amount of approximately \$42 million as of June 30, 2022. The increase was the net result of an excess of income (operating and non-operating) over expenses (operating and non-operating). The largest portion of the Authority's net position represents its investment in capital assets.

The following table reflects a condensed summary of the revenue, expenses, and changes in net position for the years ended June 30, 2022, and 2021:

	<u>June 30,</u>		<u>Change</u>	
	<u>2022</u>	<u>2021, as restated</u>	<u>In Dollars</u>	<u>Percent</u>
Operating revenue	\$ 5,166,437	\$ 2,944,198	\$ 2,222,239	75%
Operating expenses	<u>(70,519,910)</u>	<u>(56,472,682)</u>	<u>(14,047,228)</u>	25%
Operating income (loss)	<u>(65,353,473)</u>	<u>(53,528,484)</u>	<u>(11,824,989)</u>	22%
Non-operating revenue (expenses)				
Operating grants, contributions and other revenue	71,424,361	38,745,568	32,678,793	84%
Impairment loss in capital assets	-	(573,132)	573,132	100%
Interest and other financing expenses	<u>(397,206)</u>	<u>(51,794)</u>	<u>(345,412)</u>	667%
Total non-operating revenue, net	<u>71,027,155</u>	<u>38,120,642</u>	<u>32,906,513</u>	86%
Change in net position	5,673,682	(15,407,842)	21,081,524	-137%
Net position (deficit), at beginning of year, as restated	<u>(47,329,600)</u>	<u>(31,921,758)</u>	<u>(15,407,842)</u>	48%
Net position (deficit), at end for year	<u><u>\$ (41,655,918)</u></u>	<u><u>\$ (47,329,600)</u></u>	<u><u>\$ 5,673,682</u></u>	-12%

Operating revenue, which consisted principally of fares for maritime transportation and cargo services, increased by 75% to an amount of approximately \$5.2 million for the year ended June 30, 2022. Revenue increase was due to suspension of some operations imposed by the government closure and restrictions as response for the COVID-19 pandemic during year ended June 30, 2021.

Operating expenses, which consisted principally of salaries and employee benefits, maritime transport operations and maintenance agreement costs, vessels rent, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative, increased by 25% to an amount of approximately \$70.5 million for the year ended June 30, 2022. The change was mainly due to the net effect of a decrease of salaries and employee benefits, vessels rent, and repairs and maintenance of approximately \$15 million and an increase in the costs of the maritime transport operations and maintenance agreement of \$29 million.

Non-operating revenue consisted principally of operating grants from the Commonwealth and the Federal Government. The non-operating revenue increased by 84% or \$32.7 million due mainly to an increase in Commonwealth grants of approximately \$33.5 million.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2022

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2022, the Authority had invested approximately \$46.3 million in capital assets (net of related depreciation and amortization) including buildings on piers, maritime and other transportation equipment, motor vehicles and furniture and fixtures and right-to-use leased assets used in the Authority's operations. During the year ended June 30, 2022, the Authority invested approximately \$2.2 million in capital assets, mainly in maritime and other transportation equipment. Also, the Authority recognized additions of \$3.9 million of right-to-use leased assets as required by GASB No. 87.

The following table presents the components of the capital assets during fiscal years 2022 and 2021:

	June 30,		Change	
	2022	2021	In Dollars	Percent
Assets not being depreciated:				
Land and improvements	\$ 93,323	\$ 93,323	\$ -	0%
Assets being depreciated and amortized:				
Buildings on piers	33,380,386	33,380,386	-	0%
Leasehold improvements	2,528,834	2,129,892	398,942	19%
Maritime and other transportation equipment	54,657,745	53,138,181	1,519,564	3%
Furniture and Fixtures	3,810,454	3,540,883	269,571	8%
Motor Vehicles	342,331	342,331	-	0%
Right-to-use leased assets	3,922,134	-	3,922,134	100%
Totals	98,641,884	92,531,673	6,110,211	7%
Accumulated depreciation and amortization	52,407,134	49,332,617	3,074,517	6%
Capital assets being depreciated and amortized, net	46,234,750	43,199,056	3,035,694	7%
Total capital assets, net	\$ 46,328,073	\$ 43,292,379	\$ 3,035,694	7%

Debt Administration

Long-term debt of the Authority consists of due to other governmental entities, compensated absences, voluntary termination benefits, total pension and OPEB liabilities, leases payable, and legal liability. The increase of 3% was mainly due to the leases obligation recorded in accordance with the provisions of the GASB Statement No. 87 of approximately \$3.9 million.

Following is a summary of the Authority's long-term debt as of June 30, 2022 and 2021:

	June 30,		Change	
	2022	2021	In Dollars	Percent
Due to other governmental entities	\$ 68,086,878	\$ 68,086,878	\$ -	0%
Compensated absences	86,306	1,044,929	(958,623)	-92%
Voluntary termination benefits	2,398,228	3,136,447	(738,219)	-24%
Total pension liability	18,286,472	17,755,589	530,883	3%
Total OPEB liability	163,812	198,844	(35,032)	-18%
Lease liabilities	3,852,939	-	3,852,939	100%
Legal liability	645,756	632,071	13,685	2%
Other long-term liabilities	320,059	320,059	-	0%
Totals	\$ 93,840,450	\$ 91,174,817	\$ 2,665,633	3%

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Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2022

The following is a summary description of currently known facts, decisions and conditions that have had, or are expected to have, an impact on the Authority's financial position and results of operations.

During fiscal year 2022-2023, the Authority commenced a transition process with the Puerto Rico Integrated Transit Authority (PRITA) in which its operations have been converted into a program under PRITA. As part of this transition, the Authority will transfer all its funds assets, liabilities, rights, and obligations to PRITA as established in Act No. 123 of 2014, PRITA's Organic Law.

Contacting the Authority's Financial Management

This financial report is designed to provide customers, and the general public with a general overview of the Puerto Rico and Municipal Islands Maritime Transport Authority's finances and how it uses the economic resources that it receives. If you have questions about this report or need additional financial information, contact the Administration Office at P.O. Box 41118, San Juan, Puerto Rico, 00940.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2022

Assets

Current assets:

Cash	\$ 4,296,061
Receivables, net	
Trade	258,743
Other	1,621,545
Due from other governmental entities	142,595
Due from PRITA	1,101,340
Lease receivable	14,410
Inventory	124,017
Prepaid expenses	<u>8,839,797</u>

Total current assets 16,398,508

Non-current assets:

Lease receivable	3,941
Capital assets, net of accumulated depreciation and amortization	46,328,073
Other assets	<u>53,400</u>

Total non-current assets 46,385,414

Total assets 62,783,922

Deferred outflows of resources:

Pension related	6,177,526
Other post-employment benefits related	<u>12,400</u>

Total deferred outflows of resources 6,189,926

Total assets and deferred outflows of resources \$ 68,973,848

(Continues)

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

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Statement of Net Position
June 30, 2022

Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 8,054,870
Due to:	
Commonwealth	296,957
Other governmental entities	7,187,106
Unearned revenue	192,504
Compensated absences	30,949
Voluntary termination benefits payable	530,365
Total pension liability	950,964
Total other post-employment benefits liability	12,400
Lease liabilities	151,328
Legal liability	<u>19,857</u>
Total current liabilities	<u>17,427,300</u>
Non-current liabilities:	
Due to other governmental entities	68,086,878
Compensated absences	55,357
Voluntary termination benefits payable	1,867,863
Total pension liability	17,335,508
Total other post-employment benefits liability	151,412
Leases payable	3,701,611
Legal liabilities	625,899
Other long- term liabilities	<u>320,059</u>
Total non-current liabilities	<u>92,144,587</u>
Total liabilities	<u>109,571,887</u>
Deferred inflows of resources:	
Pension related	1,042,530
Lease revenue	<u>15,349</u>
Total deferred inflows of resources	<u>1,057,879</u>
Total liabilities and deferred inflows of resources	<u>110,629,766</u>
Net Position	
Investment in capital assets	46,328,073
Deficit	<u>(87,983,991)</u>
Total net position (deficit)	<u>\$ (41,655,918)</u>

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

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenue:	
Passenger fares and cargo revenue	\$ 5,035,403
Equipment and property rentals	<u>131,034</u>
Total operating revenue	<u>5,166,437</u>
Operating expenses:	
Salaries and employees benefits, including voluntary termination benefits	6,535,076
Pension	1,993,524
Other post-employment benefits	(33,932)
Maritime transport operations and maintenance agreement costs	32,366,679
Vessels rent	5,441,427
Repairs and maintenance	9,698,048
Diesel	6,005,641
Professional services	1,358,027
Insurance	2,865,495
Depreciation and amortization	3,074,517
General and administrative	<u>1,215,408</u>
Total operating expenses	<u>70,519,910</u>
Operating loss	<u>(65,353,473)</u>
Non-operating revenue (expenses):	
Operating grants:	
Commonwealth of Puerto Rico	67,427,911
Federal Grants	3,996,450
Interest and other financing expenses, net	<u>(397,206)</u>
Total non-operating revenue, net	<u>71,027,155</u>
Net change in net position	5,673,682
Net position (deficit), at beginning of year as restated	<u>(47,329,600)</u>
Net position (deficit), at end of year	<u><u>\$ (41,655,918)</u></u>

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

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities:	
Cash collected from customers and passengers	\$ 4,560,130
Cash payments to suppliers for goods and services	(62,314,315)
Cash payments to employees for services	(9,667,327)
Cash collected from operating claim	<u>134,500</u>
Net cash used in operating activities	<u>(67,287,012)</u>
Cash flows from non-capital and related financing activities:	
Operating grants received from:	
Commonwealth of Puerto Rico	66,787,282
Federal grant	3,996,450
Payment of interest	<u>(111,814)</u>
Net cash provided by non-capital and related financing activities	<u>70,671,918</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(2,188,077)
Proceeds from insurance recovery	600,000
Receipts of interest from leasing transactions	173
Payments for leasing transactions	(69,195)
Payment of interest	<u>(163,326)</u>
Net cash used by capital and related financing activities	<u>(1,820,425)</u>
Cash flows investing activities:	
Interest collected in deposits and net cash provided by investing activities	<u>602</u>
Net increase in cash	1,565,083
Cash at beginning of the year	<u>2,730,978</u>
Cash at end of the year	<u>\$ 4,296,061</u>
	(Continues)

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

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Statement of Cash Flows
For the Year Ended June 30, 2022

Reconciliation of operating loss to net cash
used in operating activities:

Operating loss	\$ (65,353,473)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	3,074,517
Bad debt expense	79,243
Changes in operating assets and liabilities:	
Increase in accounts receivable	(1,202,599)
Decrease in inventories	38,565
Decrease in prepaid expenses	878,373
Decrease in deferred outflows of resources	470,443
Decrease in accounts payable, accrued expenses and other liabilities	(5,380,153)
Increase in unearned revenue	192,504
Decrease in deferred inflows of resources	<u>(84,432)</u>
 Net cash used in operating activities	 <u>\$ (67,287,012)</u>

Non-cash capital and financing activities:

During the year ended June 30, 2022 the Authority recorded leases obligations incurred for new right-to-use leased assets in the aggregate amount of \$3,922,134.

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

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
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Notes to Financial Statements
Year Ended June 30, 2022

Note 1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Puerto Rico and Municipal Islands Maritime Transport Authority (the Authority) is a public corporation created by Act No. 1 of January 1, 2000, as amended, to administer and operate the maritime transportation services among Cataño, San Juan, Ceiba, Vieques, and Culebra. The Authority is governed by a five-member board comprising the Secretary of the Department of Transportation and Public Works of the Commonwealth of Puerto Rico (the Commonwealth), who serves as president, the Executive Director of the Puerto Rico Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The Authority is a component unit of the Commonwealth, and accordingly is included in its general-purpose financial statements.

The Authority's operations are financed by operating grants from the Commonwealth and Federal Government, and passenger and cargo revenues. Act No. 123-2014 created the Puerto Rico Integrated Transit Authority (PRITA) with the purpose of implementing a uniform policy on collective, road and maritime transportation and provided for the integration of the Authority's operations into PRITA. After June 30, 2022, PRITA began a formal process of integrating PRMIMTA's operations under its umbrella. Refer to Note 15.

The basic financial statements include the Authority as well as all the operations of the component units, if any. A component unit is a legally separate entity for which the Authority is financially accountable, or the nature or significance of their relationship with the Authority is such, that their exclusion would cause the Authority's basic financial statements to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefit to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements to be misleading or incomplete. U.S. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Authority's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Authority's balances and transactions.

Based on the above criteria there are no potential component units which should be included as part of the basic financial statements of the Authority.

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, as applicable to government entities.

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

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Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund. Enterprise funds are accounted for using the flow of economic resources measurement focus and follow the accrual basis of accounting. Under this basis, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

Cash

The Authority maintains cash on deposits with a high-rated financial institution. The laws of the Commonwealth require commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Deposit Insurance Corporation. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable include amounts due from tenants for the use of facilities under rental and concessions agreements. Receivables are stated net of the estimated allowance for doubtful accounts. The allowance for doubtful accounts is the amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable, past collection experience, and current economic conditions. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Inventory

Inventory, consisting of fuel, is valued at lower of cost (using the first-in, first-out method) or market.

Leases

Lessee

The authority is a lessee for various noncancellable leases for the use of equipment and terminal facilities on piers. For leases with a maximum possible term of 12 months or less at commencement (short-term), the Authority recognizes lease expense based on the provision of the lease agreement. For all other leases, the Authority recognizes a lease liability and an intangible right-to-use leased asset.

At the commencement of the lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

The lease asset is initially measured at the amount of the lease liability, and as applicable, less lease payments made on or before the lease commencement date, plus any initial direct costs ancillary to place the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. A full month amortization is calculated in the month the leased asset is placed in service.

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The following key estimates and judgments are used by the Authority to determine the following:

- Discount rate: The Authority generally uses an incremental borrowing rate as the discount rate to calculate the present value of the expected lease payments unless the rate that the lessor charges is known.
- Lease term: The lease term includes the noncancellable period of the lease, plus periods covered by either the Authority or lessor unilateral option to 1) extend when it is reasonably certain to be exercised, or 2) terminate when it is reasonably certain not to be exercised. Periods in which the Authority and the lessor have an option to terminate or those that are covered by a bilateral option, where both parties must agree, are excluded from the lease term.
- Lease payments: Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase options prices that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that may require a remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured, and a corresponding adjustment is made to the lease asset.

Lessor

The Authority is a lessor for various noncancellable leases for rental and concessions agreements. For short-term leases, the Authority recognizes rental income based on the provision of the lease agreement. For all other leases, the Authority recognizes a lease receivable and a deferred inflow of resources.

At the commencement of the lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by any provision for uncollectible amounts, if applicable. Any initial indirect costs required to be paid by the Authority are expensed in the period incurred. Subsequently, payments received are allocated first to any accrued interest receivable and then to the lease receivable.

The deferred inflow of leased revenue is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date that relate to future periods, less any lease incentive paid to, or on behalf of, the lessee at or before the commencement date of the lease term, if applicable. Subsequently, the deferred inflow of resources is recognized on a straight-line basis as revenue over the life of the lease term.

The following key estimates and judgments are used by the Authority to determine the following:

- Discount rate: The Authority uses either the explicit rate stated in the lease agreement or its incremental borrowing rate to discount the expected lease receipts to present value.
- Lease term: The lease term includes the noncancelable lease period of the lease, plus 1) periods for which the Authority has a unilateral option to extend and is reasonably certain to exercise such option, 2) periods after an optional termination date if the Authority is reasonably certain not to exercise the termination option.

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- Lease receipts: Measurement of the lease receivable includes fixed payments, and as applicable, variable fixed in substance payments, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The Authority monitors changes in circumstances that may require a remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the receivable is remeasured, and a corresponding adjustment is made to the deferred inflows of resources for leasing transactions.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Capital assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated useful life of more than one year. Depreciation and amortization are computed on a straight-line method over the estimated useful life of the respective asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is charged to operations.

The estimated useful lives of the capital assets follow:

Buildings on piers	5-50 years
Leasehold improvements	5 years
Maritime and other transportation equipment	20-25 years
Motor vehicles	5 years
Furniture and fixtures	2-10 years

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of their carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset.

Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report 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(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report 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(s) and will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, and GASB No. 87-*Leases*.

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Compensated Absences

Employees accumulate vacation at a rate of 1.25 days per month up to an annual amount of 15 days. Vacation time is fully vested by the employee from the first day of work up to a maximum of 60 days. Employees accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service. Accumulated unpaid sickness days are not liquidated upon employment termination. The liability for compensated absences has been calculated based on the employee's current salary and includes payroll related costs such as Social Security and Medicare tax.

Voluntary 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, the Authority recognizes the liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

Accrual for Legal Claims

The estimated amount of the liability for legal claims is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consults with its legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

Accounting for Pension Costs

The Authority accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, which requires that employers report a net pension liability and related pension accounts. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension and pension expense, the balances have been determined on the same basis as reported by the Plan.

Other Post-Employment Benefits

The Authority accounts for other post-employment benefit obligation under the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*. As required by the accounting pronouncement, OPEB transactions should be accounted for based on its proportional share of the collective OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring the OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, the balances have been determined on the same basis as reported by the Plan. The Authority's contribution for the OPEB is included in the PayGo charges billed on a monthly basis by the ERS.

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Net Position

Net position is classified in the following two components in the accompanying statement of net position:

Investment in Capital Assets

This component of net position consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds, at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component.

Unrestricted

An unrestricted net position consists of net position that does not meet the definition of net investment in capital assets.

Operating Revenue and Expenses

The Authority distinguishes between operating and non-operating revenue and expenses in its Statement of Revenue, Expenses, and Changes in Net Position. The principal revenue of the Authority is received from patrons of the maritime transportation and cargo services provided. The Authority also recognizes as operating revenue the rental fees received from concessionaries from operating leases on concession property. Unearned revenue primarily consists of unredeemed passenger fares. Operating expenses for the Authority include the costs of operating the maritime facilities and related rental spaces, administrative expenses, and depreciation and amortization of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Operating Grants

The Authority receives operating and capital grants from the Commonwealth. These grants, which are subject to annual appropriations, are used to finance the Authority's operations and the acquisition of capital assets. Amounts received under these grants are recorded as revenue in the period stated in the grant.

In addition, the Authority receives federal funds under grants from the U.S. Federal Transit Administration (FTA) exclusively for the acquisition and repairs of certain capital assets. Capital grants of the Authority are reported as non-operating revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Capital funding provided under these grants is considered earned as the related allowable expenditure is incurred in the period in which all eligibility requirements and/or time and purposes restrictions are met.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the last three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

The provisions of the following accounting pronouncement was implemented during the year ended June 30, 2022:

- *GASB Statement No. 87, Leases.* The objective of this Statement is to better meet the information needs of financial statements 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 leased 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.

Accounting Pronouncements Issued but Not Yet Effective

- *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. 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.

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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. 99, Omnibus 2022.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument;
 - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives;
 - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset;
 - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability;
 - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt;
 - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
 - Disclosures related to nonmonetary transactions;
 - Pledges of future revenues when resources are not received by the pledging government;
 - Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements;

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- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follow:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- GASB Statement No. 100, *Accounting Changes and Error Corrections- An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

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

Note 2. Maritime Transport Operations and Maintenance Agreement

On October 27, 2020, the Authority entered into a maritime transport operations and maintenance agreement (the Agreement) with HMS Ferries-Puerto Rico, LLC and HMS Ferries, Inc. (the Operator), for the exclusive operation and maintenance of the Authority's ferry system, including the vessels owned or chartered by the Authority, the ferry terminals, parking facilities, mooring facilities and other facilities, and related infrastructure used in connection with the ferry services which are under the control of the Authority. The Agreement will be executed in two phases for a total period of twenty-three (23) years. All rights, title, and interest in and to all assets used in providing the services under the Agreement, including among others, ferry terminals, mooring facilities and vessels shall be owned by the Authority throughout the contract term and following the expiration or termination of the Agreement. The Agreement commencement date was January 26, 2021.

The compensation for Phase 1, that is expected to last three years, will include service payments and management fees to the Operator for a total amount of approximately \$99.9 million. During Phase 1 the Authority is responsible for collecting farebox revenue and internet ticket sales. The compensation for Phase 2 will include a yearly fixed fee ranging from \$30.0 million to \$33.3 million for an aggregate amount of approximately \$651 million during a period of twenty (20) years. The compensation payable to the Operator during Phase 2 shall be

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adjusted upward or downward, as applicable to account for any increase or decrease in the insurance premium or price of fuel. In addition, during Phase 2 the Operator shall have the exclusive right to collect all service and ancillary activities revenues. For any contract year during Phase 2 period that the cumulative service or ancillary activities revenues collected by the Operator exceed by 30% or more the cumulative projected service or ancillary activities revenues established in the contract for such period, it shall be shared equally between the Authority and the Operator.

For the year ended June 30, 2022, the Authority recorded charges in the amount of \$32,366,679 related with the Agreement and \$7,477,351 as prepaid expense.

Note 3. Cash

The Authority's cash as of June 30, 2022, consist of the following:

	<u>Book Balance</u>	<u>Depository Bank Balance</u>	<u>Amount Uninsured and Uncollateralized</u>
Cash deposited in commercial bank	\$ 4,296,061	\$ 4,280,458	\$ -

Note 4. Accounts Receivable

Accounts receivable as of June 30, 2022, consist of:

Trade	\$ 552,220
Other	1,621,545
Due from other governmental entities	606,675
Due from PRITA	<u>1,101,340</u>
	3,881,780
Less: Allowance for doubtful accounts	<u>(757,557)</u>
Accounts receivable, net	<u>\$ 3,124,223</u>

Changes in the allowance for doubtful accounts for the year ended June 30, 2022 are as follow:

Allowance for doubtful accounts, beginning of year	\$ 678,314
Plus: Provision for doubtful accounts	<u>79,243</u>
Allowance for doubtful accounts, end of year	<u>\$ 757,557</u>

The accounts receivable trade balance includes amounts due from tenants for the use of facilities under short-term rental and concession agreements. Amounts due from other governmental entities include amounts related mainly with transportation charges.

The amount due from PRITA of \$1,101,340 consists of operating grants pending to be collected at June 30, 2022.

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In addition, the balance of accounts receivable-other includes an amount of \$1,596,768 due from the Operator related with passenger fares and cargo revenue pending to transfer to the Authority as of June 30, 2022 and the refund of certain deposits paid by the Authority under agreements for rent of vessels.

Note 5. Lease Receivable

The Authority is a lessor in a non – cancellable agreement with a concessionary of one of the terminal facilities. Revenue recognized from this lease agreement is \$11,748 for the year ended June 30, 2022 (\$11,511 of principal and \$237 of interest).

The following schedule details future minimum payments to be received by the Authority as of June 30, 2022:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 14,410	\$ 166	\$ 14,576
2024	3,941	9	3,950
Total lease receivable	<u>\$ 18,351</u>	<u>\$ 175</u>	<u>\$ 18,526</u>

Note 6. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2022:

	<u>Balance at June 30, 2021</u>	<u>Additons</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>
Assets not being depreciated:				
Land and improvements	\$ 93,323	\$ -	\$ -	\$ 93,323
	<u>93,323</u>	<u>-</u>	<u>-</u>	<u>93,323</u>
Assets being depreciated and amortized:				
Buildings on piers	33,380,386	-	-	33,380,386
Leasehold improvements	2,129,892	398,942	-	2,528,834
Maritime and other transportation equipment	53,138,181	1,519,564	-	54,657,745
Furniture and fixtures	3,540,883	269,571	-	3,810,454
Motor vehicles	342,331	-	-	342,331
Right-to-use leased assets				
Terminal facilities on piers	-	3,800,894	-	3,800,894
Equipment	-	121,240	-	121,240
Total	<u>123,761,842</u>	<u>6,110,211</u>	<u>-</u>	<u>98,641,884</u>
Less: accumulated depreciation and amortization				
Buildings on piers	7,462,232	674,990	-	8,137,222
Leasehold improvements	1,100,444	465,382	-	1,565,826
Maritime and other transportation equipment	37,073,975	1,625,734	-	38,699,709
Furniture and fixtures	3,353,616	106,261	-	3,459,877
Motor vehicles	342,350	-	-	342,350
Right-to-use leases asset				
Terminal facilities on piers	-	161,737	-	161,737
Equipment	-	40,413	-	40,413
	<u>49,332,617</u>	<u>3,074,517</u>	<u>-</u>	<u>52,407,134</u>
Capital assets being depreciated and amortized , net	<u>43,199,056</u>	<u>3,035,694</u>	<u>-</u>	<u>46,234,750</u>
Total capital assets, net	<u>\$ 43,292,379</u>	<u>\$ 3,035,694</u>	<u>\$ -</u>	<u>\$ 46,328,073</u>

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Right-to-use leased assets

The Authority is a lessee for various non-cancellable leases for the use of equipment and terminal facilities in piers and on July 1, 2021 implemented the provisions of GASB No. 87, *Leases*. As a result of this implementation, the Authority recognized right-to-use leased assets in the aggregate amount of \$3,922,134. Refer to Note 9 for information on the liabilities relating to the right-to use leased assets.

Note 7. Due to Commonwealth

Amount due to Commonwealth as of June 30, 2022, consists of the following:

PayGo charges	\$ 61,592
Other	<u>235,365</u>
	<u>\$ 296,957</u>

Note 8. Due to Other Governmental Entities

Amount due to governmental entities as of June 30, 2022, consists of the following:

State Insurance Fund Corporation	\$ 5,465,975
PR Ports Authority	896,563
Others	<u>824,568</u>
	<u>\$ 7,187,106</u>

Note 9. Non-Current Liabilities:

Changes in non-current liabilities as of June 30, 2022, are summarized as follows:

(a) Amount due to other governmental entities consists of the following:

	<u>Balance at June 30, 2021</u>	<u>Net Change</u>	<u>Balance at June 30, 2022</u>	<u>Current Portion</u>
Due to other governmental entities	\$ 68,086,878	\$ -	\$ 68,086,878	\$ -
Compensated absences	1,044,929	(958,623)	86,306	30,949
Voluntary termination benefits	3,136,447	(738,219)	2,398,228	530,365
Total pension liability	17,755,589	530,883	18,286,472	950,964
Total OPEB liability	198,844	(35,032)	163,812	12,400
Lease liabilities	-	3,852,939	3,852,939	151,328
Legal liability	632,071	13,685	645,756	19,857
Other long-term liabilities	<u>320,059</u>	<u>-</u>	<u>320,059</u>	<u>-</u>
Totals	<u>\$ 91,174,817</u>	<u>\$ 2,665,633</u>	<u>\$ 93,840,450</u>	<u>\$ 1,695,863</u>

The amount due to Puerto Rico Ports Authority consists of advances for the payment of operating expenses. This amount bears no interest and has no formal repayment terms. The outstanding amount will be paid as cash becomes available, principally from operating grants from the Commonwealth.

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During the year ended June 30, 2012, the Authority made an agreement with the Puerto Rico Highways and Transportation Authority (PRHTA), in which PRHTA would advance funds to the Authority for different purposes. The agreement required that the use of money be approved and supervised by PRHTA. The advances would be used principally for operational purposes including, among others, repairs of vessels, payment of insurance policies, and professional services. The amount due bears no interest and has no formal repayment plan. The outstanding amount will be paid as cash becomes available, principally from operating grants from the Commonwealth.

- (b) Voluntary termination benefits - include early retirement benefits and economic incentives for voluntary employment termination to eligible employees under Acts No. 70 - 2010 and No. 211 - 2015. Refer to Note 13 for more details.
- (c) Total pension liability - represents the Authority's proportionate share of the ERS calculation of the total pension liability of the Retirement Plan. Refer to Note 11 for more details.
- (d) Total OPEB liability- represents the Authority's proportionate share of the ERS calculation of the total OPEB liability for unfunded contributions. Refer to Note 12 for more details.
- (e) Lease liabilities-represent amounts due under noncancellable lease agreements for the use of equipment and terminal facilities on piers.

The net present value of the Authority's minimum future lease payments for non-cancelable leases, as of June 30, 2022 is as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 151,328	\$ 399,905	\$ 551,233
2024	114,422	273,611	388,033
2025	79,410	266,346	345,756
2026	76,879	260,477	337,356
2027	82,848	254,508	337,356
2028-2032	521,302	1,165,478	1,686,780
2033-2037	757,606	929,174	1,686,780
2038-2042	972,925	590,099	1,563,024
2043-2047	794,073	273,926	1,067,999
2048-2052	302,146	18,256	320,402
Total lease payments	<u>\$ 3,852,939</u>	<u>\$ 4,431,780</u>	<u>\$ 8,284,719</u>

- (f) Other liabilities consist mainly of a reserve established by management for possible claims of a federal agency related with certain costs of capital assets disposed of before they were fully depreciated and for a remaining balance of federal funds that were not used for payments of the intended purpose of the grant.

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Note 10. Restatement of Net Position

A prior period adjustment was made to the beginning balance of the net position to correct an overstatement of accounts payable. The impact of the related adjustment to the beginning net position are as follows:

Net position(deficit) at July 1, 2021, as previously reported	\$ (47,979,404)
Overstatement of accounts payable	<u>649,804</u>
Net position (deficit) at July 1, 2021, as restated	<u>\$ (47,329,600)</u>

Note 11. Retirement Plan

Plan Description

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS covered employees of certain public corporations not having their own retirement systems (including the Authority), employees of the Fire and Police Departments of Puerto Rico, all regular full-time public employees working for the executive and legislative branches of the Commonwealth, and the municipalities of Puerto Rico.

On August 23, 2017, the Governor signed into law Act No. 106-2017, known as the "Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees", that approved a substantial pension reform for all of the Commonwealth's retirement systems. This reform modified most of the Retirement System's activities, eliminated the employer contribution, created 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 payments to the pensioners and then gets reimbursed for those payments by the applicable employers.

Act 106-217 also created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on these accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Prior to July 1, 2013 the System operated under the following benefits structures:

- *Act No. 447 of May 15, 1951* (Act No. 447) effective on January 1, 1952 for members hired up to March 31, 1990,
- *Act No. 1 of February 16, 1990* (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- *Act No. 305 of September 24, 1999*, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000 up to June 3, 2013.

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Employees under Act No. 447 and Act No. 1 are participants of a cost-sharing multiple employers defined benefit plan. Act No. 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective July 1, 2013, Act No. 3 of 2013 (Act No. 3) amends the provisions of the different benefits structures under the ERS. Act No. 3 moves all participants (employees) under the defined benefit pension plans (Act No. 447 and Act No. 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act No. 447 and Act No. 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.

Benefits provided before July 1, 2017

The following summary of the ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in accordance with the applicable laws and regulations.

(i) Service Retirements

- (a) *Eligibility for Act No. 447 Members:* Act No. 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions, attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (b) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age

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65 with 10 years of credited service; (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- (d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(ii) *Service Retirement Annuity Benefits*

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

Retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by the Plan. The annuity, for which a plan member was eligible, was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation.

Refer to the stand-alone financial statements of the Plan for further information on additional benefits.

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Total Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

On January 27, 2023, an audited report was issued for the year ended June 30, 2021, in accordance with GASB Statement No. 73, providing information about pension amounts by employer and the corresponding employer allocation percentage. The Authority disclosed the below mentioned information based on this audited data reported and the ERS Actuarial Valuation Report.

As of June 30, 2022, the Authority reported a liability of \$18,286,472 for its proportionate share of the total pension liability. The collective total pension liability which amounts to approximately \$27.2 billion was determined by an actuarial valuation as of July 1, 2021 that was rolled forward to June 30, 2022 (measurement date as of June 30, 2021). The Authority's proportion of the total pension liability was based on the ratio of the Authority's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2022, the Authority's proportion was 0.06727%.

For the year ended June 30, 2022, the Authority recognized pension expense of \$1,993,524. Pension expense represents the change in the total pension liability during the measurement period.

As of June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Amortization Period</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	4-6 years	\$ 29,210	\$ 544,793
Changes in assumptions	4-6 years	1,871,946	216,083
Changes in proportion	4-6 years	<u>3,325,406</u>	<u>281,654</u>
Audited amount as reported by ERS		5,226,562	1,042,530
Benefits paid subsequent to measurement date		<u>950,964</u>	<u>-</u>
Balance as of June 30, 2022		<u>\$ 6,177,526</u>	<u>\$ 1,042,530</u>

For the fiscal year 2022, there were benefits paid after the measurement date amounting to \$848 thousand reported as deferred outflows of resources, since for fiscal year 2022 the retirement systems operate on a pay-as-you-go basis.

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Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2022, will be recognized in the pension expense (benefit) as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$1,046,008
2023	1,046,008
2024	1,046,008
2025	<u>1,046,008</u>
	<u>\$4,184,032</u>

Actuarial methods and assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Discount Rate

The discount rate for the fiscal year ended June 30, 2021, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2021, actuarial valuation were as follows:

a) *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

b) *Post-retirement Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

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c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

d) *Post-retirement Beneficiary Mortality*

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2021

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% 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.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability as of June 30, 2022, calculated using the discount rate of 2.16%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percent-point level lower (1.16%) or 1 percent-point level higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current discount rate (2.16%)	1% Increase (3.16%)
Total net pension liability measured as of June 30, 2022	<u>\$ 20,893,510</u>	<u>\$ 18,286,472</u>	<u>\$ 16,174,664</u>

Note 12. Other Postemployment Benefits

Plan Description

The Authority participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the "OPEB Plan"). The OPEB Plan is an unfunded, defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). Under the guidance of GASB No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB Plan.

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The OPEB Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer monthly for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

Total OPEB Liability

As of June 30, 2022, the Authority reported a liability of \$163,812 for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date). As of June 30, 2022, the Authority's proportion share was 0.02052%.

OPEB Benefit

For the year ended June 30, 2022, the Authority recognized an OPEB benefit of \$33,932.

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

GASB No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. There are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2022, \$12,400 reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2022.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Discount Rate

The discount rate for June 30, 2021 (measurement date) was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

- a) Pre-retirement Mortality - For general employees not covered under Act No. 127-1958, PubG-2010 Employee Mortality Rates, adjusted 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- b) *Post-retirement Mortality* - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- c) *Post-retirement Disabled Mortality* - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- d) *Post-retirement Beneficiary Mortality* - Prior to retiree's death, beneficiary mortality is assumed to be the same as the ports - retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of the Authority's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following table presents PRITA's proportionate share of total OPEB liability calculated using the discount rate of 2.16%, as well as what PRITA's proportionate share of total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current discount rate.

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	<u>\$179,770</u>	<u>\$163,812</u>	<u>\$150,152</u>

Note 13. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including the employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and the 30 years of credited service in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credit service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

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Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years or credit service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

On December 8, 2015, the Commonwealth enacted another program based on provisions established on Act No. 211. All eligible employees may retire from employment in exchange for an early pension and other benefits. Furthermore, the Act No. 211 provides that eligible employees may retire from employment in exchange for an early pension and other benefits. Act No. 211 only applies to employees with twenty years or more participating in the ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

The 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 attained 61 years old, which is the age the employee will become part of the ERS. The Authority is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, the Authority is responsible for the payment of the related employee and employer contributions to the ERS based on 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years or the employee reaches 61 years old, whichever comes first.

Voluntary termination benefits, as detailed below, are discounted at a rate of 2.75%.

	<u>Beginning balance</u>	<u>Net change</u>	<u>Ending balance</u>	<u>Current portion</u>
Act No.70	\$ 1,547,349	\$ (219,479)	\$ 1,327,870	\$ 175,793
Act No. 211	<u>1,589,098</u>	<u>(518,740)</u>	<u>1,070,358</u>	<u>354,572</u>
	<u>\$ 3,136,447</u>	<u>\$ (738,219)</u>	<u>\$ 2,398,228</u>	<u>\$ 530,365</u>

Note 14. Contingent Liabilities

Litigations

The Authority is involved in litigations arising in the normal course of operations. Management believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Authority's financial condition and results of operations. Due to uncertainties in the settlement process, it is at least reasonably possible that management's view of the outcome of these claims will change in the near term. Based on advice of legal counsel, management has recorded an estimated legal liability of \$645,756 as of June 30, 2022.

Federal Assistance Programs

The Authority is a subrecipient of a federal financial assistance program. The program is subject to audits in accordance with provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for

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Federal Awards or to compliance audits by grantor agencies. The number of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Note 15. Subsequent Events

The Authority has evaluated all transactions occurring subsequent to June 30, 2022, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through November 2, 2023, the date the accompanying financial statements were available to be issued. The following material event was noted:

- During fiscal year 2022-2023, the Authority commenced a formal transition process with Puerto Rico Integrated Transit Authority (PRITA) in which its operations have been converted into a program under PRITA's umbrella. As part of this transition phase, the Authority will transfer all its funds and assets to PRITA as established in Act No. 123 of 2014, PRITA's organic law.

REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of the Authority's Proportionate Share of the Total Pension Liability and Related Ratios (Unaudited)
Year Ended June 30, 2022

Description	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.06727%	0.06326%	0.05154%	0.04424%	0.04723%
Proportionate Share of Total Pension Liability	\$18,286,472	\$17,755,589	\$12,807,399	\$10,833,904	\$13,322,375

*The amounts presented have a measurement date of the previous fiscal year end.

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.

*No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2019 was the first year that the Authority transitioned from GASB Statement No. 68 to GASB Statement No. 73, as a result of the PayGo system implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying notes are an integral part of this required supplementary information.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)**

Schedule of the Authority's Proportionate Share of Total OPEB Liability (Unaudited)
Year Ended June 30, 2022

Description	2022*	2021*	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.02052%	0.02273%	0.02094%	0.02094%	0.01689%
Proportionate Share of Total Other Post Employment Benefit Liability	\$163,812	\$198,844	\$199,969	\$176,311	\$ 155,435

*The amounts presented have a measurement date of the previous fiscal year end.

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.

*No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2018 was the first year that the new requirements of GASB Statement No. 75 were implemented by the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying notes are an integral part of this required supplementary information.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information
Year Ended June 30, 2022

1. As a result of the implementation of the PayGo system, the Pension Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units, including the Authority, are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.
2. The information presented in the schedules relates solely to the Authority and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, as a whole.
3. The data provided in the schedules is based as of the measurement date of the total pension liability and total other post-employment benefits liability, which is as of the prior fiscal year ended June 30th.