



Puerto Rico Maritime Shipping Authority

(A Component Unit of the
Commonwealth of Puerto Rico)

*BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION*

June 30, 2022

With Independent Auditors' Report

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

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Independent Auditors' Report

To the Board of Directors of
Puerto Rico Maritime Shipping Authority:

Opinions

We have audited the accompanying financial statements of the governmental activities, the General Fund and the Debt Service Fund of the Puerto Rico Maritime Shipping Authority (the "Authority") as of June 30, 2022 and for the year then ended, 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 basic 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 its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 opinions.

Substantial Doubt About the Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 3 to the basic financial statements, the Authority has been practically inactive since 1995 and its role limited only to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt. The Authority also has no cash balance as of June 30, 2022, and only has a claim of \$1.2 million against the Public Entity Trust (PET), which recovery is contingent on the realization of certain underlying assets of the PET. The ultimate realization of the PET assets is highly uncertain.

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Also, the Authority currently does not have or is not expected to have enough liquid financial resources to meet its obligations for pension and postemployment benefit to its retirees, without receiving recurrent assignments of funds from the Puerto Rico Legislature or from other governmental entities to finance its operations.

These conditions raise substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of the basic 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 basic 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 within one year after the date that the basic financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Basic Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic 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 basic 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 basic 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 basic 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 basic 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 and the information listed under Required Supplementary Information in the accompanying table of contents 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
July 3, 2023.

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PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

This section represents management's discussion and analysis of the Puerto Rico Maritime Shipping Authority's (the "Authority") financial performance for the fiscal year ended June 30, 2022, and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

On June 16, 1993, the Governor of Puerto Rico issued Executive Order OE-1993-25, formally recommending efforts be initiated to facilitate the sale of the Authority's operations. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to addressing the remaining legal requirements related to its former operations, and to service the repayment of principal and interest on the Authority's debt, which is payable solely from the Commonwealth of Puerto Rico's (the Commonwealth) appropriations. Also, the Authority is maintaining on its books the proportionate share of assets, liabilities, deferred outflows of resources, deferred inflows of resources and related expenses for pension and other postemployment benefit to its retirees.

1. Financial Highlights

- The Authority's net deficit increased by approximately \$8 million during fiscal year 2022. The Authority does not have operations, but it has debt outstanding of approximately \$132 million. The increase in net deficit is mostly attributed to interest accrued during the year on such debt. There were no debt service payments during fiscal year 2022 because the certified budget of the Commonwealth did not include appropriations for such purpose.
- Total assets and deferred outflows of resources of the Authority amounted to approximately \$0 and \$4.8 million, respectively, and total liabilities and deferred inflows of resources amounted to approximately \$186 million and \$951,000 as of June 30, 2022, respectively, for a net deficit of approximately \$182.1 million.
- The Authority has debt outstanding (the PFC Notes) related to bonds issued by the Puerto Rico Public Finance Corporation (PFC), a component unit of the Government Development Bank for Puerto Rico (GDB), with an outstanding balance of approximately \$132 million. Interest expense on bonds payable was approximately \$6.8 million during fiscal year 2022. In addition, approximately \$1.1 million of amortization of deferred loss for debt refunding was recognized within interest expense during fiscal year 2022.
- The U.S. District Court for the District of Puerto Rico approved the PFC Qualifying Modification on December 30, 2022, and it went effective on January 12, 2023. Upon the effective date of the PFC Qualifying Modification, the outstanding debt of the Authority described in Note 7 will be discharged and considered extinguished.

2. Financial Statements Overview

The financial statements include management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements. The Authority's basic financial statements comprise three components: a) government-wide financial statements, b) fund financial statements, and c) notes to the basic financial statements.

The basic financial statements include a section of required supplementary information (unaudited) immediately following its notes. This section includes information of the proportionate share of collective total pension liability and the total other postemployment benefits liability and related ratios from June 30, 2018 to June 30, 2022.

PUERTO RICO MARITIME SHIPPING AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

3. Required Financial Statements

The statement of net position provides information about the nature and amounts of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the net balance representing its net deficit. Revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Authority's operations during the reporting period.

Governmental funds financial statements present the financial position and results of operations of governmental fund types using a current financial resources measurement focus. The statement of revenue, expenditures, and changes in fund balances can be used to determine, for example, whether and how the Authority met its debt service requirements for the year.

4. Government-Wide Financial Analysis

The statement of net deficit and the statement of activities report information about the Authority's activities in a way that will help determine whether the Authority is better or worse financially because of this fiscal year's activities. Both statements present the net position of the Authority as of the fiscal year ended June 30, 2022, and the changes from the prior year. Over time, increases or decreases in the Authority's net deficit are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, and new or changed government legislation.

Condensed statements of net deficit as of June 30, 2022 and 2021 are presented below (in thousands):

| | 2022 | 2021 | Amount | Percent |
|---------------------------------------|--------------|--------------|------------|----------|
| Assets-Current assets | \$ - | \$ - | \$ - | 0.00% |
| Deferred Outflows of Resources | 4,842 | 6,152 | (1,310) | (21.29)% |
| Liabilities | | | | |
| Current liabilities | 49,377 | 42,357 | 7,020 | 16.57% |
| Non-current liabilities | 136,655 | 137,269 | (614) | -0.45% |
| Total Liabilities | 186,032 | 179,626 | 6,406 | 3.57% |
| Deferred Inflows of Resources | 951 | 792 | 159 | 20.08% |
| Net Deficit | \$ (182,141) | \$ (174,266) | \$ (7,875) | 4.52% |

The activities of the Authority are limited to accounting for the resources contributed by the Commonwealth for the payment of principal and interest on the PFC Notes. Increase in current liabilities was due to an increase in accrued interest payable on the indebtedness to PFC of approximately \$6.8 million, as no interest payments were made during the year. There was no principal payment scheduled for the fiscal year 2022. In addition, the amounts due to the Commonwealth increased by approximately \$218,000 when compared to the prior year due to

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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PayGo pension related expenses, and other postemployment benefits payments made by the Commonwealth on behalf of the Authority.

The decrease in deferred outflow of resources was principally due to the scheduled amortization of the deferred loss on refunding of debt for fiscal year 2022 of approximately \$1.052 million, and reductions of approximately \$257,000 (net of the aforementioned PayGo payments of \$218,000) related to the proportionate share of the components of the pension-related deferred outflows of resources. The increase of \$159,000 in the deferred inflows of resources was also related to the accounting and financial reporting of the proportionate share of the related liabilities of pensions. The Authority recognizes its proportionate share of the total pension liability, total postemployment liability, deferred outflows of resources, deferred inflows of resources and pension and other postemployment benefits expenses.

Condensed program revenues, expenses, and change in net deficit for the year ended June 30, 2022 and 2021 are presented below (in thousands):

| | Year Ended June 30, | | Change | |
|---|---------------------|---------------------|-------------------|----------------|
| | 2022 | 2021 | Amount | Percent |
| GOVERNMENTAL ACTIVITIES | | | | |
| Program Revenues - Contribution from | | | | |
| Commonwealth of Puerto Rico | \$ 7 | \$ 4 | \$ 3 | 75.00 % |
| Expenses: | | | | |
| Interest on bonds payable | 7,889 | 7,889 | - | 0.00% |
| Pension and other postemployment benefits | (15) | 153 | (168) | (109.80)% |
| Other expenses | 8 | 11 | (3) | (27.27)% |
| Total expenses | <u>7,882</u> | <u>8,053</u> | <u>(171)</u> | <u>(2.12)%</u> |
| Change in net deficit | <u>(7,875)</u> | <u>(8,049)</u> | <u>174</u> | <u>(2.16)%</u> |
| Net Deficit, Beginning of year | <u>(174,266)</u> | <u>(166,217)</u> | <u>(8,049)</u> | <u>4.84 %</u> |
| Net Deficit, End of year | <u>\$ (182,141)</u> | <u>\$ (174,266)</u> | <u>\$ (7,875)</u> | <u>4.52 %</u> |

Comparative statements of net deficit show the change in financial position of the Authority, and the statements of activities provides guidance as to the nature and source of these changes. The net deficit increased by approximately \$8 million of which \$7.9 million are due to the effect of interest expense of approximately \$6.8 million for which no appropriation from the Commonwealth was received during fiscal year 2022 and approximately \$1.1 million of amortization of deferred loss for debt refunding during the fiscal year 2022.

5. Governmental Fund Financial Statements Analysis

The Authority has two governmental funds: the general fund and the debt service fund, both of which are major funds. Governmental funds are used to account for essentially the same functions reported as government-wide financial statements. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The governmental fund deficit as of June 30, 2022, and June 30, 2021, amounted to approximately \$49.2 million and \$42.1 million, respectively, an

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

increase caused mainly by the aggregated effect of interest expense of approximately \$6.8 million, and increase of approximately \$218,000 in the due to the Commonwealth related to the PayGo payments made by the Commonwealth on behalf of the Authority for pensions and other postemployment benefits.

6. Debt Administration

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable solely from the Commonwealth's appropriations. There was no appropriation for the payment of the PFC Notes in the Commonwealth's annual budget for fiscal years 2022 and 2023. As such, none of the payments on the PFC Notes, nor the corresponding payments on the PFC Bonds that have come due and payable on subsequent fiscal years have been made in full as of the date hereof.

In addition, although the Commonwealth Plan of Adjustment does not grant a release of the PFC Notes, as a result of the Commonwealth Plan of Adjustment's discharge and preemption provisions, there will not be future appropriations related to the PFC Notes. As a result, the contingency that would trigger the Authority's contingent obligation to pay the PFC Notes once it receives appropriations will not occur.

On January 20, 2022, the Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplated a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplated that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes.

On December 30, 2022, the U.S. District Court for the District of Puerto Rico approved the PFC Qualifying Modification, and it went effective on January 12, 2023. Upon the effective date of the PFC Qualifying Modification, the outstanding debt of the Authority of approximately \$132 million along with its previously interest balance in arrears and interest accrued through January 12, 2023, will be discharged, and considered extinguished.

7. Currently Known Facts and Events

Puerto Rico Finance Corporation's Qualifying Modification

The U.S. District Court for the District of Puerto Rico approved the PFC Qualifying Modification on December 30, 2022, and it went effective on January 12, 2023. As discussed above, upon the effective date of the PFC Qualifying Modification, the Authority's outstanding debt along its previously defaulted interest and accrued interest through January 12, 2023, will be discharged and considered extinguished. Refer to Note 7 for further information.

Request for Information

This financial report is designed to provide all interested parties with a general overview of the Authority's finances. If you have questions about this report or need additional information, contact the Puerto Rico Maritime Shipping Authority, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIT
JUNE 30, 2022

Assets and Deferred Outflows of Resources

Deferred Outflows of Resources

| | |
|---|--------------|
| Loss on bonds refundings | \$ 4,056,667 |
| Pension related | 780,054 |
| Other postemployment benefits related | 5,400 |
| Total deferred outflows of resources | 4,842,121 |
| Total assets and deferred outflows of resources | 4,842,121 |

Liabilities and Deferred Inflows of Resources

Current liabilities:

| | |
|---|------------|
| Accounts payable and accrued liabilities | 7,600 |
| Due to Fiscal Agency and Financial Advisory Authority | 6,800 |
| Due to Commonwealth of Puerto Rico | 1,284,212 |
| Accrued interest payable | 47,860,183 |
| Total pension liability | 212,318 |
| Total other postemployment benefit liability | 5,400 |
| Total current liabilities | 49,376,513 |

Non-Current liabilities

| | |
|--|--------------------|
| Total pension liability | 4,865,480 |
| Total other postemployment benefit liability | 95,314 |
| Bonds payable | 131,694,000 |
| Total non-current liabilities | 136,654,794 |
| Total liabilities | 186,031,307 |

Deferred Inflows of Resources

| | |
|---|-------------|
| Pension related | 951,471 |
| Total deferred inflows of resources | 951,471 |
| Total liabilities and deferred inflows of resources | 186,982,778 |

Net Deficit - unrestricted \$ (182,140,657)

See accompanying notes to basic financial statements

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
JUNE 30, 2022

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues, Operating Grants and Contributions</u> | <u>Net Expenses and Change in Net Deficit</u> |
|---|---------------------|---|---|
| Governmental Activities: | | | |
| Contributions from Commonwealth | \$ - | \$ 7,500 | \$ 7,500 |
| Interest on bonds payable | 7,889,308 | - | (7,889,308) |
| Other expenses | 7,600 | - | (7,600) |
| Pension and other postemployment benefits expenses (benefit) | (15,194) | - | 15,194 |
| Total governmental activities | <u>\$ 7,881,714</u> | <u>7,500</u> | <u>(7,874,214)</u> |
| Change in Net Deficit | | | (7,874,214) |
| Net Deficit, Beginning of year | | | <u>(174,266,443)</u> |
| Net Deficit, End of year | | | <u><u>\$ (182,140,657)</u></u> |

See accompanying notes to the basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
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BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

| | General Fund | Debt Service Fund | Total Governmental Funds |
|---|--------------------|----------------------|--------------------------------|
| Assets | | | |
| None | \$ - | \$ - | \$ - |
| Total assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Liabilities and Fund Balances (Deficit) | | | |
| Liabilities | | | |
| Accounts payable and other liabilities | \$ 7,600 | \$ - | \$ 7,600 |
| Due to Fiscal Agency and Financial Advisory Authority | 6,800 | - | 6,800 |
| Due to Commonwealth of Puerto Rico | 1,284,212 | - | 1,284,212 |
| Accrued interest payable | - | 47,860,183 | 47,860,183 |
| Total liabilities | <u>1,298,612</u> | <u>47,860,183</u> | <u>49,158,795</u> |
| Fund Deficit | | | |
| Unassigned | (1,298,612) | (47,860,183) | (49,158,795) |
| Total fund deficit | <u>(1,298,612)</u> | <u>(47,860,183)</u> | <u>(49,158,795)</u> |
| Total Liabilities and Fund Deficit | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
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RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET DEFICIT
- GOVERNMENTAL ACTIVITIES
JUNE 30, 2022

| | |
|--|--------------------------------|
| Total fund deficit - governmental funds: | \$ (49,158,795) |
| Amounts reported for governmental activities in the statement of net deficit are different because: | |
| Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements; however, such loss is deferred and amortized over the remaining life of the refunded bonds | 4,056,667 |
| Deferred outflows of resources do not constitute current financial resources and, therefore, are not reported in the funds | |
| Other postemployment benefits | 5,400 |
| Pension related | 780,054 |
| Liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements | |
| Total pension liability | (5,077,798) |
| Total other postemployment liability | (100,714) |
| Deferred inflows of resources are not reported as revenue in the governmental fund financial statements, therefore, are not reported in the funds financial statements | (951,471) |
| Bonds and notes payable are not due and payable in the current period, and, therefore, are not reported in the fund financial statements | (131,694,000) |
| Net deficit of governmental activities | <u><u>\$ (182,140,657)</u></u> |

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|------------------------------|---|
| Revenues | | | |
| Contributions from Commonwealth | \$ 7,500 | \$ - | \$ 7,500 |
| Total revenues | <u>7,500</u> | <u>-</u> | <u>7,500</u> |
| Expenditures | | | |
| Interest on bonds payable | - | 6,837,169 | 6,837,169 |
| Other expenses | 7,600 | - | 7,600 |
| Pension and other postemployment benefits | 217,718 | - | 217,718 |
| Total expenditures | <u>225,318</u> | <u>6,837,169</u> | <u>7,062,487</u> |
| Net Change in Fund Balances | (217,818) | (6,837,169) | (7,054,987) |
| Fund Deficit, Beginning of year | (1,080,794) | (41,023,014) | (42,103,808) |
| Fund Deficit, End of year | <u>\$ (1,298,612)</u> | <u>\$ (47,860,183)</u> | <u>\$ (49,158,795)</u> |

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
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**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES- GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

| | |
|---|-----------------------|
| Net changes in fund deficit - total governmental funds: | \$ (7,054,987) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Some expenses (benefit) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures (revenues) in the governmental funds | 232,912 |
| The amortization of loss on bond refundings does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | (1,052,139) |
| Change in net deficit of governmental activities | <u>\$ (7,874,214)</u> |

See accompanying notes to basic financial statements.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

1. REPORTING ENTITY

The Puerto Rico Maritime Shipping Authority (the Authority) is a component unit of the Commonwealth, created by Act No. 62 of the Legislature of the Commonwealth on June 10, 1974 (Act 62), and an affiliate of the Government Development Bank (GDB), another component unit of the Commonwealth.

On March 23, 2018, GDB ceased its operations and management initiated an orderly wind down process, which included a restructuring of GDB's debts pursuant to a Qualifying Modification under Title VI of PROMESA (the GDB Qualifying Modification). On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB Qualifying Modification, which became effective on November 29, 2018. Subsequent to the discontinuance of operations of GDB, management, administrative and accounting support services are provided to the Authority by the Puerto Rico Fiscal Agency and Financial Authority ("FAFAA").

On June 16, 1993, the Governor of Puerto Rico issued the Executive Order OE-1993-25, formally recommending efforts be initiated conducive to the sale of the Authority's operations. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of the Public Finance Corporation (PFC) Notes.

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable solely from Commonwealth appropriations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to Accounting Principles Generally Accepted in the United States of America (GAAP) for governments, as prescribed by the Governmental Accounting Standards Board (GASB). Specifically, the Authority has adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative, and non-authoritative literature if the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Below is a description of the more significant accounting policies followed by the Authority:

Government-Wide Financial Statements —The statement of net deficit and the statement of activities report information on all activities of the Authority. Only governmental activities are presented in the Authority's financial statements. Governmental activities are financed through intergovernmental revenue and occasionally other financing sources.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

Following is a description of the Authority's government-wide financial statements:

- The statement of net deficit presents the Authority's assets, deferred outflows and liabilities and deferred inflows, with the difference reported as net deficit.
- The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues often include grants and contributions that are restricted to meeting the operational, or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund's Financial Statements – Fund accounting is designed to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All of the financial activities of the Authority have been classified as governmental, and all funds are reported in separate columns in the fund financial statements.

Fund balances for each governmental fund may be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable** – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts), or are legally or contractually required to be maintained intact.
- **Restricted** – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- **Committed** – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned** – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- **Unassigned** – amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then, unrestricted resources, as needed.

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

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

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The statement of net position (deficit) presents the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position (deficit).

Net position (deficit) is reported in three categories:

- Net investment in capital assets - consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. The Authority has no investment in capital assets.
- Restricted - results when constraints placed on net position use are either externally imposed by creditors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and the unrestricted resources, as needed.
- Unrestricted - consists of net position (deficit) that does not meet the definition of the two preceding categories. Unrestricted net deficit often is designated to indicate that management does not consider it to be available for general operations. Unrestricted net deficit often has constraints on resources, which are imposed by management, but can be removed or modified.

Governmental Fund's Financial Statements – The governmental fund's financial statements are reported using the current financial resources measurement focus, and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when it is collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are to be collected within 60 days after the end of the current fiscal year-end. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due, including principal and interest due on July 1 of the following fiscal year, if resources are available for its payment as of June 30, 2022.

The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- ***General Fund*** - The general fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- ***Debt Service Fund*** - The debt service fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

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Use of Estimates – The preparation of the financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted Assets – Funds set aside for the payment and guarantee of bonds and interest payable, and for other specified purposes, are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net deficit 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 deficit that applies to a future period(s), and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the government-wide financial statements, there are three major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) pension-related items; and (iii) other postemployment benefit related items. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt and the amortization recognized as a component of interest expense in a systematic and rational manner. Of the pension-related items (further disclosed in Note 9), changes in assumptions are capitalized, and recognized over a period equal to the expected remaining working lifetime of active and inactive participants, while changes in proportion are recognized over the average of the expected remaining service lives of all plan members, which is 6 years for 2019 (measurement date). Pension benefit payments made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. Of the other postemployment benefit related items (further disclosed in Note 10), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the other postemployment benefit liability after the next measurement date.

In addition to liabilities, the statement of net deficit 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 deficit and resources that applies to a future period(s), and so will not be recognized as an inflow of resources (revenue) until that time. On the government-wide financial statements, there is one major caption that qualifies for reporting in this category, which consists of pension-related items. With respect to the pension-related items (further disclosed in Note 9), changes in assumptions, and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

Long-Term Debt – The liabilities reported in the government-wide financial statements include the Authority's outstanding debt, which consist of notes that, together with notes of department, agencies, instrumentalities, and public corporations, serve as the sole source of repayment of bonds issued by PFC. As a result of the issuance of the PFC 2012 Series A Bonds, and the refunding of certain PFC bonds with the proceeds of the 2012 Series A Bonds, the Authority recognized during June 2012, \$131.7 million of outstanding bonds liability. The PFC 2012 Series A Bonds bear interest from 3.10% to 5.35%, and interest is payable on a monthly basis starting on August 1, 2012.

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Bond Issue Costs and Premium/Discount on Bonds – Premium (discounts) on bonds are amortized in a systematic manner over the life of the debt in the government-wide financial statements. Premium (discounts) are recognized in the period when the related long-term debt is issued in the governmental funds' financial statements, and therefore are not accounted for in subsequent periods. Bond issue costs are expensed as incurred in both government-wide, and governmental fund financial statements.

Interfund Transactions – Transfers represent flows of assets (such as cash or goods) without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers, and as other financing sources in the funds receiving transfers.

Accounting for Pensions Cost – Effective July 1, 2017, a new “pay-as-you-go” (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws, were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners, and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Authority started to applying the guidance 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, an amendments of Certain Provisions of GASB Statements No. 67 and 68* (GASB Statement 73). Statement No. 73 maintains the “accrual basis” model under Statement 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the Plan, and converted it into a PayGo system while the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, the Authority recognizes a Total Pension Liability, pension expenses and related accounts, accordingly. Further details on the accounting for pension costs are disclosed in Note 9.

The Central Government and its component units are considered to be one employer, and are classified for financial reporting purposes as a single employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency, and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

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ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2021, actuarial measurement data was used for the pension benefits financial reporting recognition, as of, and for the fiscal year ended June 30, 2022.

The Authority's pension expense (benefit) for the year ended June 30, 2022, amounted to approximately \$(18,000), and the Total Pension Liability, as of June 30, 2022, amounted to approximately \$5.1 million. Disclosures required under GASB Statement No. 73 can be found in Note 9.

Other Postemployment Benefits — The Authority accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as amended by GASB Statement No. 85, Omnibus 2017*, which also requires additional reporting, and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 10.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of the Authority subsequent to the measurement date, of \$5,400.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2021, actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2022.

The Authority's annual OPEB expense for the year ended June 30, 2022, amounted to approximately \$3,000 and the OPEB liability as of June 30, 2022, amounted to approximately \$101,000. Disclosures required under GASB Statement No. 75 can be found in Note 10.

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GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

Encumbrances — Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately.

New Accounting Standards Adopted and Accounting Pronouncements Issued But Not Yet Effective

New Accounting Standards Adopted

During the fiscal year ended on June 30, 2022, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations, or in the presentation of the financial statements of the Authority.

Accounting Pronouncements Issued But Not Yet Effective

- ***GASB Statement No. 91, Conduit Debt Obligations.*** This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date.

- ***GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payments Arrangements.*** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, 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. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered

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a partial or full PPP termination. 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.* The primary objective of this Statement is to provide 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 requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. 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.
- *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. 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 on the Authority's basic financial statements.

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3. GOING CONCERN

As described in Note 1, the operations of the Authority have been practically inactive since 1995 and its role limited only to processing the remaining legal requirements regarding its former operations and its long-term debt.

The Authority has no cash balance as of June 30, 2022. The Authority held deposits at GDB of approximately \$1.2 million, and a custodial credit loss on these deposits was recorded in previous years resulting in an impairment of the entire balance. As a result of the execution of the GDB Qualifying Modification, the Authority received beneficial units of the PET amounting to \$1.2 million in exchange for the deposits held at GDB. The units received and the custodial credit loss were reclassified to deposits claim receivable from PET, and into an impairment, with a net carrying amount of zero. The Authority's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case. For additional information on the PET Claim refer to Note 4.

Also, the Authority currently does not have or is not expected to have enough liquid financial resources to meet its obligations for pension and postemployment benefit to its retirees, without receiving recurrent assignments of funds from the Puerto Rico Legislature or from other governmental entities to finance its operations.

In light of the foregoing, management believes that there is substantial doubt about the Authority's ability to continue as a going concern.

4. CLAIM RECEIVABLE FROM PUBLIC ENTITY TRUST (PET)

On August 10, 2018, GDB commenced an action to restructure certain of its indebtedness pursuant to the GDB Qualifying Modification under Title VI of PROMESA. The United States District Court for the District of Puerto Rico approved the GDB Qualifying Modification on November 6, 2018, and the GDB Qualifying Modification became effective on November 29, 2018.

Pursuant to Act No. 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act), and the terms of the GDB Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Authority, were exchanged for beneficial units in the PET created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the GDB Qualifying Modification, *i.e.*, November 29, 2018 (the Closing Date), the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB, or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB.

The Authority held deposits at GDB of approximately \$1.2 million, a custodial credit loss on these deposits was recorded in previous years resulting in an impairment of the entire balance as of June 30, 2019. As a result of the execution of the GDB Qualifying Modification, the Authority received beneficial units of the PET amounting to \$1.2 million in exchange for the deposits held at GDB. The

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deposit claim from PET and the custodial credit loss were reclassified to deposits claim receivable from PET and into an impairment, respectively, with a net carrying amount of zero.

The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$578 million against the Commonwealth (the PET Claim), which is the subject of a proof of claim filed in the Commonwealth’s Title III case. As of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

In addition, as discussed in Note 7, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET.

The Authority’s recovery of the PET units will depend on the payment of the claim filed in the Commonwealth’s Title III case. As result, units received from the PET were considered fully impaired.

PET claim receivable and its corresponding impairment as of June 30, 2022 follows:

| | Claim Balance | Impairment | Carrying Amount |
|----------------------|---------------|----------------|-----------------|
| PET Claim Receivable | \$ 1,232,149 | \$ (1,232,149) | \$ - |

5. DUE TO COMMONWEALTH

The Commonwealth has made PayGo pension related and other postemployment benefits payments on behalf of the Authority amounting to approximately \$1,242,782 and \$41,430, respectively. Accordingly, a due to the Commonwealth has been recorded in the fund financial statements because amounts were due and payable as of June 30, 2022.

6. RELATIONSHIP WITH FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY (FAFAA)

The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016 (the Moratorium Act), as amended, created the FAFAA as an independent public corporation to assume GDB’s role as fiscal agent, financial advisor, and reporting agent for the Commonwealth and its instrumentalities. Act No. 2 of 2017 subsequently repealed and replaced the provisions of the Moratorium Act regarding FAFAA. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth’s financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant PROMESA. During the year ended June 30, 2022, FAFAA provided certain management, and administrative services to the Authority at no cost.

In addition, FAFAA has assumed the cost of certain professional services, including the annual fees for the external audit of the Authority that have been accounted for as contributions from the Commonwealth.

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7. BONDS PAYABLE

On September 27, 1994, the Legislature of the Commonwealth approved Act No. 113 (Act 113), which authorized the Authority to refinance its outstanding debt and required deposits to reserve accounts, for an amount not to exceed \$310 million.

Act No. 113 also provides that the Commonwealth will honor the payment of principal and interest on the refinanced debt, and that the Director of the Office of Management and Budget (OMB) will include annually in the budget of the Commonwealth to be submitted to the Legislature an amount sufficient to cover principal and interest on the restructured debt and related expenses.

During June 2012, the Authority refinanced and defeased \$114 million of its outstanding debt through the proceeds of bonds issued by PFC. As a result of the issuance of the PFC 2012 Series A Bonds, and the refunding of certain PFC bonds with the proceeds of the 2012 Series A Bonds, the Authority recognized during June 2012, \$131.7 million of outstanding bonds liability. The PFC 2012 Series A Bonds bear interest from 3.10% to 5.35%, and interest is payable on a monthly basis starting on August 1, 2012.

Changes in bonds payable for the year ended June 30, 2022, are summarized as follows (in thousands):

| <u>Description</u> | <u>Balance as of June 30, 2021</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance as of June 30, 2022</u> | <u>Due Within One Year</u> |
|---------------------|--|------------------|-------------------|--|--------------------------------|
| Bonds payable | | | | | |
| 2012 Series A Bonds | \$ 131,694 | \$ - | \$ - | \$ 131,694 | \$ - |

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As of June 30, 2022, the outstanding bonds debt service requirements are as follow:

| Year Ending June 30, | Principal | Interest | Total |
|--|-----------------------|----------------------|-----------------------|
| 2023 (including balance in arrears) | \$ - | \$ 54,697,352 | \$ 54,697,352 |
| 2024 | 27,999,000 | 5,647,212 | 33,646,212 |
| 2025 | 16,095,000 | 4,725,183 | 20,820,183 |
| 2026 | 18,420,000 | 3,805,525 | 22,225,525 |
| 2027 | 20,870,000 | 2,761,980 | 23,631,980 |
| 2028-2032 | 48,310,000 | 10,769,104 | 59,079,104 |
| | <u>\$ 131,694,000</u> | <u>\$ 82,406,356</u> | <u>\$ 214,100,356</u> |

The PFC Bonds are limited obligations of PFC payable solely from the proceeds of payments of principal of and interest on certain promissory notes (collectively, the "Notes") issued to PFC by certain departments, agencies, instrumentalities, and public corporations (the "Authorized Debtors") of the Commonwealth, which Notes are in turn payable solely from budgetary appropriations approved annually by the Legislature of Puerto Rico pursuant to certain legislation (the "Appropriation Acts"). The Authority is one of the Authorized Debtors under the Notes.

The Appropriation Acts require the OMB to include the amounts required to pay debt service on the Notes in the proposed annual budget of the Commonwealth that is submitted by the Governor to the Legislature of Puerto Rico. However, the Legislature of Puerto Rico is not legally required to appropriate funds for such payments. The non-appropriation of funds for payments on the Notes resulted in a lack of proceeds available under the Notes to pay the principal and interest due on the PFC Bonds. The debt service payments of the PFC Bonds are payable solely from the proceeds of the Notes, and the PFC Bonds are limited obligations of PFC and not of any Commonwealth entity. Therefore, in the event of a non-appropriation of funds and the resulting lack of payment of the PFC Bonds, bondholders have no recourse to other assets of the Authorized Debtors or of PFC, nor do they have recourse against the Legislature of Puerto Rico, the Commonwealth, or other governmental entities of the Commonwealth.

On November 3, 2021, the Oversight Board filed the Commonwealth Plan of Adjustment, which provides that claims against the Commonwealth arising from, or related to, indebtedness only payable from appropriations of the Commonwealth Legislature under existing loans or legislative resolution shall not receive any recovery under the Commonwealth Plan of Adjustment, and all such claims shall be discharged upon the Effective Date. Although the Commonwealth Plan of Adjustment does not grant a release of the PFC Notes, as a result of the Commonwealth Plan of Adjustment's discharge and preemption provisions, there will not be future appropriations related to the PFC Notes. As a result, the contingency that would trigger the Authority's contingent obligation to pay the PFC Notes once it receives appropriations will not occur. For further information on the Commonwealth Plan of Adjustment refer to Note 11, and the Commonwealth

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Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

Due to the non-appropriation of funds for the payment of the PFC Notes in the annual budget for prior fiscal years, none of the payments on the PFC Notes, nor the corresponding payments on the PFC Bonds that have come due and payable in prior and current years have been made. On May 18, 2018, the PFC Bonds trustee, filed a proof of claim in the Commonwealth's Title III proceeding under PROMESA with respect to the Notes.

On January 20, 2022, FAFAA, on behalf of PFC, entered into the PFC RSA with holders of a majority of the PFC Bonds. The PFC RSA contemplated a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplated that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to the PFC Notes.

On December 30, 2022, the U.S. District Court for the District of Puerto Rico approved the PFC Qualifying Modification, and it went effective on January 12, 2023. Upon the effective date of the PFC Qualifying Modification, the outstanding debt of the Authority of approximately \$132 million along with its previously interest balance in arrears and interest accrued through January 12, 2023, will be discharged, and considered extinguished.

8. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Changes in deferred outflows and inflows of resources for the year ended June 30, 2022, are summarized (in thousands) as follows:

| <u>Deferred outflows of resources</u> | <u>Balance as of June 30, 2021</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance as of June 30, 2022</u> |
|---------------------------------------|--|------------------|-------------------|--|
| Loss on bonds refundings | \$ 5,109 | \$ - | \$ (1,052) | \$ 4,057 |
| Pension related | 1,035 | 212 | (467) | 780 |
| Other postemployment benefits | 8 | 5 | (8) | 5 |
| Total | <u>\$ 6,152</u> | <u>\$ 217</u> | <u>\$ (1,527)</u> | <u>\$ 4,842</u> |
| | | | | |
| <u>Deferred inflows of resources</u> | | | | |
| Pension related | \$ 792 | \$ 159 | \$ - | \$ 951 |
| Total | <u>\$ 792</u> | <u>\$ 159</u> | <u>\$ -</u> | <u>\$ 951</u> |

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9. EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

Plan Description

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the Plan was administered by ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017, and the Commonwealth implemented a PayGo system for the payment of pensions. In addition, pursuant to Act No. 106-2017, ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS, TRS, and JRS. However, upon the Effective Date of the Commonwealth Plan of Adjustment, pension benefits at TRS and JRS were frozen and cost-of-living adjustments eliminated, among other things. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to Note 11 and the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>

Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who, at June 30, 2013 were participants of previous programs, became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013), froze all retirement benefits accrued through June 30, 2013, under the defined

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benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

Pursuant to a settlement incorporated in the Commonwealth Plan of Adjustment, on the Effective Date (i.e. March 15, 2022), all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program were discharged.

(a) Service Retirement Eligibility Requirements

- (1) Eligibility for Act No. 447 Members - Act No. 447 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. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, 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 (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), 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 attained 30 years of credited service by December 31, 2013, are 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 with 10 years of credited service 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 | 61 |
| July 1, 1956 to June 30, 1957 | 56 | 60 |
| Before July 1, 1956 | 57 and up | 59 |

In addition to the requirements of the table above, as per 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.

- (2) *Eligibility for Act No. 1 Members* - Act No. 1 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 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 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.

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Act No. 1 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, pursuant to Act No. 1, 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.

- (3) *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 otherwise.*

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 otherwise.

| <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 |

- (4) *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.*

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 public officers in high-risk positions must retire upon attainment of age 58, and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority, as applicable.

(c) Service Retirement Annuity Benefits

Retirement annuity benefits include an annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

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- (1) Accrued Benefit as of June 30, 2013, for Act No. 447 Members - The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member, all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013, or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as

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Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- (2) *Accrued Benefit as of June 30, 2013, for Act No. 1 Members* - The accrued benefit as of June 30, 2013, shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

- Past Ad Hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124, approved on June 8, 1973, and Act No. 23, approved on September 23, 1983.

- Minimum Benefits for Members who retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).

- Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year starting in 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members who were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member who was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month, received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007).

Under the Commonwealth Plan of Adjustment, these COLAs were eliminated from and after the Effective Date. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

(3) Special "Bonus" Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December, provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July, provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Total Pension Liability Allocation Methodology

GASB Statement No. 73 requires that the primary government, and the component units that provide pensions through the same defined benefit pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage are based on the ratio of each participating entity'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.

Total Pension Liability and Actuarial Information

The Commonwealth's total pension liability was approximately \$27.2 billion of which \$5.1 million are the proportionate share of the Authority as of June 30, 2021. The total pension liability as of June 30, 2021, 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, 2021).

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(a) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2021, 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

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

— *Pre-retirement Mortality*

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, the PubG-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using 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.

One hundred percentage of deaths while in active service are assumed to be occupational for members covered under Act 127.

— *Post-retirement Healthy Mortality*

Rates, which vary by gender, are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 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. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality.

— *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.

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— *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. |

(b) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 2.16%, as well as what it would be if it were calculated using the discount rate of one percentage point lower (1.16%) or one percentage-point higher (3.16%) than the current rate (dollars in thousands):

| | 1% Decrease or (1.16%) | Current discount rate of (2.16%) | 1% Increase or (3.16%) |
|-------------------------|-----------------------------------|---|-----------------------------------|
| Total pension liability | <u>\$ 5,801,855</u> | <u>\$ 5,077,798</u> | <u>\$ 4,491,493</u> |

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Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2022.

| <u>Source</u> | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|---|---|--|
| Differences between expected and actual experience in measuring total pension liability | \$ 8,111 | \$ 151,278 |
| Changes in assumptions | 519,803 | 60,002 |
| Changes in proportion | 39,822 | 740,191 |
| Employer contributions made subsequent to the measurement date | 212,318 | — |
| Total | <u>\$ 780,054</u> | <u>\$ 951,471</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) at June 30, 2022, will be recognized in pension expense (benefit) in future years as follows:

| | <u>Amount</u> |
|----------------------|---------------------|
| Year ending June 30: | |
| 2023 | \$ (94,995) |
| 2024 | (94,995) |
| 2025 | (126,644) |
| Total | <u>\$ (316,634)</u> |

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018, 5 years for 2019 and 2020, and 4 years for 2021. The deferred outflows of resources related to benefit payments made by the Authority subsequent to the measurement date, which amounted to \$212,318, is also not included in the table above.

Pension Expense (Benefit)

The pension benefit of the Authority for the year ended June 30, 2022, amounted to approximately \$(18,000).

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10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the ERS (the Plan) is an unfunded, defined benefit otherpostemployment healthcare benefit plan (OPEB). The Plan is 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 Statement No. 75). Under the guidance of GASB Statement 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.

The 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 Plan is financed by the Commonwealth through legislative appropriations. 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 Plan members that retired after June 30, 2013.

OPEB Liability Allocation Methodology

GASB Statement No. 75 requires that the primary government, and its component units that provide OPEB benefits through the same defined benefit OPEB plan recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage is based on the ratio of each participating entity's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date.

Total OPEB Liability and Actuarial Information

The Commonwealth's total OPEB liability was approximately \$798.1 million, of which \$100,714 is the proportionate share of the Authority as of June 30, 2021. The total OPEB liability as of June 30, 2021, 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, 2021). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial Assumptions

Discount Rate

The discount rate for June 30, 2021, 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.

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Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, the PubG-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.

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

Act 127 Post-retirement Healthy Mortality

Rates, which vary by gender, are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 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.

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.

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.

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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan at June 30, 2021, calculated using the discount rate of 2.16%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of one percentage point lower (1.16%) or one percentage point higher (3.16%) than the current rate:

| | <u>1% Decrease or (1.16%)</u> | <u>Current discount rate of (2.16%)</u> | <u>1% Increase or (3.16%)</u> |
|----------------------|-----------------------------------|---|-----------------------------------|
| Total OPEB Liability | <u>\$ 110,561</u> | <u>\$ 100,714</u> | <u>\$ 92,345</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, 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 year.

OPEB Expense

The OPEB expense of the Authority for the year ended June 30, 2022, amounted to approximately \$3,000.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 3, 2023 to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Authority. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality.

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Puerto Rico Finance Corporation's Qualifying Modification

On January 20, 2022, FAFAA, on behalf of PFC, entered into the PFC RSA with holders of a majority of the PFC Bonds. The PFC RSA contemplated a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplated that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes.

The U.S. District Court for the District of Puerto Rico approved the PFC Qualifying Modification on December 30, 2022, and it went effective on January 12, 2023. As discussed above, upon the effective date of the PFC Qualifying Modification, the Authority's outstanding debt along its previously defaulted interest and accrued interest through January 12, 2023, will be discharged and considered extinguished. Refer to Note 7 for further information.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of the Proportionate Share of Collective Total Pension Liability and Related Ratios
(Unaudited)
June 30, 2022

| Description | 2022* | 2021* | 2020* | 2019* | 2018* |
|---|--------------|--------------|--------------|--------------|--------------|
| Proportion of Total Pension Liability | 0.01868% | 0.02038% | 0.02251% | 0.02335% | 0.22293% |
| Proportionate Share of Total Pension Liability | \$ 5,077,798 | \$ 5,721,828 | \$ 5,593,001 | \$ 5,718,013 | \$ 6,465,979 |
| Covered - Employee Payroll | - | - | - | - | - |
| Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll | N/A | N/A | N/A | N/A | N/A |

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

*Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2019 was the first year that the Company transitioned from GASB No. 68 to No. GASB 73, as resulted of the PayGo 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.

See independent auditors' report on required supplementary information.

PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Proportionate Share of Total Other Postemployment Benefit Liability and Related Ratios (Unaudited)
June 30, 2022

| Description | 2021* | 2021* | 2020* | 2019* | 2018* |
|--|------------|------------|------------|------------|------------|
| Proportion of Total Other Post Employment Benefit Liability | 0.01262% | 0.01217% | 0.01370% | 0.01427% | 0.01391% |
| Proportionate Share of Total Other Post Employment Benefit Liability | \$ 100,714 | \$ 106,478 | \$ 113,987 | \$ 120,154 | \$ 128,069 |
| Covered - Employee Payroll | - | - | - | - | - |
| Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll | N/A | N/A | N/A | N/A | N/A |

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

*Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented at the Company. 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.

See independent auditors' report on required supplementary information.