Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements

June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Puerto Rico Ports Authority (the Authority), a Component Unit of Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Substantial Doubt About the Entity'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 financial statements, the Authority face significant risks and uncertainties, including liquidity risk, significant operating losses, working capital deficiencies, negative cash flows and the uncertainty as to fully satisfy its obligations and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plan regarding these matters are also described in Note 3. 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 Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Governmental Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Governmental Auditing Standards, we:

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

Auditors' Responsibilities for the Audit of the Financial Statements – (continued)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 4 through 15, the Schedule of Proportionate Share of the Collective Total Pension Liability, the Schedule of Proportionate Share of the Collective Other Postemployment Benefit Liability, and the Notes to Required Supplementary Information, on pages 87 through 89, 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.

Galindez LLC

San Juan, Puerto Rico
October 23, 2023
License No. LLC-322
Expires December 1, 2023

Introduction

The following Management's Discussion and Analysis of the financial performance and activity of the Puerto Rico Ports Authority (the Authority) is intended to provide an introduction to its financial statements for the fiscal year ended June 30, 2022, with selected comparative information from the fiscal year ended June 30, 2021. This section has been prepared by the Authority's management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

- The Authority's net position (deficit) improved for approximately $11.9 million from a restated deficiency of ($302.5) million at June 30, 2021 to ($290.6) million at June 30, 2022.

- Current assets, composed of: unrestricted cash, accounts receivable - net of allowance for doubtful accounts, leases receivable, prepaid expenses and other current assets, had a net increase of approximately $3.1 million, comparing figures at June 30, 2022 to those restated of June 30, 2021.

- Net capital assets increased for approximately $1.8 million, when comparing fiscal years 2022 and 2021.

- Other non-current assets, which include: restricted cash, restricted deposit consigned at court, leases receivable, due from governmental entities and other assets, had a net increase of $36.5 million for fiscal year 2022, as compared to restated balances of 2021.

- Deferred outflows of resources decreased for approximately ($15.4) million during fiscal year 2022.

- Total current liabilities, principally composed of current portions of loans and notes payable, accounts payable and accrued expenses, current portion of total pension, unearned revenues, and interest payable, increased in the aggregate for approximately $66.1 million during fiscal year 2022.

- Non-current liabilities, principally composed of long-term portions of notes payable, unearned revenues, due to governmental entities, total pension liability and other postemployment benefits, decreased for approximately $60.2 million during fiscal year 2022.

- Deferred inflows of resources had a net increase of $8.1 million during fiscal year 2022.

- During fiscal year 2022, the Authority collected passenger facility charges (PFC) for operations related to the Aguadilla and Ponce regional airports for approximately $1.6 million (approximately $121 thousand for 2021).

Financial Highlights – (continued)

- For comparative purposes of the Management's Discussion and Analysis overview of the financial statements, the Authority restated its current assets (lease receivables for $9.8 million), non-current assets (lease receivables for $123.6 million) and deferred inflows of resources related to leases for $133.4 million at June 30, 2021 for the effect of the adoption of GASB Statement No. 87, *Leases*.

- During fiscal year 2022, the Authority received in the aggregate net proceeds for approximately $41.7 million related to federal and local contributions (for 2021, the local and federal contributions received were $68.5 million, plus insurance recoveries of $28.7 million). In addition, during 2022, the Authority received the LMMIA operations revenue share from Aerostar, related to natural year 2021, for approximately $7.4 million.

Other Highlights

Related to the Luis Muñoz Marín International Airport (LMMIA) lease and use agreements (APP Agreements) entered into with Aerostar in February 2013, the Authority recognized approximately $3.8 million for fiscal year 2022 ($19.1 million in 2021) of additions to capital assets as a result of improvements and construction works already completed and placed in operations at the LMMIA by Aerostar. During 2018, the Authority began to accrue its annual rental income to be received from the APP Agreements based on the 5% of the estimated gross airport revenues of the LMMIA operations. The estimated annual rental income for calendar year 2022 was approximately $8.6 million, for which $4.3 million were recognized as accounts receivable as of June 30, 2022.

Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements, including the notes to the financial statements. The basic financial statements comprise the following: Statement of Net Position (Deficit), Statement of Revenues, Expenses, and Changes in Net Position (Deficit), Statement of Cash Flows and the Notes to Basic Financial Statements.

Statement of Net Position (Deficit)

The Statement of Net Position (Deficit) presents the financial position of the Authority at the end of the fiscal year and includes all of its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit). Net position (deficit) equals total assets, plus total deferred outflows of resources, less total liabilities, less total deferred inflows of resources.

Statement of Net Position (Deficit) – (continued)

A summarized comparison of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) follows:

	2022	2021 (as restated)	Change	
	(In Thousands)		In Dollars	Percentage
Assets:				
Current assets	$ 80,348	$ 77,238	$ 3,110	4%
Non-current assets:				
Capital assets, net	1,257,334	1,255,539	1,795	0%
Other non-current assets	275,930	239,445	36,485	15%
Total assets	1,613,612	1,572,222	41,390	3%
Deferred outflows of resources	75,784	91,226	(15,442)	-17%
Total assets and deferred outflows	$ 1,689,396	$ 1,663,448	$ 25,948	2%
Liabilities:				
Current liabilities	$ 488,458	$ 422,326	$ 66,132	16%
Non-current liabilities:				
Loans and notes payable	40,014	85,863	(45,849)	-53%
Other non-current liabilities	625,155	639,502	(14,347)	-2%
Total liabilities	1,153,627	1,147,691	5,936	1%
Deferred inflows of resources	826,358	818,244	8,114	1%
Net position (deficit):				
Net investment in capital assets	654,661	666,989	(12,328)	-2%
Restricted	117,757	105,682	12,075	11%
Unrestricted (deficit)	(1,063,007)	(1,075,158)	12,151	-1%
	(290,589)	(302,487)	11,898	-4%
Total liabilities, deferred inflows and net position (deficit)	$ 1,689,396	$ 1,663,448	$ 25,948	2%

Analysis of Net Position (Deficit) at June 30, 2022 and 2021

The Authority's net position (deficit) at June 30, 2022 includes assets of $1.614 billion, deferred outflows of resources of $75.8 million, liabilities of $1.154 billion and deferred inflows of resources of $826.4 million.

The increase in current assets of approximately $3.1 million is principally related to a net effect of the following: reduction in cash of ($7.6) million, increase in accounts receivable of $8.3 million, increase in the current portion of lease receivables of $2.8 million, and decrease of ($327) thousand in prepaid expenses and other current assets. The cash reduction resulted from increases in cash used for operating activities: payments to suppliers for goods and services, and for employee services. Increase in accounts receivable and lease receivables is related principally to the activity of the maritime cargo lines and the adoption of the GASB Statement No. 87, *Leases*, (GASB No. 87), respectively.

Net capital assets increased for approximately $1.8 million, when comparing fiscal years 2022 and 2021. This increase resulted from a net effect of additions to construction in progress and to other capital assets of approximately $26.0 million, offset by the depreciation for the year of approximately $24.2 million. Approximately $3.8 million ($19.1 million in 2021) of the additions came from improvements and works completed and placed in operations by Aerostar in LMMIA.

Net increase of approximately $36.5 million in other non-current assets is related to: increase in restricted cash of $12.1 million, increase in leases receivable of $26.3 million, decrease in other assets of ($1.2) million and decrease in due from governmental entities of ($0.7) million. Restricted cash increased principally for funds received from the Government of Puerto Rico related to the Coronavirus Relief Fund and from the Office of Management and Budget (OMB) to cover costs of PREPA employees mobilized to the Authority. Increase in lease receivables is related to the adoption of the GASB Statement No. 87, *Leases*, (GASB No. 87). Other assets decrease is related to change in the fair market value of the 137,629 common shares of American Airlines (AAL) received by the Authority, resulting from AAL's bankruptcy legal proceedings. Decrease in due from governmental entities is mainly related to collection of invoices pending from Federal Aviation Administration (FAA), offset by the recognition of an invoice receivable from Federal Transportation Administration (FTA). Decrease in deferred outflows of resources of approximately $15.4 million is a direct consequence of changes in assumptions used for the GASB No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* This net decrease in deferred outflows, which is basically related to pension, resulted from market-rate change in the GASB No. 73 discount rate from 2.21% as of June 30, 2020 to 2.16% at June 30, 2021, and to a reduction in the Authority's proportion of the collective total liability (1.79649% and 1.80621% for fiscal year 2022 and 2021, respectively).

Analysis of Net Position (Deficit) at June 30, 2022 and 2021 – (continued)

Net change of approximately $66.1 million in current liabilities resulted principally from a net effect of the following: reclassification as current of debt of $44 million related to SJ Waterfront Project with maturity in June 2023; ($5.1) million decrease in accounts payable and accrued expenses (principally related to a net effect of payments for scanning services and increase in environmental reserve); increase in interest payable for $16.1 million; decrease in contractors' retainage of approximately ($454) thousand; decrease of approximately ($706) thousand in the GASB No. 73 payments made after the measurement date, and recognition as current liability of approximately $10.8 million of unearned revenues. Decrease in non-current liabilities of approximately ($60.2) million resulted as a net effect of the following: decrease in notes payable related to reclassification of ($44) million balance as current; net increase in balance due to governmental entities for $16.2 million (principally related to increase in Pay-Go balance due and offsetting changes in due to PREPA (decreased $3.1 million) and PRASA (increased $2.9 million); decrease in total pension and OPEB liabilities of ($18.4) million (related principally to market-rate changes in the GASB No. 73 discount rate and in the Authority's proportion of the collective total liability); decrease in unearned revenues due to reclassification as current liabilities of ($10.8) million; and decrease related to Law No. 70 benefits payment of ($880) thousand. Deferred inflows of resources had a net increase of approximately $8.1 million, responding to the approximately $3.8 million of additions for works and improvements completed and placed in operation by Aerostar under the LMMIA lease and use agreement, offset by the scheduled amortization for the year of ($20.4) million, decrease in pension related deferred inflows of $728 thousand, and increase of $25.7 million in leases related deferred inflows for the GASB No. 87 adoption.

Net position (deficit) totaled approximately ($290.6) million at June 30, 2022, a reduction in (deficit) of approximately $11.9 million compared to 2021 balance. Net investment in capital assets totaled $654.7 million at June 30, 2022, comprising the investment in capital assets (e.g., land, buildings piers, improvements, roads and parking areas, among others), less the related outstanding indebtedness incurred to acquire those capital assets (net of the related deferred outflows of resources) and less the related deferred inflow of resources attributed to the work and improvements completed by Aerostar and placed in operations. Net position (deficit) also contains approximately $117.8 million of net resources restricted principally for airport and maritime facilities improvements and the acquisition of assets. The residual net position (deficit) consists of an unrestricted deficit of approximately ($1.063) billion.

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

The change in net position is an indicator of whether the overall fiscal condition of a government has improved or worsened during the year. Following is a summary of the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) for the years ended June 30, 2022 and 2021.

Statement of Revenues, Expenses, and Changes in Net Position (Deficit) – (continued)

	2022	2021[1]	Change	
	(In Thousands)		In Dollars	Percentage
Operating revenues:				
Maritime operations	$ 59,130	$ 48,278	$ 10,852	22%
Airport operations	55,429	46,461	8,968	19%
Less: discount and incentives	(230)	(228)	(2)	1%
Total operating revenues	114,329	94,511	19,818	21%
Non operating revenues:				
Federal financial assistance	39,172	21,142	18,030	85%
Contribution from Commonwealth of Puerto Rico	6,318	9,198	(2,880)	-31%
Insurance recovery	-	28,743	(28,743)	-100%
Market value adjustment for common shares received	(1,173)	1,120	(2,293)	-205%
Passenger facility charges	1,631	121	1,510	1248%
Penalties and other fees	138	64	74	116%
Total non-operating revenues	46,086	60,388	(14,302)	-24%
Total revenues	160,415	154,899	5,516	4%
Operating expenses:				
Salaries and employees benefits	30,652	21,634	9,018	42%
Pension expense (GASB No. 73)	18,898	23,252	(4,354)	-19%
OPEB expense (GASB No. 75)	(462)	1,117	(1,579)	-141%
Early termination adjustment	(288)	5	(293)	-5860%
General and administrative	30,808	26,871	3,937	15%
Professional services	6,874	6,036	838	14%
Insurance, rent, repairs and maintenance	15,520	14,784	736	5%
Provision for bad debt from governmental entities	234	386	(152)	-39%
Depreciation and amortization	24,213	25,060	(847)	-3%
Total operating expenses	126,449	119,145	7,304	6%
Non-operating expenses:				
Interest expense, net	17,500	17,378	122	1%
Grant subsidies and awards	4,568	-	4,568	0%
Total non-operating expenses	22,068	17,378	4,690	27%
Total expenses	148,517	136,523	11,994	9%
Increase in net position (deficit)	11,898	18,376	(6,478)	-35%
Net position (deficit), at beginning of year	(302,487)	(320,863)	18,376	-6%
Net position (deficit) at end of year	$ (290,589)	$ (302,487)	$ 11,898	-4%

[1] Certain operating revenue balances from 2021 were reclassified to conform with 2022 presentation.

Analysis of Changes in Net Position (Deficit) during Fiscal Year 2022

Net maritime operating revenues totaled $59.1 million during fiscal year 2022, compared to $48.3 million in 2021; an increase of $10.8 million which resulted principally from the effect of increases in tourist ship fees ($4.2 million), wharfage, dockage and port services ($1.9 million), rental properties and leases revenue ($3 million), demurrage, utilities and others ($311 thousand) and decrease in bad debts provision ($1.5 million). Most of these revenue increases are direct consequences of the reactivation of economic activity during 2022, after the negative effects of COVID-19 pandemic in the economy during the full fiscal year 2021, principally in the cruise industry. The increase in rental properties and leases revenues is mainly related to additional lease agreements entered during 2022 and to the adoption of GASB No. 87, which changed the income recognition of leases. The change in the bad debts provision resulted from the accounts receivable aging composition, which is the base for the computation of the allowance for doubtful accounts. Net airport operating revenues totaled approximately $55.4 million, an increase of $9.0 million, compared to $46.4 million for fiscal year 2021. As indicated above, the reactivation of the economy after COVID-19 resulted in increases in landing fees ($571 thousand) and revenue sharing of the LMMIA ($1.5 million). In addition, passenger fees and the concession fees amortization increased by $570 thousand and $604 thousand, respectively. Net airport operating revenues also changed for increase in rental properties and leases revenues related to new lease agreements and the adoption of GASB No. 87, as explained above**.** During fiscal year 2022, services provided and rental income for certain piers and facilities belonging to the Isla Grande regional airport amounting to $12.2 million ($9.3 million for 2021) were reported as airport operating revenues. These revenues, which are related principally to wharfage, dockage services, and tourist ships fees, were previously recognized as maritime revenues. This reporting change was requested by the FAA to comply with federal regulations. The increase in the reclassified revenues from $9.3 million in 2021 to $12.2 million for 2022, as explained above, is related to the reactivation of the economy after COVID-19.

Non-operating revenues consist principally of Federal Aviation Administration (FAA), and other governmental agencies approved programs, appropriation from the Commonwealth of Puerto Rico, net insurance recoveries, market value adjustment for AAL common shares, passenger facility charges, and penalties and other fees. Non-operating revenues presented net decrease of approximately $14.3 million during 2022, as compared to 2021. Such decrease resulted mainly as a net effect of the following: decrease in insurance recoveries of $28.7 million, decrease in contributions from the Commonwealth of Puerto Rico ($2.9 million) and decrease in the market value adjustment of AAL common shares of $2.3 million, offset by increases in Federal financial assistance (caused principally by CARES funds) and revenues from passenger facility charges for $18.0 million and $1.5 million, respectively.

Analysis of Changes in Net Position (Deficit) during Fiscal Year 2022 – (continued)

Operating expenses totaled $126.4 million in 2022, which increased by $7.3 million as compared to 2021. This change resulted principally from the net effect of: increase in salaries and employee benefits ($9.0 million), decreases in pension and other post-employment expenses ($5.9 million), net increase in general and administrative expenses ($3.9 million), decrease in the present value of benefits under Law No. 70 and professional services for $293.9 thousand and $838.8 thousand, respectively, increase in insurance premiums of $1.1 million and reduction in repairs and maintenance for $332.7 thousand. The increase in salaries and employee benefits is directly related to the mobilization of PREPA ex-employees to the Authority at the beginning of fiscal year 2022. The decrease in pension and other post-employment benefits resulted from the recognized effect of GASBs No. 73 and No. 75, and its principally related to changes in market-rate used (2.16% as of June 30, 2021, and 2.21% as of June 30, 2020) and the Authority's proportion of the collective total liability which changed from 1.80621% (fiscal year 2021) to 1.79649% (fiscal year 2022). Net increase in general and administrative expenses of $3.9 million is principally related to the following: scanning fees, net additional billings received from PRASA, and additional environmental reserve considered during 2022. The increase in professional services is principally related to private security provided in the Authority's facilities.

Non-operating expenses composed of net interest expense and grant subsidies and awards had a net increase of $4.7 million during 2022, as compared to 2021. This change resulted principally from FTA funds received and passed through to the Puerto Rico and Municipality Islands Maritime Transportation Authority (MTA).

Capital Activities

The Authority's net disbursements for capital construction projects totaled approximately $25.1 million in 2022 ($25.4 million in 2021). During 2022, the Authority received federal and local contributions for $34.8 million and $6.9 million, respectively. Approximately $39.7 million of the local contribution received during fiscal year 2021 remains as unearned revenues and as restricted cash to be used for capital construction projects expenditures.

Loan and Notes Payable

In December 2011, the Authority entered into a refinancing transaction by the issuance of Puerto Rico Infrastructure Financing Authority (PRIFA) (a component unit of the Commonwealth of Puerto Rico) bonds in a conduit debt transaction. The proceeds were used to pay various outstanding debts.

Loan and Notes Payable – continued

In February 2013, the Authority entered into a lease and use agreement with Aerostar for the LMMIA premises, receiving an advance leasehold fee of $615 million. A portion of this fee was used to pay the outstanding principal and interest balance of bonds, and partial payments of principal and interest on loans and notes payable to the GDB and other private entities. Some of the aforementioned bonds were repurchased by GDB upon the Authority's drawing of GDB letters of credit guaranteeing such bonds, as the Authority could not honor such bonds' scheduled debt service as they became due.

The carrying value of such PRIFA bonds was $13.5 million at June 30, 2022 and 2021. The outstanding principal balance of the total notes payable, amounted to $282.2 million and $282.4 million at June 30, 2022 and 2021, respectively.

On May 2, 2023, PRIFA deposited $10.4 million with the BNYM (PRIFA Bonds trustee) for the redemption of the $13.5 PRIFA Bonds outstanding. Pursuant to the Trust Agreement, the Authority called the PRIFA Bonds for redemption on June 2, 2023. BNYM made the corresponding redemption value payments on June 2, 2023, and accordingly, the PRIFA Bonds were redeemed.

The Authority had issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. There is no outstanding balance of these bonds as of June 2022.

Refer to Notes 11, 12 and 21 of the Authority's 2022 basic financial statements for additional information related to loans and notes payable.

Liquidity Risks, Uncertainties and Recent Events

Despite the multiple efforts undertaken by the Authority to improve its operating results, as described herein, it continues to face growing challenges and uncertainties. In relation to the lines of credit owed to GDB (now owed to GDB Debt Recovery Authority (GDBDRA)) most of them remain unpaid since the closing of the LMMIA lease and use agreements. Some of these lines of credits have payments that were contingent on the availability of funds from the Commonwealth to appropriate in its annual budget process. These appropriations are contingent on the availability of funds from the Commonwealth and their legislative approval. The prospects of securing any Commonwealth appropriation were significantly diminished by the passage of the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21) and the Executive Order 2016-10. As a result of Act No. 21 and the Executive Order, and the issuance of the Circular Letter 1300-08-17 from the Secretary of the Treasury, the Authority recognized an impairment loss on all its deposits held

Liquidity Risks, Uncertainties and Recent Events – (continued)

with GDB, amounting to approximately $21 million. As described here in, such impairment loss was recovered during fiscal year 2019. In addition, pursuant the provisions of Act No. 21, the Authority ceased to make, effective July 2016, the required monthly deposits to the trustee account needed to cover the debt service due on its PRIFA Bonds on December 15, 2016, and thereafter.

For many years the Commonwealth, which generally provided financial support to the Authority through legislative appropriations, was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, and economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, a high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing reasonable interest rates.

On August 24, 2017, the Act 109 of 2017 "Government Development Bank for Puerto Rico Debt Restructuring Act" (Act No. 109) was signed into law with the purpose of establishing a legislative framework for the GDB's restructuring process on which a statutory public trust and a governmental public instrumentality of the Commonwealth was created known as GDB Debt Recovery Authority (GDBDRA). The GDBDRA was created for the purpose of (i) issuing the Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government of Puerto Rico and (ii) owning and managing the Restructuring Property. Finally, during 2018 the new bonds of GDBDRA were issued and GDB's assets were transferred to GDBDRA. As provided by Act No. 109, the Authority's lines of credit payable to GDB, after the application of its deposits at GDB, were transferred to GDBDRA.

During April 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) on behalf of the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Authority entered into a Restructuring Support Agreement (RSA) with the Ad Hoc Group of holders of certain Series 2011 bonds issued by PRIFA; with the purpose of restructuring a large part of the Authority's debt. The RSA was subject to approval of the Financial Oversight and Management Board for Puerto Rico (FOMB). On December 27, 2019 a final amended RSA was executed to restructure approximately 93% of these PRIFA Bonds. The RSA represented a significant reduction in debt service requirements that will allow the Authority to focus in its efforts on public-private partnerships and other long-term capital improvement initiatives. Pursuant to the Trust Agreement, the Authority called the remaining 7% of PRIFA Bonds for redemption on June 2, 2023. The trustee made the corresponding redemption value payments on June 2, 2023, and accordingly, the PRIFA Bonds were redeemed.

During August 2022, the Puerto Rico Public-Private Partnerships Authority (P3A) announced an agreement with San Juan Cruise Port LLC (SJCP), a subsidiary of Global Ports Holding (GPH), for the concession of Piers 1, 3, 4, Piers 11 through 14, and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority. The concession agreement, which is for a 30-year term, provides for the repair, design, build,

Liquidity Risks, Uncertainties and Recent Events – (continued)

finance, maintenance service and operation of the referred piers. The main goals of the agreement are: (1) to accelerate the completion of significant capital improvements that enhance the performance and safety conditions of the piers; (2) to reduce the Authority's debt burden and financial obligations; (3) to spur private infrastructure investment in Puerto Rico; (4) to increase the number of cruise ships and tourism activity; and (5) to provide a world class level of service to visitors of the San Juan Bay cruise terminals. Based on studies conducted by United States Marine Administration (MARAD), in the event that Pier 4 and the Pan American piers are not repaired, the Authority risks the eventual closure of these piers due to their deteriorated condition. In exchange for the concession, the SJCP is obligated to provide an initial payment of $75 million comprised of an upfront payment of $72 million, plus $3 million for an escrow account (to be held as security for any concession compensation event due prior to completion of initial investment projects), and 5% annual revenue share of the gross cruise port revenue earned by SJCP. The annual revenue share could increase if government funds are used to accelerate certain infrastructure projects or if certain improvements are not completed during the first 5 to 10 years pursuant to the agreement. SJCP will also cover the matching costs for the Authority's cruise pier dredging responsibilities ($1.6 million for the first three years and between $310 and $410 thousand thereafter). SJCP will also invest approximately $75 million in initial investment projects of repair and replacements in existing Piers; $197 million in expansion projects, including the construction of a new terminal in Piers 11-12 subject to demand triggers being met; and an amount yet to be determined in further expansions, constituting part of a Phase 2 (Piers 13-14), which will be undertaken once the current piers and the new terminal are used at capacity, based on reaching certain number of vessel calls. The financial closing of the concession agreement could have occurred on or before February 13, 2023, which was one hundred and eighty (180) days after the commercial closing date of August 15, 2022 (the date of signature), or the next business day. However, such date could be extended due to delays in the satisfaction of certain conditions precedent to the financial closing. The closing date was extended to September 22, 2023. Considering that not all closing conditions, as set forth in the concession agreement, were satisfied by September 22, 2023, it was agreed to extend the financial closing date until November 15, 2023; provided however, that if the conditions precedent to the financial closing have not been satisfied by October 26, 2023, then the financial closing date shall be automatically extended until December 15, 2023.

The Authority also continues assessing the feasibility of granting a concession of its nine regional airports. Through this initiative, the Authority would delegate the administration and operation of the airports while still securing revenue from those operations. In addition, the Authority has various rehabilitation projects at regional airports, maritime ports, and administrative buildings, which are eligible for federal government reimbursement programs. The preliminary estimated costs for such projects, subject to final auctions, are approximately $227.3 million.

The Authority continues evaluating the disposition, through sale, of certain non-productive properties, such as land and structures, to obtain funds for its projects and operations.

Liquidity Risks, Uncertainties and Recent Events – (continued)

Management of the Authority has also reacted responsibly with respect to its delinquent obligations by actively pursuing feasible payment plans for balances due to the Commonwealth's Treasury Department and the Puerto Rico Retirement Systems, as well as with the government utilities and most suppliers. These special payment arrangements have maintained an organized and steady cash flow strategy for the Authority while meeting its obligations.

Up to September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management estimated a negative net impact of approximately $29.1 million in its operational cash flows, considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19. During the first two weeks of May 2023, the WHO, the US Federal Government, and the Commonwealth of Puerto Rico declared the end of the COVID-19 public health emergency. Accordingly, no additional federal and or local funds will be available to mitigate any adverse economic effect of the COVID-19.

Most of these events described in the previous paragraphs compile a trend of negative indicators defined in GASB Statement No. 56, which has a significant impact in the Authority's ability to fully satisfy its obligations as they become due and raises substantial doubt about the Authority's ability to continue as a going concern, as defined in GASB Statement No. 56.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department of the Puerto Rico Ports Authority, P.O. Box 362829, San Juan, Puerto Rico 00936-2829.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)

June 30, 2022

(In Thousands)

Assets	
Current assets:	
Cash	$ 40,946
Accounts receivable, net of allowance for doubtful accounts of $101.2 million	23,469
Lease receivables	12,624
Prepaid expenses and other current assets	3,309
	80,348
Non-current assets:	
Cash - restricted	92,406
Deposits consigned at court - restricted	25,351
Lease receivables	149,831
Other assets - common shares	1,745
Due from governmental entities, net of allowance for doubtful accounts of $57.8 million	6,597
Capital assets	
Non-depreciable	966,011
Depreciable, net	291,323
	1,533,264
Total assets	1,613,612
Deferred outflows of resources:	
Pension related	75,062
Other postemployment benefits related	722
	75,784
Total assets and deferred outflows of resources	$ 1,689,396

(Continued)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) - (Continued)

June 30, 2022

(In Thousands)

Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	$ 48,534
Loan payable	13,465
Notes payable	242,144
Retainage and construction costs payable	4,329
Termination benefits liability	786
Total pension liability	22,683
Other postemployment benefits liability	723
Tenants deposits	1,375
Interest payable	143,548
Unearned revenues	10,871
	488,458
Non-current liabilities:	
Notes payable	40,014
Termination benefits liability	4,506
Unearned revenues	28,855
Due to governmental entities	117,945
Total pension liability	465,679
Other postemployment benefits liability	8,170
	665,169
Total liabilities	1,153,627
Deferred inflows of resources:	
Concession fees	638,144
Pension related	29,151
Leases related	159,063
	826,358
Net position (deficit):	
Net investment in capital assets	654,661
Restricted:	
Acquisition of assets	25,351
Construction, renewal and improvements	92,406
Unrestricted - deficit	(1,063,007)
	(290,589)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 1,689,396

The accompanying notes are an integral part of this financial statement.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

For the year ended June 30, 2022

(In Thousands)

Operating revenues:	
Maritime operations (Note 19)	$ 59,130
Airport operations (Note 19)	55,429
Less: discount and incentives	(230)
	114,329
Operating expenses:	
Salaries and employee benefits	30,652
Pension expense	18,898
Other postemployment benefit expense	(462)
Early termination adjustment	(288)
General and administrative	30,808
Professional services	6,874
Insurance	12,900
Rent, repairs and maintenance	2,620
Depreciation and amortization	24,213
Provision for bad debts from governmental entities	234
	126,449
Operating loss	(12,120)
Non operating revenues (expenses):	
Federal financial assistance	39,172
Contribution from Commonwealth of Puerto Rico	6,318
Passenger facility charges	1,631
Penalties and other fees	138
Grants, subsidies and awards	(4,568)
Market value adjustment for common shares received	(1,173)
Interest expense	(17,581)
Interest income	81
	24,018
Change in net position (deficit)	11,898
Net position (deficit), at beginning of year	(302,487)
Net position (deficit), at end of year	$ (290,589)

The accompanying notes are an integral part of this financial statement.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the year ended June 30, 2022

(In Thousands)

Cash flows from operating activities:	
Cash received from charges to customers	$ 82,024
Cash payments to suppliers for goods and services	(51,691)
Cash payments to employees for services, Pay-Go and related benefits	(54,107)
Net cash used in operating activities	(23,774)
Cash flows from noncapital and related financing activities:	
Penalties and other fees	138
Net change in due from (to) governmental agencies	11,499
Net cash provided by noncapital and related financing activities	11,637
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(25,067)
Federal and local contribution	41,678
Interest paid	(1,514)
Principal payments on notes payable	(242)
Passenger facility charges received for capital expenditures	1,631
Net cash provided by capital and related financing activities	16,486
Net cash provided by investing activities-	
Interest received	81
Net increase in cash	4,430
Cash, beginning of year	128,922
Cash, end of year	$ 133,352

(continues)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - (Continued)

For the year ended June 30, 2022

(In Thousands)

Reconciliation of cash	
Unrestricted cash	$ 40,946
Restricted cash:	
Construction	90,598
Renewal and replacements, maintenance and others	1,808
Total restricted cash	92,406
Total cash	$ 133,352
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (12,120)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	24,213
Amortization of deferred inflows of resources-concession fees	(20,684)
Provision for bad debts from governmental entities	234
Net change in operating assets, liabilities, deferred outflows of resources and deferred inflows of resources:	
Increase in accounts receivable	(8,296)
Increase in lease receivables	(29,073)
Decrease in prepaid expenses and other assets	327
Increase in accounts payable and accrued expenses	1,441
Increase in tenants deposits	67
Decrease in termination benefits and other liability	(1,170)
Decrease in total pension liability	(18,636)
Decrease in other postemployment benefits liability	(472)
Decrease in deferred outflows - pension related	15,431
Decrease in deferred inflows - pension related	(727)
Decrease in deferred outflows - other postemployment benefits related	10
Increase in deferred inflows - leases related	25,681
Net cash used in operating activities	$ (23,774)
Noncash capital and financing activities:	
Capital assets additions placed in operations by Aerostar credited to deferred inflows of resources	$ 3,844
Pension accrual and other postemployment benefits payments made after measurement date by the Commonwealth on behalf of the Authority	$ 22,683

The accompanying notes are an integral part of this financial statement.

Note 1 - Reporting Entity

The Puerto Rico Ports Authority (PRPA or the Authority) is a Component Unit of the Commonwealth of Puerto Rico, (the Commonwealth) created by Act No. 125 on May 7, 1942, as amended. The purpose of the Authority is to administer port and aviation transportation facilities of the Commonwealth and to render other related services. The Authority owns ten airport facilities, including Luis Muñoz Marin International Airport (LMMIA), the main aviation port of entry into Puerto Rico, and most of government-owned maritime operations, including the Port of San Juan. The Authority's airport system consists of LMMIA, and other regional airports. Maritime operations consist principally of cargo and cruise ships with ports and docks all around Puerto Rico. See Note 20 for the Public-Private Partnership transaction regarding the administration and operations of the LMMIA (the APP Agreements or Lease and Use Agreement).

The Authority's Board of Directors is composed of five members as follows: Secretary of Transportation and Public Works, Chairman; Secretary of Economic Development; Executive Director of the Tourism Company of Puerto Rico, Executive Director of Puerto Rico Industrial Development Company (PRIDCO) and one private citizen appointed by the Governor with the consent of the Senate of Puerto Rico.

Act No. 82, approved on June 26, 1959, as amended, empowers the Authority to levy and collect a fee from the suppliers of aviation fuel and for the services and use of facilities in the Puerto Rico airports. This fee is currently two cents per gallon of aviation fuel supplied to airlines and other suppliers operating in the Puerto Rico airports.

Note 2 - Basis of presentation and summary of significant accounting policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The Authority follows Governmental Accounting Standard Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The following describes the most significant accounting policies followed by the Authority:

Use of estimates

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

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Cash and cash equivalents

The Authority considers all highly liquid investments with maturities of three (3) months or less from the date of acquisition to be cash equivalents. The Authority's cash composition as of June 30, 2022 is disclosed in Note 4 to the financial statements. There are no cash equivalents at June 30, 2022.

Allowance for doubtful accounts

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

Prepaid expenses

Prepaid expenses consist mostly of employees and supplier advances, trustee fees and certain material and office supplies.

Lease receivables

Lease receivables are measured at the present value of the lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. A deferred inflow of resources related to leases is recorded to offset the lease receivable. The deferred inflow of resources related to leases is recorded at the inception of the lease in an amount equal to the initial recording of the lease receivable plus any prepayments and less any incentives given. Lease receivables are subsequently reduced over the lease term as payments are received in the corresponding reporting period. The deferred inflow of resources related to leases is amortized on a straight-line basis over the term of the lease. Refer to Note 17 for additional disclosure.

Capital assets

Capital assets are stated at cost. Contributions by third parties are recorded at acquisition value on the date of contribution. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs, buildings, furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and other direct costs incurred during the construction period.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

Capital assets are defined by the Authority as assets with an initial, individual cost of $500 or more and an estimated useful life over one (1) year. Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or do not materially extend assets lives are charged to expenses as incurred.

As required by GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, any interest cost incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred. During the year ended June 30, 2022, no interest expense related to assets constructions was recognized by the Authority.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives of assets are determined by the Authority's Engineering Department using past experience, standard industry expectations, and information from external sources such as consultants, manufacturers, and contractors. Useful lives are reviewed periodically for each specific type of asset.

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Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

Useful lives used in the calculation of depreciation are generally as follows:

Description	Useful life
Buildings, piers, improvements and other structures	Range from thirty (30) to fifty (50) years
Other infrastructure	Range from five (5) to twenty-five (25) years
Machinery, furniture and equipment	Range from three (3) to ten (10) years
Runways, roadways and other paving	Range from ten (10) to twenty (20) years
Utility infrastructure	Range from ten (10) to twenty (20) years
Automobile and service vehicles	Range from three (3) to ten (10) years
Infrastructure master plans	Five (5) years

Those assets located at facilities leased by the Authority are depreciated over the lesser of the remaining term of the lease or the asset's useful lives.

Capital assets related to the LMMIA under the APP Agreements, described in Note 20, are maintained in the Authority's books and are stated at cost or at estimated historical cost, net of any related impairment. Construction in progress made by Aerostar after the closing of the APP Agreements is not recorded by the Authority while the construction is in progress and not ready for use and operation; when completed, such assets and improvements are recognized at their corresponding fair value. The capital assets related to the APP Agreements are not being depreciated since the closing date of the APP Agreements, because it is required to Aerostar to return the related LMMIA facilities to the Authority in its original or enhanced condition. Such capital assets continued to apply existing capital asset guidance, including depreciation through February 27, 2013, the closing date of the APP Agreements. The carrying amount of capital assets, excluding construction in progress under the APP Agreements, amounted to approximately

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

$706 million as of June 30, 2022. This amount includes approximately $185.9 million of improvements and construction work already completed and placed in operations by Aerostar (approximately $3.8 million of which were completed and placed in operations during fiscal year 2022) therefore added to the carrying amount of capital assets under the APP Agreements.

During the year ended June 30, 2022, the Authority performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Based on the Authority's management evaluation for capital assets impairment, no impairment loss was identified during the fiscal year ended on June 30, 2022.

In addition, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting principles for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. As of June 30, 2022, the Authority maintains an environmental reserve of approximately $1.9 million, which in the opinion of management, is adequate to cover the contingency exposure, if any. Such reserve is included as part of accounts payable and accrued expenses in the accompanying statement of net position (deficit). In establishing such reserve, management has evaluated its tenants' responsibilities in environmental and pollution exposures.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Claims and judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position (deficit) based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Refer to disclosures included in Note 15 to the financial statements.

Compensated absences

Based on the provisions of Act No. 26 of April 29, 2017, known as the Fiscal Plan Compliance Act (Act No. 26-2017), employees earn vacation benefits at a rate of 15 days per year, with 60 days as the maximum permissible accumulation at the end of any natural year. In addition, employees accumulate sick leave at the rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year. After the enactment of Act No. 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sick leave balances are no longer liquidated upon employment termination, as provided by Act No. 26-2017. Union employees were paid for accumulations over 26 days within the next fiscal year. However, effective with the approval of Act No. 66 of June 17, 2014, known as the Fiscal Operation and Sustainability Act, such excess has ceased to be paid to employees. The Authority records as a liability and as an expense the vested accumulated vacation benefits accrue to employees, as provided by Act No. 26-2017. No accrual is recognized as related to sick leave. Accrued vacation as of June 30, 2022, amounted to approximately $2.6 million and are included as a component of accounts payable and accrued expenses in the accompanying statement of net position (deficit).

Termination benefits

The Authority accounted for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. Refer to Note 12 to the financial statements for additional disclosure.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Pensions

The Authority accounted for pensions under the provisions of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement requires that the primary government and the component units that provide pension through the same defined benefit pension plan of its primary government, recognize their proportionate share of the collective total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (benefit). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Postemployment benefits other than pensions

The Authority accounted for postemployment benefits other than pensions (other postemployment benefit or OPEB) under the provisions of the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. See also Note 14 to the financial statements for additional information.

Deferred outflows of resources

The deferred outflows of resources represent the consumption of net position by the Authority that is applicable to a future reporting period. Deferred outflows of resources for the Authority are related to pension and OPEB items. Of the pension related items and OPEB, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Deferred inflows of resources

Deferred inflows of resources represent the acquisition of net position by the Authority that is applicable to a future reporting period. The Authority has three components of deferred inflows of resources:

APP agreements

In relation to the APP Agreements described in Note 20, on February 27, 2013, the Authority received an upfront fee of $615 million, the promise of annual payments of $2.5 million for the next five years, present valued at approximately $10.5 million; and also recognized a contractual obligation of $3.1 million to perform certain capital improvements. These resources were received in exchange for awarding Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA for a term of 40 years. The upfront fee and the promise of annual payments are considered deferred inflows of resources, which are recognized into revenue under the straight-line method over the APP Agreements term of 40 years. In addition, deferred inflows of resources include improvements and construction for approximately $185.9 million done by Aerostar at the LMMIA facilities as part of the APP Agreement.

Pension related

Regarding to the pension related items, changes in the proportional share of contributions, differences between expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

Leases related

The leases related deferred inflows of resources consist of increases in leases receivable and is amortized to income on a straight-line basis over the term of the related leases.

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Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Net position (deficit)

Net position (deficit) is classified in the following components:

Net investment in capital assets

This component of net position (deficit) consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position (deficit). If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position (deficit). Rather, that portion of the debt or deferred inflows of resources is included in the same net position (deficit) component (restricted or unrestricted) as the unspent amount.

Restricted

This component of net position (deficit) consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This component of net position (deficit) is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position (deficit).

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Net position (deficit) – (continued)

As of June 30, 2022, the reconciliation of net investment in capital assets and the restricted components of net position (deficit) was as follows (expressed in thousands):

Net capital assets	$ 1,257,334
Liabilities directly attributable to capital assets:	
Loan payable	(13,465)
Notes payable	(282,158)
Retainage payable to contractors	(4,329)
Accrued interest	(143,548)
Deferred inflows of resources - related to assets improvement	(159,173)
Net investment in capital assets	$ 654,661
Restricted cash	$ 92,406
Deposit consigned at court restricted for capital asset	25,351
	$ 117,757

Revenue recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with maritime and airport operations are recorded as operating revenues, when earned. Expenses related to the administration and maintenance of piers and airports, repairs and maintenance of corresponding roads and equipment, and the Authority's administrative expenses are recorded as operating expenses, when incurred. All other revenues and expenses are considered non-operating, which are recognized when earned and incurred, respectively.

Non-operating revenues

Non-operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, common shares market value adjustment, passenger facility fees charges, interest, insurance recoveries and penalties and other fees. Federal financial assistance and Commonwealth of Puerto Rico appropriations are funds assigned by federal and local government entities such as the Federal Aviation Administration (FAA), Federal Transit Administration (FTA), Federal Emergency Management Agency (FEMA) and the Transportation

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Non-operating revenues – (continued)

Security Administration (TSA) to the Authority for an exclusive purpose, such as the construction of specific projects or infrastructure, repairs and maintenance, and equipment acquisition. Capital grants of the Authority are reported as non-operating revenues.

New accounting principles implemented during fiscal year 2022

The following accounting standards are effective in fiscal year 2022:

- GASB Statement No. 87, *Leases*. During the fiscal year ended June 30, 2022, the Authority adopted the provisions of GASB Statement No. 87, *Leases* (FASB 87). This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after June 15, 2021. The implementation of this statement required the Authority to record lease receivable, deferred inflow of resources and any effects of net position at the beginning of the fiscal year ended June 30, 2022. Resulting from the adoption of GASB No. 87, there was no change in the Authority's net position at beginning of fiscal year 2022, however lease receivable and its related deferred inflows of resources for $159.1 million, respectively, were recognized. Refer to Note 17 for information regarding the effects of adoption of this Statement in the Authority's basic financial statements.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles implemented during fiscal year 2022 – (continued)

economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after December 15, 2020. The adoption of this Statement did not have any effect on the Authority's basic financial statements since there were no such interest cost transactions.

- GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related notes disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required disclosure. The requirements of this Statement were effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, and it did not have any impact in the Authority's financial statements.

- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95. This Statement addresses a variety of topics and includes specific provisions about the following:

    - The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, Leases, for interim financial reports

    - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles implemented during fiscal year 2022 – (continued)

- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers

- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature

- Terminology used to refer to derivative instruments

The adoption of this Statement did not have any effect on the Authority's basic financial statements.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95. Earlier application is encouraged. This Statement did not have any effect on the Authority's basic financial statements.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles implemented during fiscal year 2022 – (continued)

does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. This Statement did not have any effect on the Authority's basic financial statements.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report* – This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles implemented during fiscal year 2022 – (continued)

racial slur. This Statement's introduction of the new term is founded on commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, and it had no effect in the result of operations of the Authority.

Future adoption of accounting standards

GASB has issued the following accounting standards that the Authority has not yet adopted:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment 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). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effect, if any, of the adoption of this Statement has not yet been determined.

- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription – based information technology arrangements (SBITA's) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. This Statement is not expected to have any impact in the Authority's basic financial statements.

- GASB Statement No. 99, *Omnibus 2022* – The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition, and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription - based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
    - Terminology used in Statement No. 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

The Authority's management is evaluating the effect, if any, of some of the provisions of this Statement in its basic financial statements.

- 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.

  This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting - understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

  This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amounts of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

  This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The Authority's management does not expect this Statement to have any significant effect in its result of operations since it involves a matter of financial statements presentation and disclosure.

- 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.

  This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

  This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The Authority's management is evaluating the effect of the provisions of this Statement in its basic financial statements.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks, and uncertainties, provides the necessary background and support for management's evaluation as to whether there is a substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statements date, or for an extended period, if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows; possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements; and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

During the last decade, the Authority's net position has decreased, from $207.7 million at June 30, 2012 to the current net position (deficit) of ($290.6) million at June 30, 2022. The Authority has a working capital deficiency of approximately ($408.1) million at June 30, 2022. The Authority also has $266.2 million in lines of credit payable to GDB Debt Recovery Authority (GDBDRA), most of them resulting from drawing of certain letters of credit from Governmental Development Bank of Puerto Rico (GDB) guaranteeing certain bonds, which the Authority could not honor. In addition, total interest payable associated to long-term debt amounted to $143.5 million at June 30, 2022.

To reverse this trend and instill some stability in the Authority's operations, in 2013, management entered into the LMMIA lease and use agreements, as further described in Note 20. This transaction became a centerpiece strategy around which certain cost cutting measures and revenue-base enhancing activities for regional airports and maritime operations have been implemented, while others are in progress, all of which are expected to improve the Authority's financial condition and refocus the objectives of the Authority into the future.

As further described in Notes 10, 11 and 20, during fiscal year 2012, the Authority refinanced the majority of its long-term debt through a Puerto Rico Infrastructure Financing Authority's (PRIFA) conduit debt issuance of $678.4 million, in anticipation of the LMMIA lease and use agreements. The lease and use agreements involving the LMMIA generated an upfront leasehold fee of $615 million for the Authority, of which $500 million was used to cancel and fully redeem certain outstanding debt and related interest, relieving the Authority from the corresponding applicable debt service requirements. That is, the Authority's then existing debt was reduced by more than a half as a result of the LMMIA lease and use agreements. Consequently, also related to a partial release of the PRIFA conduit debt during year fiscal year 2021, interest expense was reduced from approximately $63 million in 2013 to approximately $17.5 million during 2022. Another $50 million from the upfront leasehold fee were reserved and set aside for the early termination of several employees, commencing effective June 30 and July 15, 2013, which provided payroll savings.

On June 17, 2014, the Governor of the Commonwealth of Puerto Rico signed into law the Act No. 66 of 2014 "*Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act*". This Act requires that all instrumentalities, entities, agencies, and public corporations of the Commonwealth (or Government) reduce their operating expenses, specifically those related to payroll and related benefits, professional services, contracted services, and leases, among others. Under Act No. 66 of 2014, the excess accumulation of vacation and sick leave earned will not be paid to employees; instead, the Act requires that employees exhaust such excess accumulation by the end of each fiscal year. As a result of the Authority's execution of the provisions of Act No. 66 of 2014, the Authority's operating budgets for the years 2015 to 2022 has presented a significant reduction in the related expense categories. No significant variances were noted in comparison with actual results for the years then ended.

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

During April 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) on behalf of the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Authority entered into a Restructuring Support Agreement (RSA) with the Ad Hoc Group of holders of certain Series 2011 bonds issued by PRIFA; with the purpose of restructuring a large part of the Authority's debt. The RSA was subject to approval of the FOMB. Once approved and implemented, the proposed RSA will represent a significant reduction in debt service requirements and will allow the Authority to focus in its efforts on public-private partnerships and other long-term capital improvement initiatives. On December 27, 2019, a final amended RSA was executed to restructure approximately 93% of these PRIFA Bonds. Pursuant to the Trust Agreement, the Authority called the remaining 7% of PRIFA Bonds for redemption on June 2, 2023. The trustee made the corresponding redemption value payments on June 2, 2023, and accordingly, the PRIFA Bonds were redeemed. Refer to Note 10 for additional disclosure.

During August 2022, the Puerto Rico Public-Private Partnerships Authority (P3A) announced an agreement with San Juan Cruise Port LLC (SJCP), a subsidiary of Global Ports Holding (GPH), for the concession of Piers 1, 3, 4, Piers 11 through 14, and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority. The concession agreement, which is for a 30-year term, provides for the repair, design, build, finance, maintenance service and operation of the referred piers. The main goals of the agreement are: (1) to accelerate the completion of significant capital improvements that enhance the performance and safety conditions of the piers; (2) to reduce the Authority's debt burden and financial obligations; (3) to spur private infrastructure investment in Puerto Rico; (4) to increase the number of cruise ships and tourism activity; and (5) to provide a world class level of service to visitors of the San Juan Bay cruise terminals. Based on studies conducted by United States Marine Administration (MARAD), in the event that Pier 4 and the Pan American piers are not repaired, the Authority risks the eventual closure of these piers due to their deteriorated condition. In exchange for the concession, the SJCP is obligated to provide an initial payment of $75 million comprised of an upfront payment of $72 million, plus $3 million for an escrow account (to be held as security for any concession compensation event due prior to completion of initial investment projects), and 5% annual revenue share of the gross cruise port revenue earned by SJCP. The annual revenue share could increase if government funds are used to accelerate certain infrastructure projects or if certain improvements are not completed during the first 5 to 10 years pursuant to the agreement. SJCP will also cover the matching costs for the Authority's cruise pier dredging responsibilities ($1.6 million for the first three years and between $310 and $410 thousand thereafter). SJCP will also invest approximately $75 million in initial investment projects of repair and replacements in existing Piers; $197 million in expansion projects, including the construction of a new terminal in Piers 11-12 subject to demand triggers being met; and an amount yet to be determined in further expansions, constituting part of a Phase 2 (Piers 13-14), which will be undertaken once the current piers and the new terminal are used at capacity, based on reaching certain number of vessel calls. The financial closing of the concession

Note 3 - Financial condition and management plans – liquidity risks and uncertainties – (continued)

agreement could have occurred on or before February 13, 2023, which was one hundred and eighty (180) days after the commercial closing date of August 15, 2022 (the date of signature), or the next business day. However, since such date could be extended due to delays in the satisfaction of certain conditions precedents to the financial closing it finally was extended to September 22, 2023. Considering that not all closing conditions, as set forth in the concession agreement, were satisfied by September 23, 2023, it was agreed to extend again the financial closing date until November 15, 2023; provided however, that if the conditions precedent to the financial closing have not been satisfied by October 26, 2023, then the financial closing date shall be automatically extended until December 15, 2023.

The Authority is also assessing the feasibility of granting a concession of its nine regional airports. Through this initiative, the Authority would delegate the administration and operation of the airports while still securing revenue from those operations. Also, the Authority has various rehabilitation projects at regional airports, maritime ports and administrative buildings, which are eligible for federal government reimbursement programs. The preliminary estimated costs for such projects, subject to final auctions, are approximately $227.3 million.

Management of the Authority has also reacted with respect to its delinquent obligations by actively pursuing feasible payment plans for balances due to the Commonwealth's Treasury Department and the Puerto Rico Retirement Systems (see Note 7), as well as with the government utilities and most suppliers. These special payment arrangements have maintained an organized and steady cash flow strategy for the Authority while meeting its obligations.

Up to September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management estimated a negative net impact of approximately $29.1 million in its operational cash flows after considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19. During the first two weeks of May 2023, the WHO, the US Federal Government, and the Commonwealth of Puerto Rico declared the end of the COVID-19 public health emergency. Accordingly, no additional federal and or local funds will be available to mitigate any adverse economic effect of the COVID-19.

Most of these events described in the previous paragraphs compile a trend of negative indicators defined in GASB Statement No. 56, which has a significant impact in the Authority's ability to fully satisfy its obligations as they become due and raises substantial doubt about the Authority's ability to continue as a going concern, as defined in GASB Statement No. 56.

Note 4 - Cash

As of June 30, 2022, the Authority has cash balances in the amount of $133.4 million. Cash balances as of June 30, 2022, consisted of the following (expressed in thousands):

Restricted cash		
For construction	$	90,598
Renewal and replacements, maintenance and other		1,808
Total restricted cash		92,406
Unrestricted cash		40,946
	$	133,352

Custodial credit risks related to deposits at Economic Development Bank

Pursuant to the laws of the Commonwealth, the Authority's cash is required to be held only in banks designated as depository institutions of public funds by the Commonwealth's Secretary of the Treasury. Such deposits are required to be kept in separate accounts in the name of the Authority. Pursuant to the Investment Guidelines for the Commonwealth of Puerto Rico adopted by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking fund, if any, can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by bond resolutions, as applicable.

Custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits might not be recovered. However, the Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained at GDB and Economic Development Bank for Puerto Rico (EDB) are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk that in the event of GDB's or EDB's failure, the Authority may not be able to recover these deposits. GDB and EDB are component units of the Commonwealth of Puerto Rico. At June 30, 2022, the Authority has no deposits at GDB. The bank balance and carrying amount of the Authority's accounts with commercial banks at June 30, 2022, amounted to $133.1 million and $132.8 million, respectively. Refer to Note 21 for subsequent event related to deposit in EDB.

Note 4 - Cash – (continued)

Custodial credit risks related to deposits at Economic Development Bank – (continued)

The Authority was exposed to custodial credit risk arising from the balance of deposits maintained in EDB in the amount of approximately $544.3 thousand, which was the bank balance of cash with EDB. EDB, as a component unit of the Commonwealth of Puerto Rico, has faced the same risks and uncertainties of the other governmental entities. Refer to Note 21 for subsequent event related to deposit in EDB.

Note 5 - Deposits consigned in court - restricted

During November 2011, pursuant the objectives of the LMMIA Project, the Authority entered into certain expropriation proceedings through the Puerto Rico First Instance Court (the Court), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with GDB, out of which $25.4 million were consigned with the Court to start the expropriation process (this facility is known as the Caribbean Airport Facilities). The credit facility was fully repaid with the proceeds from the LMMIA concession agreement of February 2013. As of June 30, 2022, the $25.4 million deposited in Court is presented as a restricted asset in a separate line item in the accompanying statement of net position (deficit).

Note 6 - Other assets – common shares

Other assets – common shares, with a balance of $1.7 million, represent the market value, at June 30, 2022, of 137,629 shares of American Airlines Group, Inc. (AAL) received by the Authority as part of certain claims made under the bankruptcy proceedings of such entity.

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Note 7 - Due from/due to governmental entities

Amounts due from governmental entities as of June 30, 2022 consisted of the following (expressed in thousands):

Governmental Entity	Amount
Office of Management and Budget (OMB)	$ 11,000
Puerto Rico and Municipality Islands Maritime Transportation Authority (MTA)	40,003
Puerto Rico Highways and Transportation Authority (PRHTA)	4,090
Employees' Retirement System (ERS)	4,503
Federal Transit Administration (FTA)	770
Federal Emergency Management Agency (FEMA)	450
Other entities	3,537
Subtotal	64,353
Less: allowance for doubtful receivables	(57,756)
Due from governmental entities, net	$ 6,597

Office of Management and Budget (OMB)

Balance due from the OMB relates to $11 million incentives given by the Authority to certain cruise lines, which should be reimbursed by the OMB. The balance does not bear interest and has no formal repayment terms, since the terms and conditions have not been established. Although the Authority has established a reserve for this balance, management is evaluating alternative courses of actions in order to continue pursuing the collection of this outstanding balance.

Puerto Rico and Municipality Islands Maritime Transportation Authority (MTA)

Balance due from MTA of $40 million mainly relates to expenses incurred by the Authority, such as payroll, on behalf of the MTA from 2000 to 2006. The balance does not bear interest and has no formal repayment terms. The Authority has established a full amount reserve for this balance, based on the deteriorated economic condition of MTA. Recently, the P3A established a service concession arrangement for the operation and maintenance of the collective transportation services of MTA, however no action plan was considered in relation to this balance due from MTA.

Puerto Rico Highways and Transportation Authority (PRHTA)

Balance due from PRHTA relates to $4.1 million mainly associated with the rental of a hangar, a warehouse and land for which there are written agreements. Such balance does not bear interest and have no formal repayment terms, since the terms and conditions have not been established. Authority's management is working with the governmental entity for the collection of this outstanding balance; however, considering the actual fiscal difficulties of the PRHTA, management recognized an allowance for bad debt to fully reserve the related amount receivable.

Note 7 - Due from/due to governmental entities – (continued)

Employees' Retirement System (ERS)

Balance due from ERS for approximately $4.5 million is related to a claim for payments made by the Authority after June 30, 2017, for balance due from on or before such date. As provided by Law No. 106-2017, outstanding balances due to ERS that came from before June 30, 2017 should be eliminated once the Pay-Go payments exceed the balance due. The Authority's management has requested ERS to credit this amount to debt outstanding related to Pay-Go program. In October 2023, ERS determined that the claimed amount was discharged as part of the proceedings related to the approved Plan of Adjustments of the Commonwealth of Puerto Rico in March 2022. As of the date of issuance of the financial statements, the Authority is evaluating this communication to determine final response.

Federal Transit Administration (FTA)

Balance due from the FTA (approximately $770 thousand) as of June 30, 2022, consists of pending reimbursements to be received, and passed through MTA, in relation to certain capital projects.

Federal Emergency Management Agency (FEMA)

Amount due from FEMA of approximately $450 thousand is related to rental of facilities for the response to Hurricane María emergency. This balance comes from 2018 and is fully reserved.

Other entities

Balance due from other entities for approximately $3.5 million relates principally to rental and other services provided to various governmental agencies and municipalities. An allowance for doubtful accounts for approximately $2.2 million has been assigned to cover any losses on this balance receivable.

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Note 7 - Due from/due to governmental entities – (continued)

Other entities – (continued)

Amounts due to governmental entities as of June 30, 2022, consisted of the following (expressed in thousands):

Governmental Entity	Amount
Commonwealth of Puerto Rico	$ 82,527
Other governmental entities:	
Puerto Rico Electric Power Authority (PREPA)	18,738
Puerto Rico Aqueduct and Sewer Authority (PRASA)	11,012
State Insurance Fund Corporation (SIFC)	2,133
GDB Debt Recovery Authority (GDBDRA)	3,391
Others	144
	35,418
Due to governmental entities	$ 117,945

Commonwealth of Puerto Rico

Balance due to the Commonwealth of Puerto Rico consists mainly of public insurance amounting to $19.1 million owed to the Treasury Department, and $63.2 million related to the unpaid contributions for the pension Pay-Go system, for which the Authority will continue doing partial payments on a monthly basis, until a formal payment plan is finally approved.

PREPA, PRASA, SIFC, GDBDRA, and others

Balances due to PREPA and PRASA for $18.7 million and $11 million, respectively, consist mainly of utilities or services provided by such entities. Balance payable to SIFC for approximately $2.1 million is related to unpaid workmen compensation insurance premiums principally for fiscal years 2015 and 2014. Actually, there is no formal payment plan, however, the Authority has been making partial payments related to this amount due to SIFC. The balance due to GDBDRA (approximately $3.4 million) is related to previous years unpaid annual fees on "GDB Letter of Credit", as described in Note 10.

Note 7 - Due from/due to governmental entities – (continued)

PREPA, PRASA, SIFC, GDBDRA, and others – (continued)

The activity of amounts due to Commonwealth of Puerto Rico and due to other governmental entities for the year ended June 30, 2022, was as follows (expressed in thousands):

	2021	Charges	Payments	2022
Due to Commonwealth of PR	$ 66,184	$ 25,725	$ (9,382)	$ 82,527
Due to other governmental entities	35,704	11,193	(11,479)	35,418
	$ 101,888	$ 36,918	$ (20,861)	$ 117,945

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Note 8 - Capital assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2022 and changes therein for the year then ended are as follows (expressed in thousands):

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
Assets not being depreciated:				
Land and land improvements	$ 228,974	$ -	$ -	$ 228,974
Construction in progress	22,047	22,034	(12,884)	31,197
Service concession arrangement (SCA) assets:				
Land and land improvements	99,386	-	-	99,386
Building improvements and structures	427,344	3,844	-	431,188
Machinery, furniture and equipment	4,558	-	-	4,558
Other infrastructure	25,810	-	-	25,810
Roads and parking areas	142,911	-	-	142,911
Infrastructure Master Plans	1,987	-	-	1,987
Total SCA assets	701,996	3,844	-	705,840
Total assets not being depreciated	953,017	25,878	(12,884)	966,011
Assets being depreciated:				
Building, piers, improvements and structure	640,398	1,383	-	641,781
Other infrastructure	149,626	-	-	149,626
Roads and parking areas	189,212	11,501	-	200,713
Machinery, furniture and equipment	110,254	115	(226)	110,143
Automobiles and service vehicles	12,949	236	-	13,185
Infrastructure Master Plans	14,815	-	-	14,815
Total	1,117,254	13,235	(226)	1,130,263
Less: accumulated depreciation and amortization	(814,732)	(24,213)	5	(838,940)
Net total assets being depreciated	302,522	(10,978)	(221)	291,323
Total capital assets, net	$ 1,255,539	$ 14,900	$ (13,105)	$ 1,257,334

Note 9 - Unearned revenues

During February 2021, as requested by the Authority through the Office of Management and Budget (OMB), the Fiscal Oversight & Management Board for Puerto Rico (FOMB) approved an interagency transfer from Appropriations Under the Custody of the OMB. The approved funds are to be used to cover the "non-federal share" of projects for reconstruction of the Aguadilla's Airport runway and for the San Juan Bay dredging. The funds, $40 million in total, were received in advance by the Authority on February 16, 2021 and assigned as follows: $29.2 million for the project at Aguadilla and $10.8 million for the San Juan Bay project.

The $40 million transfer was considered by the Authority as funds received in advance and recorded as unearned revenues, to be amortized into income based on the corresponding portion of "non-federal share" amount subsequently used for these projects. During the year ended June 30, 2022, the Authority continued the project for the reconstruction of the Aguadilla's Airport runway and amortized into income approximately $165 thousand for the "non-federal share" of the costs incurred. At June 30, 2022, the unearned revenues have a balance of $39.7 million, which is presented in the accompanying statement of net position (deficit), as current and long-term portions for $10.9 million and $28.8 million, respectively. The current portion of unearned revenues represents the "non-federal share" used during fiscal year 2023 and consists principally of the payment transferred to US Army Corps of Engineers for San Juan Bay project.

Note 10 - Loan and trust agreement (the PRIFA bonds)

On December 28, 2011, the Authority entered into a refinancing transaction in the amount of $678.4 million, by issuing bonds through the Puerto Rico Infrastructure Finance Authority (PRIFA) as conduit. The issuance was structured as follows (expressed in thousands):

Series	Amount
PRIFA Series 2011 A	$ 340,000
PRIFA Series 2011 B	202,066
PRIFA Series 2011 C	136,385
	$ 678,451

The proceeds of these bonds (the PRIFA Bonds) were provided to the Authority pursuant to a Loan and Trust Agreement (the Loan Agreement) between the Authority, PRIFA and the trustee of the PRIFA Bonds (the Trustee). Pursuant to the terms of the Loan Agreement, the Authority has unconditionally agreed to repay the loan in the amounts and at times necessary to pay the principal of, premium, if any, and interests on the PRIFA Bonds when due. Therefore, the Authority recognized a mirror effect of the PRIFA Bonds in its own debt as loans payable. The proceeds from the PRIFA Bonds were used mostly to repay and cancel certain loans obligations and swap agreements.

Note 10 - Loan and trust agreement (the PRIFA bonds) – (continued)

A refunding loss of $61.8 million resulted from this transaction, attributed to the write-off of the existing deferred outflow associated with a swap agreement cancellation. The notional amount of the swap agreement cancelled ($396 million) exceeded the outstanding principal balance of a hedged Wells Fargo loan being cancelled ($363.9 million); therefore, the proportion of that excess amount (un-hedging portion) applied to the resulting refunding loss was recognized as a realized loss of approximately $5 million, which was charged to the result of operations for fiscal year 2012. The rest of the refunding loss ($56.8 million) was deferred and was amortized into interest expense over the life of the PRIFA Bonds based on the effective interest method. As of June 30, 2019, the unamortized deferred loss on refunding balance was approximately $9.1 million. During 2020, such balance was eliminated as part of the partial release of the PRIFA Bonds Series 2011B negotiated with the bondholders, as further explained below.

The PRIFA Series 2011 A Bonds were issued as fixed rate bonds carrying interest at 2.990%, payable on each June 15 and December 15, commencing on June 15, 2012. This series matured on June 15, 2013. The PRIFA Series 2011 B Bonds were also issued as fixed rate bonds and mature at different repayment periods from 2014 to 2026, with each maturity period carrying its own fixed interest rates ranging from 3.00% to 6.00%, payable in each June 15 and December 15, commencing on June 15, 2012. As further explained below, the PRIFA Bonds Series 2011 B, were subject to negotiations and settlement with bondholders. The PRIFA Series 2011 C Bonds (two series) were issued initially in a Term Rate Mode bearing interest at 2.75% and 3.00% (the initial term rates), convertible at June 14, 2013 and December 14, 2013, proportionally, to another term rate period or to a fixed term mode. Interest was payable each June 15 and December 15, commencing on June 15, 2012. The Series C Bonds were subject to redemption from sinking funds installment payments beginning in 2014 through 2026; however, under certain circumstances, one of the Series C segments amounting to $39.6 million was subject to a mandatory repurchase through one of the GDB Letters of Credit described in the paragraph below.

The Loan Agreement was payable solely from revenues of the Authority, such as all rates, rents, fees, charges and other income and receipts. The Loan Agreement was also secured by drawings from two irrevocable transferable direct-pay letters of credit issued by GDB (collectively referred as the GDB Letters of Credit). One letter of credit was for the maximum amount of $543.1 million to cover ultimately the PRIFA Series 2011 A and B Bonds, while the second letter of credit was for the maximum amount of $138.3 million to cover ultimately the PRIFA Series 2011 C Bonds. These letters of credit carried an annual fee of 1% on their outstanding amounts, payable semiannually, commencing on December 15, 2011. Since 2017, the Authority has not been charged for fees related to the remaining letter of credit outstanding.

Note 10 - Loan and trust agreement (the PRIFA bonds) – (continued)

During fiscal year 2013, the Authority used $266.9 million from the proceeds of the APP Agreement (described in Note 20) and drew $74.6 million from the GDB Letters of Credit for the full redemption of PRIFA Series A Bonds. In addition, $96.8 million from the GDB Letters of Credit were also drawn for the mandatory partial redemption of a portion of the PRIFA Bonds Series C. Later during fiscal year 2014, the remaining balance of $39.6 million of PRIFA Bonds Series C was also repaid using the corresponding GDB Letters of Credit. By having drawn on the GDB Letters of Credit, new notes payable to GDB were issued and included in the accompanying statement of net position (deficit). See description of notes payable to GDB (actually GDB Debt Recovery Authority (GDBDRA)) in Note 11 to the financial statements.

Under the Loan and Trust Agreement for the PRIFA Bonds, as previously described, the Authority used to set aside and deposit, on a monthly basis, to the trustee account approximately $1 million for the debt service of the PRIFA Bonds outstanding. Effective July 2016, pursuant to the provisions of Act No. 21, the Authority ceased making such deposits to the trustee; consequently, the debt service of the PRIFA Bonds due on December 15, 2017, and thereafter was not honored.

In May 2017, the Bank of New York Mellon (BNYM), as trustee of the PRIFA Bonds, made a final request to GDB on its GDB Letters of Credit for $190.6 million of principal, and approximately $9.4 million of interest, since events of default had occurred and accordingly, the principal and interest was declared immediately due and payable, as related to PRIFA Bonds Series 2011 B. Such draw request was a participating bond claim, subject to the re-organization and elimination plans of GDB. As part of GDB re-organization and elimination plan, this obligation was transferred to GDBDRA, as part of the collateral of the new bonds issued and exchanged with GDB's creditors.

On December 27, 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), on behalf of the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Puerto Rico Ports Authority (Authority), entered into a final amended restructuring support agreement with certain PRIFA creditors, representing approximately 93% of the outstanding $190.6 million principal of PRIFA Bonds Series 2011 B (PRIFA Bonds). The final settlement provided for the repurchase of all the outstanding PRIFA Bonds of such creditors for their pro-rata share of a cash payment of approximately $88.7 million. The remaining 7% ($13.5 million) of the PRIFA Bonds continues outstanding, and AAFAF is pursuing negotiations with certain of such bondholders. The final settlement also provided for customary mutual releases between the participating parties and The Bank of New York Mellon (BNYM) in its capacity of trustee of the PRIFA Bonds.

Note 10 - Loan and trust agreement (the PRIFA bonds) – (continued)

As part of the restructuring and wind-down of Government Development Bank for Puerto Rico (GDB), GDB transferred to GDBDRA its reimbursement claims against the Authority for amounts honored by GDB under the GDB Letter of Credit securing the PRIFA Bonds (the Letter of Credit). GDBDRA was created by Act 109 of August 24, 2017, as amended, to facilitate the restructuring of certain of GDB's indebtedness and the release of certain claims against GDB pursuant to a Qualifying Modification under Title VI of PROMESA. Pursuant to the terms of the Qualifying Modification, each $1,000 of affected claims, including the claims of BNYM, on behalf of the holders of PRIFA Bonds, against GDB in respect of the un-honored draws under the Letter of Credit, received new bonds issued by GDBDRA having a face value of $550. On November 30, 2018, the new bonds of GDBDRA were issued and BNYM, as trustee of PRIFA Bonds, received bonds with value of approximately $116.3 million for the unfunded letter of credit.

During fiscal year 2020, based on the above-described events, and considering that the Authority was released from its obligations with PRIFA, the Authority reduced the outstanding principal balance of its PRIFA Bonds obligation by $177.1 million to reflect a balance of $13.5 million, which represents approximately 7% of the PRIFA Bonds outstanding, which has not yet been settled. In addition to the principal balance due, the Authority eliminated all accrued interest on the PRIFA Bonds, its related unamortized balance of deferred outflows or resources related to refunding loss, and its related unamortized premium, recognizing a net gain on partial release of PRIFA Bonds of $203.9 million. Also, the Authority discontinued its monthly accrual of interest for the remaining PRIFA Bonds balance due.

During fiscal year 2022, AAFAF continued its efforts to negotiate the remaining $13.5 million PRIFA Bonds. At June 30, 2022 the loan carrying value of $13.5 million was considered as a current liability in the accompanying statement of net position (deficit), since the Authority has not done any payment since July 2016 and, accordingly, is in default as related to its obligation.

On May 2, 2023, PRIFA deposited $10.4 million with the BNYM (PRIFA Bonds trustee) for the redemption of the $13.5 million PRIFA Bonds outstanding. Pursuant to the Trust Agreement, the Authority called the PRIFA Bonds for redemption on June 2, 2023. BNYM made the corresponding redemption value payments on June 2, 2023, and accordingly, the PRIFA Bonds were redeemed.

Note 11 - Notes payable

Notes payable as of June 30, 2022, consisted of the following (expressed in thousands):

	Amount
Borrowing under line of credit agreement with GDB, transferred to GDBDRA, used for mandatory tender of PRIFA Series C1 Bonds, converted into 5 years term loan payable in monthly principal installments of $1.608 million, bearing interest at prime rate plus 150 basis points with a minimum rate of 6%, due since February 2019.	$ 88,701
Borrowing under line of credit agreement with GDB, transferred to GDBDRA, used for mandatory tender of PRIFA Series A Bonds, converted into 5 years term loan payable in monthly principal installments of $1.243 million, bearing interest at prime rate plus 150 basis points with a minimum rate of 6%, due since December 2018.	68,359
Borrowing under line of credit agreement with GDB, transferred to GDBDRA, bearing interest at 90 days LIBOR rate plus 50 basis points with a minimum rate of 6%, due in June 2023. Collateralized by the San Juan Water Front (SJWF) Project.	44,000
Borrowing under line of credit agreement with GDB, transferred to GDBDRA, used for mandatory tender of PRIFA Series C2 Bonds, converted into 5 years term loan payable in monthly principal installments of $658 thousand, bearing interest at prime rate plus 150 basis points with a minimum rate of 6%, due since March 2019.	36,292
Borrowing under line of credit agreement with GDB, transferred to GDBDRA, bearing interest at prime rate plus 150 basis points with a minimum rate of 7% , due in December 2044 (with a 5 years grace period); used for deposit in the Special Incentives Fund administered by PRIDCO; collateralized with funds maintained at GDB for improvements to regional airports, legislative assignments, certain PRIDCO's properties and limited guarantee of Lufthansa AG, among other guarantees.	28,881
Promissory note payable to Carnival Corporation, bearing interest at 7.50%, due through May 2024. Collateralized by tariff income from Carnival Corporation.	6,209
Credit granted to Tote Shipholdings, Inc. in exchange for certain improvements made by them at facilities of the Authority. The total amount of credit was discounted at 6% and provides for monthly payments of $59,622, including interest, for seven (7) years; commencing in July 2017 through June 2024.	1,293

Note 11 - Notes payable – (continued)

	Amount
Credit granted to Crowley Line Services in exchange for certain improvements made by them at facilities of the Authority. The total amount of credit was discounted at 6% and provides for maximum annual payments or credits of $480,000, including interest; commencing in September 2017 through September 2046.	6,435
Credit granted to Prime Alliance Company, LLC in exchange for certain improvements made by them at facilities of the Authority. The total amount of credit was discounted at 6% and provides for monthly payments of $21,854, including interest; commencing in June 2019 through October 2028.	1,404
Credit granted to Norwegian Cruise Line in exchange for certain improvements made by them at facilities of the Authority. The agreement provides for credits to be applied, for a 3 years period, to services invoices based on the volume of passengers carried. The application of credits began in fiscal year 2020.	584
	282,158
Less: current portion	(242,144)
	$ 40,014

Government Development Bank (GDB) – GDB Debt Recovery Authority (GDBDRA)

In February 2014, the line of credit of $96.8 million payable to GDB, used for the mandatory partial tender of the PRIFA Series C1 Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.6 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $8.1 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding principal balance of the term loan at June 30, 2022 is $88.7 million.

In December 2013, the line of credit of $74.6 million payable to GDB, used for the mandatory partial tender of the PRIFA Series A Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.2 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $6.2 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding principal balance of the term loan at June 30, 2022 is $68.4 million.

Note 11 - Notes payable – (continued)

Government Development Bank (GDB) – GDB Debt Recovery Authority (GDBDRA) – (continued)

On July 1, 2008, the Authority entered into a $180 million line of credit for the development of the San Juan Water Front (SJWF) project (known as Bahía Urbana) authorized by an executive order signed on February 20, 2008. Borrowings under this line of credit bear interest at 90 days Libor plus 50 basis points with a minimum rate of 6%, due through June 20, 2023. This line of credit is collateralized with the SJWF project. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, on September 6, 2014, Joint Resolution #88 was approved authorizing annual Legislative Appropriations of $5 million, commencing on fiscal year 2015 through fiscal year 2023, to repay the balance outstanding under this line of credit. The appropriations for fiscal years 2015 through 2022 were not made and there is no assurance that such appropriation and the remaining one until fiscal year 2023 will be made. At June 30, 2022, a principal balance of $44 million is outstanding on this credit facility.

In March 2014, the line of credit of $39.6 million payable to GDB, used for the mandatory partial tender of the PRIFA Series C2 Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $658 thousand, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. The Authority has not made the scheduled principal and interest payments since the inception of this credit facility. However, during fiscal year 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, $3.3 million of the deposits at GDB were used to partially offset the outstanding balance of this term loan. The outstanding principal balance of the term loan at June 30, 2022 is $36.3 million.

In December 2014, the Authority entered into a $41.4 million line of credit with GDB, the proceeds of which were deposited in the Special Incentives Fund administered by PRIDCO, for the development maintenance, repairs and overhaul operations at the regional airport of Aguadilla, Puerto Rico. The line of credit is due on December 5, 2044, with a grace period of five years for the payment of principal. This loan bears interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 7% and is payable in December every year. The loan will be payable from the future rental revenue of the related facilities developed. During fiscal year 2019, and resulting from the enactment of Law No. 109 of August 24, 2017, $2.6 million of the deposits at GDB were used to reduce the balance outstanding of this line of credit. During 2022, no principal payments were made, and approximately $935 thousand were paid for accrued interest on this line of credit. At June 30, 2022, the outstanding principal balance of this line of credit is $28.9 million.

Note 11 - Notes payable – (continued)

Government Development Bank (GDB) – GDB Debt Recovery Authority (GDBDRA) – (continued)

The above referred obligations with GDB were transferred to GDBDRA, a new entity, which was created as part of the restructuring and wind-down of GDB and are part of the collateral of new bonds issued on November 30, 2018, and exchanged with GDB's creditors. No changes have been made to the terms of the obligations once transferred to GDBDRA. Refer to Notes 3 and 10 for additional information regarding GDB's Debt Restructuring Act.

Carnival Corporation

On June 7, 2001, the Authority entered into a Master Development Agreement with Carnival Corporation (MDA) for the performance of certain improvements to Terminal 4 of the Port of San Juan. Total financed costs amounted to approximately $13.5 million and will be payable to Carnival by 240 monthly deductions of $108,735 (including principal and interest at 7.50%) from the tariffs payable from Carnival to the Authority, commencing in May 2004, until May 2024. As approved by the Board of Directors, in May 2019, the Authority signed a supplementary agreement to the MDA, which provided an estimated additional credit of approximately $1.6 million for certain improvements to be done by Carnival at Terminal 4. At June 30, 2022, improvements for approximately $1.3 million have been completed. This additional credit bears interest at 7.5% and should be fully paid by April 30, 2024. Also, the monthly deductions from tariffs payable should increase from $108,735 to $166,162, resulting from this additional credit.

During the year ended June 30, 2020, as consequence of the COVID-19 pandemic, the cruise industry postponed its visits to Puerto Rico, and as a result the Authority was not able to provide fully the monthly scheduled deductions from tariffs payable from Carnival, nor during fiscal year 2021. Accordingly, at June 30, 2022, the Authority has accrued interest payable to Carnival for approximately $778 thousand, and principal balance outstanding for approximately $6.2 million.

Tote Shipholdings, Inc.

During June 2016, as approved by the Board of Directors, the Authority granted a credit of approximately $5 million to Tote Shipholdings, Inc. for certain improvements done on Piers J, K and L. The Board of Directors resolution provides for credit of $715 thousand, during the next seven (7) years or as determined by the Authority's management. The total credit amount was discounted at 6% and provides for 84 monthly payments or credits of $59.6 thousand (including principal and interest) from July 2017 to June 2024. As of June 30, 2022, the outstanding discounted balance was approximately $1.3 million.

Note 11 - Notes payable – (continued)

Crowley Line Services

As approved by the Board of Directors, in March 2015, the Authority amended its lease agreement with Crowley Line Services (CLS) to provide for a 30-year term extension and also to include a new concrete berth facility to be built in the Authority's facilities at Isla Grande Terminal. Also, as previously approved by the Board of Directors, and subject to certain conditions, the Authority granted an investment credit of approximately $14.4 million to CLS for reimbursement of certain improvements to be done at the Isla Grande Terminal. Based on the Board resolution, such credit will be granted on maximum consecutive annual payments or credits of $480 thousand for 30 years. The annual investment credit amount is subject to the achievement of certain operational charges (dockage, port service and wharfage fees) paid by CLS to the Authority. Investment credits not earned during a given year shall not be carried over to subsequent years. The total investment credit amount was finally recognized for $6.607 million, discounted at 6%, providing for 30 consecutive annual payments or credits of $480 thousand (including principal and interest). During 2019, the Authority began to recognize the previous year credits earned by CLS. During fiscal years 2020 to 2022, no payment was applied, and accordingly the Authority has accrued interest of $1.1 million. As of June 30, 2022, the outstanding discounted balance was approximately $6.4 million.

Prime Alliance Company, LLC

During December 2018, the Board of Directors approved a maximum credit of $3.9 million to Prime Alliance Company, LLC for improvement made to rented facilities. The credit was part of a new rental agreement and the offsetting of certain rental outstanding balance due to the Authority by a related entity of Prime Alliance Company, LLC. The credit was finally settled for approximately $2.5 million, after reducing the maximum credit amount for $1.4 million due to the Authority. The total credit amount was discounted at 6% and provides for monthly payments or credits of $21.9 thousand, including interest, commencing in June 2019 through October 2028. As of June 30, 2022, the outstanding discounted balance was approximately $1.4 million.

Norwegian Cruise Line

During November 2018, the Authority and Norwegian Cruise Line (NCL) signed a Memorandum of Understanding (MOU), which provides for volume incentive credits in exchange for certain pier improvements to be made by NCL at facilities of the Authority. The agreement provides for the following: NCL guarantees 100,000 passengers each calendar year for three (3) years, starting in January 2019 and the Authority will reimburse the funds provided by NCL (not in excess of $1.5 million) for the pier improvements. The volume incentive will be $5 per passenger, for a period of three (3) years, assuming that NCL meet its passenger guarantee. If NCL does not meet its annual

Note 11 - Notes payable – (continued)

Norwegian Cruise Line – (continued)

passenger guarantee in any given year (unless due to a Major Force Event, as defined in the MOU) there will not be any volume incentive credit applied or paid to NCL for that year and there is no further obligation of the Authority to reimburse NCL for the applicable year. The incentive will be honor by the Authority in the form of credit notes applied to the wharfage services billing to NCL.

The piers improvements were made and certified by the Authority's Engineering area during fiscal year 2020 for approximately $1.3 million and credit notes for approximately $733 thousand were applied to wharfage billings. During 2022 and 2021, there were no credit notes applied. As of June 30, 2022, the outstanding unapplied volume incentive credit balance was approximately $584 thousand.

Summarized notes payable activity

The summarized notes payable activity for the fiscal year ended June 30, 2022, was as follows (expressed in thousands):

	June 30, 2021	Borrowings	Payments	June 30, 2022
Notes payable	$ 282,400	$ -	$ (242)	$ 282,158

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Note 11 - Notes payable – (continued)

Summarized notes payable activity – (continued)

Based on loan requirements and their corresponding debt amortization schedules, the principal repayments on notes payable with estimated interest payments for the next five (5) years and thereafter, are as follows (expressed in thousands):

Fiscal Year ending June 30,	Principal	Interest	Total
2023	$ 242,144	$ 146,554	$ 388,698
2024	4,364	2,565	6,929
2025	342	2,421	2,763
2026	362	2,401	2,763
2027	385	2,379	2,764
2028-2032	1,018	11,669	12,687
2033-2037	1,129	11,379	12,508
2038-2042	1,511	10,998	12,509
2043-2047	30,903	5,432	36,335
	$ 282,158	$ 195,798	$ 477,956

Note 12 - Termination benefits

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act No. 70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows: Article 4(a) provides economic incentive based on the following parameters:

Years of service in public sector	Incentive gross amount
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day up	6 months of salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements.

Note 12 - Termination benefits – (continued)

Annuity pension payments are based on the following parameters:

Credited years of service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50%

The Authority will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments. However, after July 1, 2017, and based on Retirement System's Circular Letter No. 2019-01 of October 29, 2018, the applicable employer and employee contributions being made by the Authority were eliminated.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

As of June 30, 2022, the present value of future incentive payments reported as a liability amounted to approximately $5.3 million. As of June 30, 2022, the discount rate was of 2.70%. The total aggregate liability of the program as of June 30, 2022 amounted to $5.3 million, of which $786 thousand should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to $4.5 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

Note 13 - Retirement plans

The Employees' Retirement System of Puerto Rico (the Retirement System or ERS) was created pursuant to Act No. 447 of May 15. 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to July 1, 2017, the Retirement System administered different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program, and a defined contribution hybrid program. The ERS's governance was vested in an eleven-member Board of Trustees (the Board), which established policy and oversaw the operations consistent with applicable laws.

Pursuant to Act. No. 106 of August 23, 2017 - *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act No. 106-2017), effective on July 1, 2017 the previously existing programs under Act No. 447, as amended, were terminated and transitioned to a pay-as-you-go (Pay-Go) system, in which the Retirement System stopped receiving contributions from employers or plan participants and is no longer managing contributions on behalf of participants. Under Act No. 106-2017, all employers' obligations to contribute to the ERS were eliminated. Also, based on the provisions of Act No. 106-2017, the Board was substituted by the Retirement Board of the Government of Puerto Rico, comprised of thirteen members, including six ex-officio members (or their designees). Act No. 106-2017 also created a Define Contribution Plan, similar to a 401 (k) plan, in which the members of the prior programs and new members hired on or after July 1, 2017 have been enrolled. The ERS operations are limited to maintain custody of the unliquidated assets that are pending to be transferred to the Commonwealth's general fund, servicing the bonds payable and administrative services on behalf of the Commonwealth.

For the year ended June 30, 2022, total employee contributions for the defined contribution hybrid program (under Act No. 106-2017) amounted to approximately $1.2 million.

Prior to the effect of Act No. 106-2017, the circumstances of the Retirement System were as follows.

Cost-sharing, multiple-employer, defined benefit program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

Note 13 - Retirement plans – (continued)

Cost-sharing, multiple-employer, defined benefit program – (continued)

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

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

Participants who have completed 30 years of creditable service were entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth's legislation required employees to contribute 10% of their monthly gross salary.

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

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

Note 13 - Retirement plans – (continued)

System 2000 Program

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

Commonwealth's legislation required employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions were credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income was credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants were pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program was not a separate plan and the Commonwealth did not guarantee benefits at retirement age.

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

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

Note 13 - Retirement plans – (continued)

Defined contribution hybrid program

On April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447, Act No. 1 and Act. No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. 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 Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 Program participants.

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

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

Note 13 - Retirement plans – (continued)

Defined contribution hybrid program – (continued)

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from $400 to $500 per month.

2. The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.

3. The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.

4. Eliminated the "merit annuity" available to participants who joined the retirement System prior to April 1, 1990.

5. The retirement age for new employees was increased to age 67.

6. The employee contribution rate was increased from 8.275% to 10%.

7. For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.

9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

10. Survivor benefits were modified.

Employee contributions were credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) was required for the purchase of disability insurance.

Note 13 - Retirement plans – (continued)

Defined contribution hybrid program – (continued)

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

The Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries, referred to as System Administered Pension Benefits. The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and Christmas bonuses. Act No. 3 and Act No. 160 amended various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014). The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Authority. The System Administered Pension Benefits corresponding to former employees of the Authority are obligations of the Authority. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

Pension liability, pension expense and deferred outflows/inflows of resources related to pension

As of June 30, 2022, the Authority reported total pension liability of $488.4 million for its proportionate share of the ERS collective total pension liability, of which $22.7 million should be funded during next fiscal year and reported as long-term portion amounting to $465.7 million. Such liability was determined by an actuarial valuation as of June 30, 2020, and rolled forward to June 30, 2021 (measurement date). The Authority's proportionate share of the collective total pension liability was 1.79649% at measurement date of June 30, 2021 (1.80621% for June 30, 2020). The Authority's proportion of the ERS collective total pension liability was based on the ratio of its actual benefit payments to the total actual benefits payments paid, by all participating entities, during the year ending on the measurement date.

Note 13 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

For the year ended June 30, 2022, the Authority recognized pension expense of approximately $18.9 million. As of June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (expressed in thousands):

	Pension related deferred outflows of resources	Pension related deferred inflows of resources
Difference between actual and expected experience	$ 780	$ (14,549)
Changes in proportion	1,606	(8,831)
Changes of assumptions	49,993	(5,771)
Benefits paid and accrued subsequent to June 30, 2021	22,683	-
	$ 75,062	$ (29,151)

The $22.7 million, reported as deferred outflows of resources related to pension resulting from benefits paid and accrued after the measurement date, is related to the 2022 Pay-Go contribution to the pension plan and will be recognized as a reduction of the net pension liability after June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense (recovery) as follows (expressed in thousands):

Year ending June 30,	Amount
2023	$ 6,518
2024	6,518
2025	10,192
	$ 23,228

Note 13 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

Actuarial methods and assumptions

Valuation date	July 1, 2020
Measurement date	June 30, 2021
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	2.16%
Inflation	Not applicable
Salary increases	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy
Investment rate of return	Not applicable
Mortality	(See below)

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

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

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

Note 13 - Retirement plans – (continued)

Pension liability, pension expense and deferred outflows/inflows of resources related to pension – (continued)

- *Post-retirement Disabled Mortality* – Rates which vary by gender are assumed for disabled retirees based on a study of the ERS 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.

The discount rate was 2.16% as of June 30, 2021, which represents the municipal bond return rate chosen by the Commonwealth of Puerto Rico. The tax-exempt municipal bond index (Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index), with an average rating of AA/Aa or higher, was applied to all periods of projected benefits payments to determine the total pension liability.

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

The following presents the total pension liability as of June 30, 2021, calculated using the discount rate of 2.16%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1 percent-point level lower (1.16%) or 1 percent-point higher (3.16%) than the current rate (expressed in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total pension liability	$ 557,975	$ 488,362	$ 431,955

Pay-Go System

Act No. 106-2017 approved a substantial pension reform for all the Commonwealth's retirement systems, which created the legal framework for the Commonwealth to guarantee benefit payments to pensioners. This reform modified most of the retirement systems activities, eliminated the employer contributions, established a separate "Account for the Payment of Accrued Pensions" to implement a pay-as-you-go (Pay-Go) system, and required the Commonwealth retirement systems to liquidate all their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Effective on July 1, 2017, the previously

Note 13 - Retirement plans – (continued)

Pay-Go System – (continued)

existing programs under Act No. 447, as amended, were terminated and transitioned to Pay-Go system. Under the Pay-Go system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employer. The Pay-Go charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the Pay-Go charge is expected to increase.

For the years ended June 30, 2022 and 2021, the Authority's corresponding payments under the Pay-Go system were approximately $22.7 million and $23.4 million, respectively. As of June 30, 2022, the Authority had approximately $63.2 million, included in due to governmental entities in the accompanying statement of net position (deficit), which is related to current and previous years Pay-Go system billings.

Contribution to PREPA Employees' Retirement System

Effective June 28, 2021, and pursuant to Law No. 120 of June 20, 2018 – "Puerto Rico Electric Power System Transformation Act" (Act No. 120-2018) and Law No. 8 of February 4, 2017 – "Government of Puerto Rico Human Resources Administration and Transformation Act" (Act No. 8-2017), various employees of the Puerto Rico Electric Power Authority (PREPA) were designated and transferred as new employees of the Authority, under the concept of mobility to another government entity. Act No. 120-2018 provides for the transferred employees to retain all rights acquired pursuant to the laws, rules, collective bargaining agreements, and regulations applicable to them, as well as the privileges, obligations, and status with respect to any existing pension, retirement, or savings and loan fund established by law, to which they were entitled prior to approval of Act No. 120-2018, which are compatible with the provisions of Act No. 26-2017 – "Fiscal Plan Compliance Act". Accordingly, based on Act No. 120-2018, the Authority is obligated for the employer contribution to the PREPA Employees' Retirement System. For the year ended June 30, 2022, the Authority's estimated contribution was $386.7 thousand, which had not been paid and included in accounts payable and accrued expenses in the accompanying statement of net position (deficit).

Note 14 - Other postemployment benefits (OPEB)

Plan description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. 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 the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75).

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.

However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. 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 pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

OPEB liability, OPEB expense and deferred outflows/inflows of resources related to OPEB

As of June 30, 2022, the Authority reported OPEB liability of $8.9 million for its proportionate share of the collective total OPEB liability, of which $723 thousand should be funded during the next fiscal year and reported as long-term portion amounting to $8.2 million. Such liability was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The Authority's proportionate share of the collective total OPEB liability was 1.11419% at measurement date of June 30, 2021 (1.07068% for June 30, 2020). The Authority's proportion of the collective total OPEB liability was based on the ratio of its actual benefit payments to the total actual benefit payments paid, by all participating entities, during the year ending on the measurement date.

Note 14 - Other postemployment benefits (OPEB) – (continued)

OPEB liability, OPEB expense and deferred outflows/inflows of resources related to OPEB - (continued)

For the year ended June 30, 2022, the Authority recognized an OPEB credit adjustment of approximately $462 thousand. As of June 30, 2022, the Authority reported deferred outflows of resources related to OPEB of approximately $722 thousand. These deferred outflows of resources represent OPEB benefits paid subsequent to the measurement date. No deferred inflows of resources related to OPEB were reported as of June 30, 2022.

Actuarial assumptions

Discount rate

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

Mortality

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

- *Post-retirement mortality* – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS 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.

Note 14 - Other postemployment benefits (OPEB) – (continued)

Mortality - continued

- *Post-retirement disabled_mortality* – Rates which vary by gender are assumed for disabled retirees based on a study of the ERS 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.

Sensitivity of the Authority's proportionate share of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability as of June 30, 2021, calculated using the discount rate of 2.16%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percent-point level lower (1.16%) or 1 percent-point higher (3.16%) than the current rate (expressed in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	$ 9,761	$ 8,893	$ 8,153

Note 15 - Commitments and contingencies

Construction

As of June 30, 2022, the Authority had commitments for approximately $29.7 million, related to construction contracts.

Litigation

The Authority is defendant or co-defendant in various lawsuits, with claims amounting to approximately $53.3 million, as a result of the normal course of operations and also for alleged damages in cases principally related to its concessionaries. As of June 30, 2022, the Authority has reserves amounting to approximately $13.1 million to cover the aggregate exposure assessment. In the opinion of the Authority's management, based on legal advice, any liability in excess of insurance coverage and/or of the recorded reserves that may arise from final judgments would not significantly affect the Authority's financial position or result of operations.

Note 15 - Commitments and contingencies – (continued)

Human resources

The Authority is defendant in various separate class action suits brought by employees, which are requesting the payment of overtime, accrued compensated absences, fringe benefits and increase in salaries. Based on the advice of legal counsel and opinion of management, no specific reserve have been attributed to those legal actions as of June 30, 2022.

Environmental remediation

On May 23, 2002, the Authority, as well as other oil companies (the members), was contacted by the United States Environmental Protection Agency (EPA) regarding certain alleged environmental conditions at the LMMIA related to the Hydrant Fuel System (HFS). The Authority and the other members entered into an Administrative Order Consent (AOC) with EPA to perform a subsurface investigation and certain other tasks in connection with the HFS, with the exception of the assessment of the HFS, which will be undertaken by the Authority. In March 2003, the Authority and the other members entered into a Joint Defense, to jointly fulfill the tasks promulgated by the EPA under the AOC. As informed by its legal counsel, in relation to this environmental remediation matter, the Authority has an unpaid debt of $1.909 million, which is included as part of the accounts payable and accrued expenses in the accompanying statement of net position (deficit) as of June 30, 2022.

Tenant lease agreements

The Authority entered in two lease agreements with a tenant for a tract of land at LMMIA. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the agreements, the Authority will charge a fixed monthly rent, plus an additional rent based on sales volume. The Authority also agreed to grant rental credits to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. Also, as of June 30, 2022, the tenant and the Authority are under litigation of certain aspects of the lease agreements, as described in the ensuing paragraph.

Note 15 - Commitments and contingencies – (continued)

Tenant lease agreements – (continued)

Pursuant to the objectives of the LMMIA Project (see Note 20), during December 2011, the Authority entered into certain expropriation proceedings through the Puerto Rico First Instance Court (the Court), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with GDB, out of which $25.4 million were consigned with the Court to start the expropriation process. The consigned amount was based on the Authority's determination of the properties' fair value, and it is included in a separate line item in the accompanying statement of net position (deficit). The counterparties have the right to contest the amount deposited, pursuant to the presentation of acceptable evidence indicating a higher fair value. As of the date of issuance of the financial statements, the legal matter related to the expropriation process was resolved in favor of the third party, however a legal claim by such third party for loss of income is still pending to be awarded.

Credits granted for facilities improvements

As approved by the Board of Directors, and as part of new lease agreements, the Authority has granted credits to various tenants for improvements to be made by them at certain of its facilities. These credits should be applied principally to the monthly rental billings through the lease agreement term, which ranges from June 2022 to December 2053. At June 30, 2022, the maximum authorized credit on these lease agreements was $9.4 million, and the final credit amount is subject to revision and certification of the actual costs incurred for the facilities improvements.

AMR bankruptcy and other related litigation

On November 28, 2011, AMR Corp. (AMR), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. The Authority derived over 20% of its rental revenues and landing and other fees from AMR during the fiscal year 2012. Prior to the closing of lease and use agreements with respect to the LMMIA, as described in Note 20, the Authority's collection of revenues could have been affected if AMR's bankruptcy proceedings caused delays or suspension of payments, or if AMR's operations were modified as part of the underlying corporate reorganization. However, pursuant to the lease and use agreement closed on February 27, 2013, referred to in Note 20, this potential risk was transferred to Aerostar, which is managing and monitoring such risk as part of the lease and use agreements.

Note 15 - Commitments and contingencies – (continued)

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor of Puerto Rico issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The EO 2020-020 authorized the Secretary of the Treasury of the Commonwealth and the Executive Director of the Puerto Rico Oversight Management Board to set up a special budget, from any available funds, including Emergency Fund, to cover all necessary costs for the containment of the virus throughout the Island and sharing information with the municipalities. Subsequent executive orders were issued in response to the COVID-19 spread, including there-opening of certain economic areas, curfew directives and other protective measures. In addition, economic stabilization measures were implemented by the Commonwealth of Puerto Rico and the US Federal Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities, and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic. As the Government, observed and assessed the results of the re-opening, it continued to re-evaluate and further amending business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

Up to September 2022 and resulting from the adverse effects of the COVID-19 pandemic emergency, the Authority's management estimated a negative net impact of approximately $29.1 million in its operational cash flows, considering $20 million related to the American Rescue Plan Act (ARPA) received, on December 15, 2021, to mitigate the economic impact of COVID-19.

During the first two weeks of May 2023, the WHO, the US Federal Government, and the Commonwealth of Puerto Rico declared the end of the COVID-19 public health emergency. Accordingly, no additional federal and or local funds will be available to mitigate any adverse economic effect of the COVID-19.

Note 16 - Passenger facility charge

Pursuant to the Aviation Safety and Capacity Act of 1990 (the Act), airports may collect a Passenger Facility Charge (PFC) of up to $4.50 per ticket, out of which $0.11 belongs to the airline companies for administrative expenses and $4.39 to the Authority. Under the Act, PFC revenues are restricted to be used for financing eligible airport-related projects that preserve or enhance safety, capacity, or security of the air transportation system, subject to the approval of the Secretary of Transportation of the United States. Under the provisions of the Act, the Authority is

Note 16 - Passenger facility charge – (continued)

required to provide an annual independent audit of the PFC revenues, which expresses an opinion of the fairness and reasonableness of the Authority's procedures for receiving, holding, and using PFC revenue. In addition, auditors are required to report whether the quarterly reports that must be filed by the Authority fairly represent the net transactions within the PFC accounts.

PFC revenues are recognized as collected and are included in non-operating revenues. As of June 30, 2022, the Authority has unexpended resources amounting to approximately $5.8 million, which are restricted for PFC projects. As part of the service concession arrangement for the LMMIA facilities signed with Aerostar (described in Note 20), after February 27, 2013, the PFC revenues related to the LMMIA operations are received and administered by Aerostar. During July and August 2020, the Federal Aviation Administration (FAA) approved for the Authority, the collection programs of PFC at the regional airports of Ponce and Aguadilla, respectively. The collection process in such regional airports commenced during 2021. PFC income for the year ended June 30 2022 amounted to approximately $1.6 million.

Note 17 - Leases

The Authority, as a lessor, recognizes a lease receivable and deferred inflows of resources at the commencement of a lease term. As a lessor the asset underlying the lease is not unrecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received and less any incentives given at or before the commencement of the lease. For GASB Statement No. 87, *Leases*, (GASB No. 87) the Authority's leases were categorized as follows:

(1) Other than short-term leases – those leases with a remaining term over twelve (12) months at the GASB No. 87 adoption date, and those new leases entered into after the GASB No. 87 adoption date with a lease term over twelve (12) months at inception.

(2) Short-term leases – those leases with a remaining term of twelve (12) months or less at the GASB No. 87 adoption date, and those new leases entered after the GASB No. 87 adoption date with a lease term of twelve (12) months or less at inception.

For other than short-term leases, the Authority recognized lessor lease receivable of $162.4 million for the fiscal year ended June 30, 2022, and is included as lease receivables – current ($12.6 million) and lease receivables – non-current ($149.8 million) in the Statement of Net Position (Deficit). For the fiscal year ending June 30, 2022, the Authority reported lease revenue of $12.9 million and interest revenue of $6.5 million. The Authority uses an incremental borrowing rate of 6.0% to discount lease revenue to net present value. The Authority leases its properties for terms that range from 1 to 35 years and the agreements are principally based on fixed rent payments. The variable revenue and rent waivers were not included in the measurement of the lease receivables.

Note 17 - Leases – (continued)

Minimum future lease receipts are as follows (expressed in thousands):

Year	Principal	Interest	Total
2023	$ 12,624	$ 9,222	$ 21,845
2024	10,774	7,321	18,095
2025	10,950	6,851	17,801
2026	11,847	6,712	18,559
2027	10,584	6,326	16,910
2028-2032	47,799	26,215	74,014
2033-2037	25,823	18,384	44,207
2038-2042	20,803	10,523	31,326
2043-2047	10,774	4,809	15,583
Thereafter	477	181	658
	$ 162,455	$ 96,544	$ 258,999

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under these leases is not included in the minimum future lease receipts amounts above.

Short-term leases are certain leases that have a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Rental income on short-term leases amounted to approximately $7.7 million for the year ended June 30, 2022.

Note 18 - Federal assistance programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 2000, Uniform Administrative Requirements Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Note 18 - Federal assistance programs – (continued)

Federal financial assistance for the year ended June 30, 2022, consists of grants and donations as follows (expressed in thousands):

Federal financial assistance:	Amount
Federal grants received from:	
Federal Aviation Administration	$ 13,421
Federal Transit Administration	4,568
U.S. Treasury - CARES Act	20,748
U.S. Treasury - Equitable Sharing Program	67
U.S. Department of Homeland Security - FEMA	368
	39,172
Less: pass-through grant program payments	(4,568)
	$ 34,604

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Note 19 - Operating revenues

Operating revenues for the fiscal year ended June 30, 2022, consist of the following (expressed in thousands):

Description	Amount
Maritime operations:	
Wharfage, dockage and ports services	$ 24,445
Tourist ship fees	4,260
Equipment and property rental	991
Lease revenue (GASB No. 87)	7,648
Lease interest revenue (GASB No. 87)	3,797
Demurrage, utilities and other	521
Enhanced security fee	17,702
Less: provision for doubtful accounts	(234)
	59,130
Airport operations:	
Landing fees	1,446
Passenger facilities fees	758
Non-aeronautical revenue	12,174
Space rental	6,691
Concession fee amortization - APP (LMMIA)	20,684
Revenue sharing - APP (LMMIA)	8,032
Lease revenue (GASB No. 87)	5,238
Lease interest revenue (GASB No. 87)	2,690
Utilities, gas sales and others	773
Less: provision for doubtful accounts	(3,057)
	55,429
	114,559
Less: discounts and incentives	(230)
	$ 114,329

Non-aeronautical revenue for $12.2 million (as stated above) consists of services provided and rental income of certain piers and facilities belonging to the Isla Grande regional airport, which were previously reported as maritime operations revenue. As requested by the FAA, the revenues for those facilities must be assigned and informed as airports revenues for federal regulation purposes.

Note 20 - Lease and use agreements – LMMIA

On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the APP Agreements) entered into on July 27, 2012 between the Authority and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Muñoz Marín International Airport Project (the LMMIA Project). Aerostar is a partnership formed between Grupo Aeropuertuario de Sureste S.A.B de C.V. (ASUR), a New York Stock Exchange-listed Mexican airport management firm, and Highstar Capital L.P., a fourth-generation infrastructure investor and private equity funds manager. The Authority's objectives for entering into the APP agreements are discussed in Note 3.

The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop, and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the Authority. In addition, upon the closing of the APP Agreements, the Authority received from Aerostar annual rental payments for each of the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, the Authority will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, the Authority will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years. Aerostar also funded with a $6 million deposit a separate escrow account called the Puerto Rico Air Travel Promotion and Support Fund, with the purpose of compensating airlines that increase their services to the LMMIA over certain established thresholds during the first three years of the APP Agreements. Under the APP Agreements, the Authority was responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.1 million at the transaction date. Pursuant to the adoption of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the Authority recognized at February 27, 2013, the date of the closing of the APP Agreements, a resulting deferred inflow of resources amounting to $622.5 million and a liability of $3.1 million for the present value of the capital improvement commitments of the Authority; in exchange for the receipt of the $615 million upfront leasehold fee and the receivable of the annual payments of $2.5 million from Aerostar for the first 5 years since the closing, with a present value estimate of $10.5 million. Since the closing date through June 30, 2022, approximately $172.9 million of the deferred inflow of resources have been amortized into revenue, $20.7 million of which belonged to fiscal year 2022 and recognized within operating revenues-airport in the accompanying statement of revenues, expenses, and changes in net position (deficit). As of June 30, 2022, the Authority has fully satisfied its capital improvement commitments.

Note 20 - Lease and use agreements – LMMIA – (continued)

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and the Authority) was accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to the Authority. Aerostar will also be able to charge a maximum level of fees to the airlines at LMMIA, as established in the APP Agreements.

The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. This capital improvement program called for an investment in capital expenditures for the ensuing five years after the closing of the APP Agreements in amounts ranging from $246 million to $290 million, to be executed over three phases. Phase 1 would consist of "accelerated upgrades" ranging from $16 million to $24 million, including the acquisition of approximately 22 new boarding bridges, starting in September 2013. Phase 2 expected an investment of approximately $92 million extending through December 2014, mostly in the remodeling of Terminal B and the establishment of a new automated luggage management system. Phase 3 would require the investment of approximately $130 million to start in January 2015 through December 2015, principally in the remodeling and revamping of Terminal C. At June 30, 2022, capital expenditures by Aerostar, which have been completed and placed in operations amounted to approximately $185.9 million. These capital expenditures have been recognized by the Authority as an increase in its capital asset with the corresponding credit to deferred inflows of resources by the same amount. The amortized balance of deferred inflows of resources at June 30, 2022, after all the activities referred to in the paragraphs above amounts to $638.1 million.

The Authority was required to provide police and fire services to the LMMIA in exchange for annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also established certain compensation events, the occurrence of which from either party would trigger a compensation amount or activity from the defaulting party to the affected party, as defined. Finally, the Authority will be responsible to Aerostar, at the termination of the APP Agreements, for any capital related improvements not fully reimbursed to Aerostar from the Passenger Facility Charge (PFC) program or other airline charges. No such compensation events have occurred since the inception of the APP Agreement.

The LMMIA facilities leased to the Puerto Rico Air National Guard are excluded from the APP Agreements and upon the satisfaction of certain conditions, as defined, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments. The hotel property within the LMMIA and the cargo facilities

Note 20 - Lease and use agreements – LMMIA – (continued)

leased to CAF and the ongoing related litigation, remain under the responsibility of the Authority, although the properties are included in the APP Agreements. If the litigation is resolved, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments.

Upon the closing of the APP Agreements, the Authority used $525 million of the $615 million upfront leasehold fee received to repay debt obligations to lenders and suppliers and to cover certain related transaction costs. The remaining upfront leasehold fee ($90 million) was used to establish the following supporting funds:

- A fund of $50 million for the early retirement of certain Authority's employees.
- A fund of $25 million for the development of the Authority's regional airports.
- A fund of $15 million for the guaranty to cover the Authority's obligations in case of losses sustained on the APP Agreements.

The supporting funds were maintained in a separate bank account and deposits with GDB. These funds required GDB's authorization for release, following the Authority's submission of the supporting documentation for such expenditures and their validation by GDB. However, during 2019 and resulting from the enactment of Law No. 109 of August 24, 2017, the outstanding unused deposits balance of the above referred funds (approximately $21.7 million) were used to offset certain Authority's debts with GDB (refer to Note 11 for additional disclosure).

The APP Agreements also set the basis for the creation and establishment of a program for the supervision and monitoring of Aerostar's compliance with such agreements. Under this program, the Authority maintains offices inside the LMMIA's facilities, housing employees and consultants in charge of monitoring the APP Agreements' clauses related to Aerostar construction, environmental control, and commercialization plan. Progress reports are being provided to the top management of the Authority on a periodic basis.

Note 21 - Subsequent events

The Authority evaluated subsequent events through October 23, 2023, which is the date the financial statements were available to be issued. Except as described below and Note 3, no other significant events have occurred subsequent to the statement of net position (deficit) date that would require additional adjustment to, or disclosure in the financial statements.

Note 21 - Subsequent events – (continued)

Redemption of PRIFA Bonds Series 2011 B (PRIFA Bonds)

On May 2, 2023, PRIFA deposited $10.4 million with the Bank of New York Mellon (BNYM) as PRIFA Bonds trustee, for the redemption of the remaining $13.5 million PRIFA Bonds outstanding. Pursuant to the Trust Agreement, the Authority called the outstanding PRIFA Bonds for redemption on June 2, 2023. BNYM made the corresponding redemption value payments on June 2, 2023, and accordingly, the PRIFA Bonds were redeemed on such date; resulting in a gain of approximately $3.1 million.

Puerto Rico Public-Private Partnerships Authority (P3A)

During August 2022, the Puerto Rico Public-Private Partnership Authority (P3A) announced an agreement with San Juan Cruise Port LLC (SJCP), a subsidiary of Global Ports Holdings (GPH), for the concession of Piers 1, 3, 4 Piers 11 through 14, and Pan American Piers 1 and 2 in the San Juan Bay, all of them properties of the Authority.

The financial closing of the concession agreement could have occurred on or before February 13, 2023, which was one hundred and eighty (180) days after the commercial closing date of August 15, 2022 (the date of signature), or the next business day. However, such date could be extended due to delays in the satisfaction of certain conditions precedents to the financial closing. The closing date was extended to September 22, 2023. Considering that not all closing conditions, asset forth in the concession agreement, were satisfied by September 23, 2023, it was agreed to extend the financial closing date until November 15, 2023; provided however, that if the conditions precedent to the financial closing have not been satisfied by October 26, 2023, then the financial closing date shall be automatically extended until December 15, 2023.

Early Retirement Program

During July 2022, the Government of Puerto Rico (Government) and the Fiscal Oversight & Management Board for Puerto Rico (FOMB) entered into a final agreement to begin the implementation of the early retirement program established under Act No. 80 of August 3, 2020 – "Law *for Incentivized Retirement Program and Justice for Our Servants*" (Act No. 80). Act No. 80 will allow eligible employees of the Government agencies (including municipalities and public corporations), who entered retirement system under Act No. 447 of May 15, 1951 and Act No. 1 of February 16, 1990, to voluntary opt for incentivized separation from their employment before retirement age. The incentive for eligible employees, under both acts, include a lifetime retirement pension equivalent to 50% of their highest yearly gross remuneration earned during the last three years before entering in the Act No. 80 program, a monthly employer contribution of $100 to the medical plan selected by the participant until age 62, among other liquidation benefits. A total of

Note 21 - Subsequent events – (continued)

Early Retirement Program – (continued)

129 eligible employees of the Authority have chosen to benefit from the incentivized program under Act No. 80. The actual annual payroll and benefit costs for these employees is approximately $6.6 million, while the incentivized retirement benefits will be around $3.8 million. The Government has set March 31, 2024, as the partial implementation date for Act No. 80.

Other events

- As approved with observations by the Financial Oversight and Management Board for Puerto Rico (FOMB), pursuant to an agreement between the Office of Management and Budget (OMB), the Puerto Rico Treasury Department and the Puerto Rico Electric Power Authority (PREPA) certain past due amounts (up to May 31, 2021) for approximately $73.4 million owed by various government entities to PREPA for electricity services were settled during July 2023. From this settled amount, $16.2 million corresponds to the Authority, which will be eliminated during the fiscal year 2023. The settled agreed balance was paid with general funds under the custody of OMB.

- On April 20, 2023, the Authority received $125 million of funds from the Puerto Rico Trust Fund under the custody of OMB and maintained at the Puerto Rico Treasury Department. These funds will be used for improvements at Piers 11 and 12 in order to enable the concession agreement of the San Juan Bay piers, as further disclosed in Note 3.

- During August 2023, as approved by AAFAF and FOMB, the Economic Development Bank (EDB) entered into settlement agreements with various government entities, including the Authority, over certain deposits maintained by them on the EDB. The settlement agreement, which is the final step in the process of restructuring the EDB's financial liabilities, provides for the government entities to recover 8.75% of their deposits balance, at June 30, 2023, on EDB. In the case of the Authority, once the settlement is properly approved by its Board of Directors and signed, it will receive approximately $47.7 thousand for it deposit of approximately $544.9 thousand maintained at EDB, realizing an estimated loss of approximately $497.2 thousand.

Required Supplementary Information
(Unaudited)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of the Collective
Total Pension Liability (Unaudited)

June 30, 2022, 2021, 2020, 2019 and 2018

(Dollar in Thousands)

For the fiscal year ended June 30,	Authority's proportion of the collective total pension liability	Authority's proportionate share of the collective total pension liability	Authority's covered employee payroll	Authority's proportionate share of the collective total pension liability as percentage of covered employee payroll
2022	1.79649%	$ 488,362	N/A	N/A
2021	1.80621%	$ 506,999	N/A	N/A
2020	1.83299%	$ 455,505	N/A	N/A
2019	1.86047%	$ 455,621	N/A	N/A
2018	1.84339%	$ 519,622	N/A	N/A

Notes

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

See accompanying independent auditors' report
and notes to required supplementary information

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of the Collective
Other Postemployment Benefits Liability (Unaudited)

June 30, 2022, 2021, 2020, 2019, 2018 and 2017

(Dollar in Thousands)

For the fiscal year ended June 30,	Authority's proportion of the OPEB liability	Authority's proportionate share of the OPEB liability	Authority's covered employee payroll	Authority's proportionate share of the OPEB liability as percentage of covered employee payroll	OPEB Plan's fiduciary net position as a percentage of the total OPEB liability
2022	1.11419%	$ 8,893	N/A	N/A	N/A
2021	1.07068%	$ 9,365	N/A	N/A	N/A
2020	0.99276%	$ 8,262	N/A	N/A	N/A
2019	0.93690%	$ 7,890	N/A	N/A	N/A
2018	0.88707%	$ 8,165	N/A	N/A	N/A
2017	0.85816%	$ 10,170	N/A	N/A	N/A

Notes

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

See accompanying independent auditors' report
and notes to required supplementary information

Note 1 - Criteria in paragraph 4

The Act 106-2017 provided the Plan would be funded on a Pay-Go basis and no assets would be accumulated in a pension trust, the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 2.16% as of June 30, 2021.

As a result of the enactment of Act No. 106-2017, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

Note 2 - Factors that significantly affect trends in the amounts reported

Factors that significantly affect trends in the amounts reported were identified as follows:

Proportionate share allocated – Under GASB Statement No. 73, the collective pension liability, pension expense and deferred outflows and inflows should be determined for the plan as a whole. According to GASB Statement No. 73, "the basis for the government's proportion should be consistent with the manner in which the amounts that are paid as benefits come due are determined". The actuarial approach to determine the proportionate share as the ratio of each entity's benefit payments to the total benefit payments during the year ending on the measurement date complies with GASB Statement No. 73. The proportionate share allocated to the Authority decreased to 1.79649% at measurement date of June 30, 2021 from 1.80621% at June 30, 2020.

As related to GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the proportionate share allocated increased to 1.11419% at measurement date of June 30, 2021 from 1.07068% at June 30, 2020.

Actuarial assumptions – There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the decrease in the discount rate to 2.16% as measurement date of June 30, 2021 from 2.21% as of June 30, 2020.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Profile of Independent Public Accountants

Year Ended June 30, 2022

CPA Firm:	GALÍNDEZ LLC
Employer Identification Number:	66-0703468
Lead Auditors:	Henry Flores – Audit and Consulting Director Gloria Sorroche, CPA – Senior Audit and Assurance Manager
Address:	PO Box 364152, San Juan, PR 00936-4152
Telephone Number:	(787) 725-4545

The audit was performed between May 2023 through October 2023.