Puerto Rico Public Private Partnerships Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2020
(With Independent Auditors' Report)

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Public Private Partnerships Authority

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Emphasis of Matter

Uncertainty

As discussed in Note 3 to the basic financial statements, for many years, the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. Currently, the Authority's main source of revenue consists of legislative appropriations approved in the budget from the Commonwealth and certified by the Fiscal Oversight Management Board, which are divided as follows: payment in advance for initiating the procurement process for the identification, qualification and selection of potential proponents and the evaluation, negotiation and award of the Partnerships contract for any governmental entity, public corporation or the Commonwealth itself and for operational purposes. In addition, the Fiscal Oversight Management Board approves fiscal plans of Commonwealth Instrumentalities, including funds for future Partnerships and the payment of the Authority's services. As a result, the Authority's operations are dependent on the Commonwealth's ability to continue providing funding to the Authority through legislative appropriations and the collection of charges for the execution of a Public Partnership Agreement.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted PROMESA establishing the Fiscal Oversight Management Board. After years of extensive litigations with creditors, on October 26, 2021, the Commonwealth enacted the Act 53 – *Law to End the Bankruptcy of Puerto Rico*, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. In response to Act 53, the Fiscal Oversight Management Board modified the Seventh Amended Plan and proposed the Eighth Amended Plan with zero pension cuts to accrued pension benefits. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

Management had initially identified the financial condition of the Commonwealth as an external matter that may affect the ability of the Authority to continue as a going concern. However, as result of the approval and execution of the Commonwealth of Puerto Rico Plan of Adjustment on March 2022, management does not believe there is substantial doubt about the Authority's ability to continue as going concern as of the date of these basic financial statements.

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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 4 to 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
May 19, 2022.

Stamp No. E493642 was affixed to
the original of this report.

RSM Puerto Rico

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of Puerto Rico Public Private Partnerships Authority (the Authority) for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities, and (c) identify changes in the Authority's financial position and identify individual issues or concerns. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Authority's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in its entirety.

1. FINANCIAL HIGHLIGHTS

- The Authority's Total Assets government-wide was approximately $127 million as of June 30, 2020, a decrease of $36 million or 22% when compared to prior year.
- The Authority's Total Liabilities government-wide was approximately $119.1 million as of June 30, 2020, a decrease of $47 million or 28% when compared to prior year.
- The Authority's Total Net Position government-wide was approximately $7.8 million as of June 30, 2020, an increase of $11 million or 346% when compared to prior year.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A is required supplementary information to the basic financial statements and is intended to serve as an introduction to the Authority's basic financial statements for the fiscal year ended June 30, 2020. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

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

The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement presents all of the government's assets and liabilities. Net position is the difference between (a) assets and (b) liabilities. Over the time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the Statement of Net Position and the Statement of Activities, Authority's operations are divided into the following two kinds of activities:

(1) Governmental Activities – Governmental Activities generally are financed through intergovernmental and other non-exchange revenues.

(2) Business-Type Activities – Business-Type Activities are financed in whole or in part by fees charged for goods or services.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Funds Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Authority's operations, reporting the operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements differ from the perspective and basis of accounting used to prepare the government-wide financial statements. The Authority's governmental and proprietary fund types use different perspectives and accounting basis. All of the funds of the Authority can be divided into the following categories:

Governmental Fund – Most of the basic services provided by the Authority are financed through a governmental fund. A governmental fund is used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Authority's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Authority. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By comparing the two, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statements.

The Authority has one major governmental fund. That major governmental fund is presented in a separate column in the balance sheet-governmental fund and in the statement of revenues, expenditures, and changes in fund balance-governmental fund. This major fund relates to the activities of the Central Recovery and Reconstruction Office of Puerto Rico (the COR3).

Proprietary Fund - Proprietary funds provide the same type of information as the Business-Type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary funds financial statements.

The Authority has a proprietary fund. That proprietary fund is presented in a separate column in the statement of net position-proprietary fund and in the statement of revenues, expenses, and changes in net position-proprietary fund. This proprietary fund relates to the activities related to the identification analysis and development of Public Private Partnerships projects for the delivery of public infrastructure or the provision or enhancement of public services.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the basic financial statements can be found immediately following the Statement of Cash Flows- Proprietary Fund.

Governmental Activities

The following is an analysis of the financial position and changes in the financial position of the Authority's Governmental Activities for fiscal year 2020.

Statement of Net Position

Governmental entities are required by U.S. Generally Accepted Accounting Principles (U.S. GAAP), as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position. The statement of net position presents the value of all the Authority's assets and liabilities with the difference between them reported as net position.

Net position may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Authority as of June 30, 2020, amounted to approximately $91.1 million and $89.7 million, respectively, for a net position of approximately $1.5 million.

Condensed financial information from the statements of net position (net of internal balances) of June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percentage
Assets	$ 91,177	$ 119,376	$ (28,199)	-24%
Liabilities	89,698	119,302	(29,604)	-25%
Net position	$ 1,479	$ 74	$ 1,405	1899%

Total assets decreased by approximately $28.2 million when compared to prior year due to the following: (1) a decrease in intergovernmental receivable of approximately $29.9 million related to amounts requested to Federal Emergency Management Agency (FEMA) related to natural disaster expenses incurred by subgrantees, netted with an increase in due to interfund for approximately $7.2 million, (2) an increase in cash amounting to approximately $7.5 million, (3) an increase in capital assets of approximately $951 thousand, and (4) an increase in due from subrecipients amounting to approximately $429 thousand.

Total liabilities decreased by approximately $29.6 million when compared to prior year mainly due to the following: (1) a decrease in accounts payable amounting to approximately $37.6 million related to professional service vendors, (2) an increase in compensated absences for approximately $560 thousand, and an increase in unearned revenues of approximately $7.5 million.

Statements of Activities and Results of Operations

Condensed financial information from the statements of activities for the years ended June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	**Amount**	**Percentage**
Expenses	$ (635,168)	$ (2,857,067)	$ 2,221,899	-78%
Program revenues:				
Operating grants and contributions	636,335	2,858,265	(2,221,930)	-78%
General revenues				
Other	238	-	238	100%
Change in Net Position	1,405	1,198	207	17%
Net Position (Deficit) - Beginning	74	(1,124)	1,198	-107%
Net Position-Ending	$ 1,479	$ 74	$ 1,405	1899%

Program revenues are composed of approximately $606.2 million of Federal Grants and approximately $30.2 million of Commonwealth's appropriations, a decrease of approximately $2.2 billion. Decrease is mainly related to a decrease in funds received from FEMA related to Hurricanes Irma and María expense reimbursement requested by subgrantees. General revenues are composed of other income amounting to approximately $202,000 and interest income amounting to approximately $36,000. Increase in General revenues is mainly related to funds received from municipalities related to Huracan Hugo.

The expenses of approximately $635.2 million are composed as follows: grant disbursements to sub-grantees of approximately $458.4 million related to reimbursements related to Hurricanes Irma and María, professional services of approximately $167 million, payroll expenses approximately $9.5 million, and other expenses of approximately $238 thousand.

Decrease in expenses amounting to approximately $2.2 billion are mainly related to a decrease in reimbursement paid to subgrantees.

Business-Type of Activities

The following is an analysis of the financial position and changes in the financial position of the Authority's Business-Type Activities for fiscal year 2020.

Statement of Net Position (Deficit) – Proprietary Fund

Condensed financial information from the statements of net position (deficit) as of June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percentage
Assets	$ 35,778	$ 43,561	$ (7,783)	-18%
Current Liabilities	(11,640)	(10,379)	(1,261)	12%
Non Current Liabilities	(17,790)	(36,443)	18,653	-51%
Net position (deficit)	$ 6,348	$ (3,261)	$ 9,609	-295%

Total assets decreased by approximately $7.8 million when compared to prior year due to the following: (1) a decrease in cash amounting to approximately $10.1 million, (2) an increase in due from other fund (COR3) of approximately $7.2 million related to payments made by the Authority on behalf of COR3, (3) a decrease in due from Government Development Bank for Puerto Rico (GDB) of approximately $4.9 million related to overpayments made by GDB related to Authority's payroll taxes which were reimbursed by GDB during the year, (4) a decrease in intergovernmental accounts receivable of approximately $5 thousand, and (5) an increase in prepaid expenses of approximately $60 thousand.

Total liabilities decreased by approximately $17.4 million when compared to prior year due to the following: (1) a decrease in accounts payable and accrued liabilities of approximately $2.6 million related to amount owed for services provided related to the development of public private partnerships (2) a decrease in unearned revenues amounting to approximately $18.6 million which were presented as service charge for services rendered by the Authority for the identification, analysis and development of partnerships projects (3) an increase in due to Commonwealth amounting to approximately $4.1 million (4) a decrease in due to other governmental entities amounting to approximately $160 thousand and (5) an increase in compensated absences amounting to approximately $23 thousand.

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Statements of Revenues, Expenses, and Changes in Net Position

Condensed financial information from the statements of revenues, expenses and change in net position during the years ended June 30, 2020, and June 30, 2019, is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percentage
Operating Revenues	$ 16,409	$ 16,406	$ 3	0%
Operating Expenses	(20,278)	(18,788)	(1,490)	8%
Non Operating Revenues	13,478	6,678	6,800	102%
Change in Net Position	9,609	4,296	5,313	124%
Net Deficit-Beginning	(3,261)	(7,557)	4,296	-57%
Net Position-Ending	$ 6,348	$ (3,261)	$ 9,609	-295%

There was not a significant change in the Authority's operating revenues.

Operating Expenses

The Authority's most significant operating expenses correspond to professional services, other operating expenses and interest expense amounting to approximately $18.2 million, $1.7 million and $367 thousand, respectively, for the fiscal year ended June 30, 2020.

Operating expenses increased by approximately $1.5 million when compared with fiscal year ended on June 30, 2019, mainly related to an increase in professional services amounting to approximately $286 thousand net of a decrease in other operating expenses amounting to approximately $578 thousand related to the development of Commonwealth governmental entities public private partnerships, and a decrease amounting to approximately $1.8 million in pension benefit from adoption of Act 106 Pay go reform during year 2019.

Non-Operating revenues increased by approximately $6.8 million mainly due to an increase in Commonwealth's appropriations of approximately $11.4 million which was offset by approximately $4.6 million which were subsequently returned to the Commonwealth.

The Authority's principal activities are to identify, analyze and develop Public Private Partnerships (Partnerships) projects, for the delivery of needed public infrastructure or the provision or enhancement of public services. To that end, the Authority's enabling act (Act 29 of June 8, 2009, as amended) requires the Authority to commission a desirability and convenience study for which the Authority engages specialized professional services. The objective of the desirability and convenience study is to determine the technical and financial feasibility of a proposed Partnership's project. Upon a determination of a project's feasibility under the Partnership model, the Authority may initiate a procurement process, for the identification and qualification of potential proponents and the negotiation and award of Partnership transactions.

3. CURRENTLY KNOWN FACTS

Cost-share for federal grants-

In November 2020, COR3 paid the mission assignments by approximately $12 million. The mission's assignments are related to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for Puerto Rico Electric Power Authority (PREPA) related to damages to the electrical grid after a disaster). Refer to Note 13 for details.

Intergovernmental agreements-

In June 2020, Puerto Rico Electric Power Authority (PREPA), Luma Energy, LLC, Luma Energy Servco, LLC and the Authority signed the partnership contract for the operation and maintenance of the electric power transmission and distribution system.

In October 27, 2020, Puerto Rico Maritime Transportation Authority (ATM), Commonwealth of Puerto Rico, the Municipality of Vieques, the Municipality of Culebra, HMS Ferries Inc. and HMS Ferries Puerto Rico signed an agreement for maritime transportation operation and maintenance of the ferries used for the transportation for the Municipality of Vieques and Culebra.

Currently, the Authority is working on other Public Private Partnerships related to PREPA energy generation and storage, the Puerto Rico Aqueduct and Sewer Authority (PRASA) optimization of the water consumption measurement system and customer service, the Puerto Rico Ports Authority modernization of the San Juan Bay cruise terminals and the Department of Public Safety and the Department of Corrections and Rehabilitation consolidated public safety training center. Those projects are in different stages or phases of the procurement process. Refer to Note 11.

Commonwealth Plan of Adjustment-

As described in Note 14, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al*. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to the Bank, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of the PFC Bonds and certain loans held by the PET (defined below). For further information on the Commonwealth Plan of Adjustment refer to Note 10 and the Commonwealth Plan of Adjustment, Findings of Fact, and Commonwealth Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

4. REQUESTS FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Public Private Partnerships Authority at the following address: P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash	$ 7,533,363	$ 17,206,597	$ 24,739,960
Due from subrecipients	429,151	—	429,151
Account receivable, net	—	4,503	4,503
Intergovernmental receivable	100,292,520	—	100,292,520
Internal balance	(18,140,045)	18,140,045	—
Prepaid expenses	—	416,541	416,541
Total current assets	90,114,989	35,767,686	125,882,675
NON-CURRENT ASSETS:			
Capital assets, net	1,062,410	10,859	1,073,269
Total non-current assets	1,062,410	10,859	1,073,269
Total assets	91,177,399	35,778,545	126,955,944
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	81,420,200	6,851,979	88,272,179
Due to Commonwealth of Puerto Rico	—	4,670,000	4,670,000
Due to other governmental entities	—	84,414	84,414
Compensated absences	176,000	34,060	210,060
Total current liabilities	81,596,200	11,640,453	93,236,653
NON-CURRENT LIABILITIES:			
Compensated absences	628,269	23,152	651,421
Line of credit with Government Development Bank for Puerto Rico	—	6,159,117	6,159,117
Unearned revenues	7,473,332	11,608,074	19,081,406
Total non-current liabilities	8,101,601	17,790,343	25,891,944
Total liabilities	89,697,801	29,430,796	119,128,597
NET POSITION:			
Net investment in capital assets	1,062,410	10,859	1,073,269
Unrestricted	417,188	6,336,890	6,754,078
Total net position	$ 1,479,598	$ 6,347,749	$ 7,827,347

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

		Program Revenues		Net Revenues (Expenses) and Changes in Net Position (Deficit)		
Functions/Programs	**Expenses**	**Charges for Services - Fees, Commissions, and Others**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental activities:						
Economic development	$ 635,167,630	$ —	$ 636,334,926	$ 1,167,296	$ —	$ 1,167,296
Total governmental activities	635,167,630	—	636,334,926	1,167,296	—	1,167,296
Business-type activities:						
Public private partnerships	20,278,756	16,409,451	13,385,000	—	9,515,695	9,515,695
Total business-type activities	20,278,756	16,409,451	13,385,000	—	9,515,695	9,515,695
Total	$ 655,446,386	$ 16,409,451	$ 649,719,926	1,167,296	9,515,695	10,682,991
General revenues:						
Other income				201,780	—	201,780
Interest income				36,555	92,627	129,182
Total general revenues				238,335	92,627	330,962
CHANGES IN NET POSITION				1,405,631	9,608,322	11,013,953
NET POSITION (DEFICIT) — Beginning of year				73,967	(3,260,573)	(3,186,606)
NET POSITION — End of year				$ 1,479,598	$ 6,347,749	$ 7,827,347

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET- GOVERNMENTAL FUND
JUNE 30, 2020

ASSETS:		
Cash	$	7,533,363
Due from subrecipients		429,151
Intergovernmental receivable		100,292,520
Total assets	$	108,255,034
LIABILITIES AND FUND BALANCE:		
Accounts payable and accrued liabilities	$	81,420,200
Due to other fund		18,140,045
Total liabilities		99,560,245
Fund balance-unassigned		8,694,789
Total liabilities and fund balance	$	108,255,034

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

FUND BALANCE OF GOVERNMENTAL FUND	$ 8,694,789
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITON ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUND BECAUSE:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund	1,062,410
Unearned Revenues	(7,473,332)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund	(804,269)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 1,479,598

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2020

REVENUES:	
Federal grants	$ 606,184,697
Contribution from Commonwealth of Puerto Rico	30,150,229
Total revenues	636,334,926
EXPENDITURES:	
Economic development	628,085,608
Total expenditures	628,085,608
OTHER REVENUES:	
Other income	201,780
Interest income	36,555
Total other revenues	238,335
NET CHANGE IN FUND BALANCE	8,487,653
FUND BALANCE- Beginning of year	207,136
FUND BALANCE - End of year	$ 8,694,789

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

NET CHANGE IN FUND BALANCE- GOVERNMENTAL FUND		$ 8,487,653
AMOUNT REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Unearned revenues		(7,473,332)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore , are not reported as expenditures in governmental fund		(560,276)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 1,079,593	
Less: Depreciation expense	(128,007)	
Subtotal		951,586
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 1,405,631

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION-PROPRIETARY FUND
JUNE 30, 2020

ASSETS		
CURRENT ASSETS:		
Cash	$	17,206,597
Due from other fund		18,140,045
Accounts receivable, net		4,503
Prepaid expenses		416,541
Total current assets		35,767,686
NON-CURRENT ASSETS:		
Capital assets, net		10,859
Total non-current assets		10,859
Total assets		35,778,545
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities		6,851,979
Due to Commonwealth of Puerto Rico		4,670,000
Due to Government Development Bank for Puerto Rico		17,563
Due to other governmental entities		66,851
Compensated absences		34,060
Total current liabilities		11,640,453
NON-CURRENT LIABILITIES:		
Compensated absences		23,152
Line of credit with Government Development Bank for Puerto Rico		6,159,117
Unearned revenues		11,608,074
Total non-current liabilities		17,790,343
Total liabilities		29,430,796
NET POSITION		
Net investment in capital assets		10,859
Unrestricted		6,336,890
Total net position	$	6,347,749

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

OPERATING REVENUES:	
Services charges	$ 15,805,496
Other income	603,955
Total operating revenues	16,409,451
OPERATING EXPENSES:	
Professional services	18,237,968
Other operating expenses	1,669,199
Interest expense	366,681
Depreciation expense	4,908
Total operating expenses	20,278,756
OPERATING LOSS	(3,869,305)
NON-OPERATING REVENUES:	
Contribution from the Commonwealth of Puerto Rico	13,385,000
Interest income	92,627
Total non-operating revenues	13,477,627
CHANGE IN NET POSITION	9,608,322
NET DEFICIT- Beginning of year	(3,260,573)
NET POSITION - End of year	$ 6,347,749

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

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

CASH FLOWS USED IN OPERATING ACTIVITES:	
Services charges received	$ 12,034,620
Cash paid for operating activities	(35,644,426)
Net cash used in operating activities	(23,609,806)
CASH FLOWS PROVIDED BY CAPITAL AND NONCAPITAL FINANCING ACTIVITIES:	
Cash received from Commonwealth of Puerto Rico	13,385,000
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:	
Interest received	92,627
NET CHANGE IN CASH	(10,132,179)
Cash - beginning of year	27,338,776
Cash - end of year	$ 17,206,597
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	(3,869,305)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	4,908
Changes in assets and liabilities:	
(Increase) decrease in:	
Due from other fund	(7,169,694)
Accounts receivable, net	5,000
Due from Government Development Bank for Puerto Rico	4,870,726
Prepaid expenses	(60,517)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(2,646,736)
Due to Government Development Bank for Puerto Rico	(25)
Due to other governmental entities	(157,573)
Due to Commonwealth	4,066,045
Unearned revenues	(18,675,787)
Compensated absences	23,152
NET CASH USED IN OPERATING ACTIVITIES	$ (23,609,806)

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

1. REPORTING ENTITY

Puerto Rico Public Private Partnerships Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth) and an affiliate of Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), another component unit of the Commonwealth. The Authority was created by Act No. 29 of June 8, 2009, as amended (Act 29). Pursuant to Act 29, the Authority is the sole Commonwealth's governmental entity authorized and responsible for implementing the public policy on public private partnerships (the Partnerships) and for determining the functions, services or facilities for which such Partnerships will be established.

The Authority's principal activities are the identification, analysis and development of Partnerships projects, for the delivery of needed public infrastructure or the provision or enhancement of public services. To that end, the Authority enabling act requires the Authority to prepare or commission the preparation of the desirability and convenience study for which the Authority engages specialized professional services. The objective of the desirability and convenience study is to determine the technical and financial feasibility of a proposed Partnership project. Upon determination of a project's feasibility under the Partnerships model, the Authority may initiate a procurement process for the identification, evaluation, qualification and selection of potential proponents and the negotiation and award of a Partnership agreement.

Central Recovery and Reconstruction Office of Puerto Rico

During fiscal year 2017-2018, the Governor of the Commonwealth of Puerto Rico (the Governor) created the Central Recovery and Reconstruction Office of Puerto Rico (COR3) through Executive Order 2017-65 (EO-2017-65). COR3 was organized as a division within the Authority, to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María. Also, through Executive Order 2018-11 (EO 2018-11), the Governor transferred the Governor's Authorized Representative (GAR), which was the entity authorized by the Governor to receive all disaster recovery grants of the Federal Emergency Management Agency (FEMA), from Puerto Rico Emergency Management Agency (PREMA) to COR3.

The purpose of COR3 is, among others, to: (i) identify and procure funds, (ii) coordinate efforts and activities, (iii) finance and execute infrastructure works and projects, and (iv) advise the Governor and Commonwealth's instrumentalities over unprecedented amount of state, federal and private resources to be made available to the Commonwealth related to the recovery.

There are federal funding sources related to disaster recovery that are not administered by COR3 (i.e., HUD's CDBG-DR program, which is managed by the Puerto Rico Department of Housing and the Crisis Counseling Grant, which is administered by the "Oficina de Calidad de la Administración de Servicios de Salud y Contra la Adicción (ASSMCA)"). COR3 is only the Recipient of FEMA Public Assistance (PA) and Hazard Mitigation Grant Program (HMGP). There are other FEMA programs where COR3 is not a recipient and only provides limited support but does not manage any federal funds or grants. Also, note that for PA and HMGP grant funds other than COR3's own management costs, COR3 acts as a passthrough entity whereby it draws funds from FEMA's SmartLink system and deposits such funds in a subrecipient bank account. Any cost share related to grant awards managed by COR3 should be appropriated by the Commonwealth of Puerto Rico and paid to COR3.

As for Mission Assignments and associated expenses, they relate to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for Puerto Rico Energy Power Authority (PREPA) related to damages to the electrical grid after a disaster). In these cases, FEMA pays the federal agency directly, and thereafter invoices the Commonwealth of Puerto Rico, through the COR3/GAR, for any outstanding non-federal cost share balance, if applicable. As such, COR3 does not manage any federal moneys related to Mission Assignments but serves as a pass-through entity in relation to any associated non-federal cost share requirements. The GAR is also responsible for executing related paperwork.

During the fiscal year ended June 30, 2020, the financial operations of COR3 are presented as part of the Authority's basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Authority are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Authority and its various funds, the results of operations and its various funds, and the cash flows of the proprietary funds.

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

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position.

Internal balances are not included in the total column of the government-wide statement of net position. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed mainly through intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged for goods or services. The following is a description of the Authority's government-wide financial statements.

The statement of net position presents the Authority's assets and liabilities with the residual measure reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and 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.

- *Restricted Net Position* – This component of net position consists of restricted assets reduced by related liabilities. 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 Net Position* – This component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable within a specific function or segment. The Authority does not allocate general government expenses to other functions. Program revenues include contributions received from the Federal government and from the Commonwealth, charges for services made to other governmental entities, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenue that is not classified as program revenue is presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Management has elected to account for funds recovered from subrecipients during the period that the funds are received. During Fiscal year 2020 the approximate amount of funds received and returned to the grantor amounted approximately $6.2 million.

Fund Financial Statements

Fund accounting is designed to demonstrate to aid management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The activities of the Authority that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Fund Balance

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of fund balance is based on the extent to which the Authority is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.

- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority.
- *Assigned* – includes fund balance amounts that are constrained by the Authority and are intended to be used for specific purposes that are neither considered restricted nor committed.
- *Unassigned* – it is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Authority has only unassigned fund balance.

The Authority does not have a formal minimum fund balance policy.

The following governmental activities of the Authority are classified as major governmental fund:

COR 3 Program – General fund accounts for funds received from FEMA and the Commonwealth of Puerto Rico related to reimbursement of expenses related to natural disasters.

Proprietary Funds

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds provide the same type of information as the Business-Type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary funds financial statements.

The Authority reports the following major proprietary fund:

Public Private Partnership Fund which account for all the operations related to the development of a Public Private Partnership.

Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Other revenues are considered to be measurable and available only when cash is received.

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. However, compensated absences are recorded as expenditures when matured. General capital assets acquisitions are reported as expenditures in governmental funds.

A summary reconciliation of the difference between total fund balance as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balance as reflected in the governmental funds statement of revenues, expenditures, and change in fund balance and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of statement of revenues, expenditures, and change in fund balance of governmental funds to the statement of activities.

The Authority has one major governmental fund. That major governmental fund is presented in a separate column in the balance sheet-governmental fund and in the statement of revenues, expenditures, and changes in fund balance-governmental fund. This major fund relates to the activities of the COR3.

Proprietary Funds Financial Statements - The basic financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. The Authority recognizes revenue when earned under the terms of each agreement and when the collection of the fee is reasonably assured. Expenses are recorded when incurred, regardless of the timing of related cash flows. Operating expenses are those related to the administration of the Authority and costs incurred related to the creation of a Partnership. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

The Authority’s operating revenues are primarily derived from program revenues, services charges and service fee explained as follows:

- *Program revenues* – are composed of funds received from Governmental entities to perform feasibility studies for possible Public Private Partnerships.
- *Service charges* – are costs or expenses incurred by the governmental entity for the services rendered by the Authority resulting from the process for the analysis and development of a Partnership and lower investment partnership projects. Service charges are included as part of the intergovernmental contracts signed between the Authority and PREPA, for the analysis and development of a project as a Partnership, in these agreements the Authority charges service expenses. Those service charges are recognized as revenues when expenses are incurred.
- *Service fees* – are included as part of the intergovernmental contracts signed between the Authority and the participating governmental entity(ies) for the analysis and development of a project as a Partnership. In these agreements, the Authority charges service expenses, but in addition a service fee that is normally established as a percentage of the costs or expenses incurred by the Authority in contracting the specialized services necessary for the analysis and development of a Partnership. Also, the Authority charges a cancellation fee, if the corporation or agency withdraws from the project. In this type of contract, service expenses are recognized as revenues when incurred, however the service fee is recognized as revenues when the contract with a third party is signed.

The Authority's non-operating revenues are derived, among others, from Commonwealth appropriations and interest income.

- Commonwealth appropriations are composed of Commonwealth appropriations made for a specific purpose or with a restriction. Funds received through program revenues for a specific purpose are recognized as unearned revenues at the moment that appropriated funds are received and recognized as revenues at the moment the funds are used for the purpose that were assigned to the Authority. Appropriations received from the Commonwealth without restrictions are recognized as revenues when received.

- Interest income – is composed of interest earn on deposits.

Accounts Receivable

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

Intergovernmental Receivable

Intergovernmental receivable is stated net of estimated allowance for uncollectible accounts, which is determined, based upon past collection experience and current economic conditions. Intergovernmental receivable primarily represent amount requested to FEMA related to natural disaster expenses incurred by subgrantees. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements are met, other than timing, are considered unearned revenue. Resources received before timing requirements are met, are considered deferred inflows of resources.

Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position.

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Capital Assets

Capital assets are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Contributed assets are recorded at estimated fair value at the time received. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Estimated useful lives are as follows:

Capital Assets	Years
Information systems	3-5 years
Furniture and equipment	5 years

The Authority follows the provisions of GASB Statement No. 42, Accounting *and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No.34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others. The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the fiscal year ended June 30, 2020.

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and a maximum accumulation of 90 days. Act 26-2017 was enacted to modify the existent legal and judiciary framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act 26-2017 also altered the liquidation terms. After the enactment of Act 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 sickness days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method, in which leave amount for an employee who currently is eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax).

Unearned Revenues

Resources received before the eligibility requirement, other than timing are met are considered unearned revenues. Unearned revenues are presented as service charge revenues when expenses are incurred in relation for the creation of a public private partnership.

Governmental Activities - During the year ended June 30, 2020 COR3 received from the Commonwealth approximately $37.5 million from which approximately $7.5 million are unearned. Funds received from the Commonwealth are the state share required by FEMA for disasters that currently are being work by COR3.

Business Type Activities - During the year ended June 30, 2020, the Authority received Commonwealth appropriations for the development of a public private partnership, from which approximately $9.9 million are presented as part of unearned revenues. Also, during the year ended June 30, 2020, the Authority received funds from the PREPA for the development of Public Private Partnerships related to generation of energy, from which, approximately $1.7 million are presented as unearned revenues in the statement net position.

Interfund Activity

The Authority had the following interfund activity:

Interfund Transfer- Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Use of Estimates

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

During the fiscal year ended on June 30, 2020, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Authority.

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Accounting Pronouncements Issued but Not Yet Effective

The following new accounting pronouncements have been issued but are not yet effective:

- **GASB Statement No. 84, *Fiduciary Activities.*** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95.

- **GASB Statement No. 87, *Leases.*** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021, as amended by GASB Statement No. 95.

- **GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.*** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95.

- **GASB Statement No. 90*, Majority Equity Interests.*** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95.

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

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

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95.

- **GASB Statement No. 92*, Omnibus 2020*.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3*, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *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 Statement *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95.

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

This statement achieves its objective by:

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

The 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 No. 95. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- ***GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement.*** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is defined as: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

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

- **GASB Statement No. 95**, ***Postponement of the Effective Dates of Certain Authoritative Guidance***. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - Statement No. 83, Certain Asset Retirement Obligations
  - Statement No. 84, Fiduciary Activities
  - Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
  - Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
  - Statement No. 90, Majority Equity Interests
  - Statement No. 91, Conduit Debt Obligations
  - Statement No. 92, Omnibus 2020
  - Statement No. 93, Replacement of Interbank Offered Rates
  - Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
  - Implementation Guide No. 2018-1, Implementation Guidance Update—2018
  - Implementation Guide No. 2019-1, Implementation Guidance Update—2019
  - Implementation Guide No. 2019-2, Fiduciary Activities.

  The effective dates of the following pronouncements are postponed by 18 months:

  - Statement No. 87, Leases
  - Implementation Guide No. 2019-3, Leases.

  Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

  The requirements of this Statement are effective immediately.

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

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

- **GASB Statement No. 97, *Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*.** The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other than 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 following requirements of this Statement are effective immediately: (1) exemption of 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) limitation on 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.

  The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

  The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

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

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

  The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
  - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
  - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
  - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
  - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
  - Disclosures related to nonmonetary transactions
  - Pledges of future revenues when resources are not received by the pledging government
  - Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements
  - 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 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 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

  The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

3. UNCERTAINTY

The Authority is responsible for the identification and development of Partnerships viable for the delivery of public infrastructure or the provision or enhancement of public services. To that end, Act 29 of 2009, as amended, requires the Authority to prepare or commission the preparation of the desirability and convenience studies to determine the convenience and technical and financial viability for delivery of the project through the Partnership model. Thereafter, upon the study's conclusion that is desirable and convenient for the project to be delivered as a Partnership, then the Authority is charged with the responsibility of initiating the procurement process for the identification, qualification and selection of potential proponents and the evaluation, negotiation and award of the Partnerships contract. For these services the Authority charges a service fee to other governmental entities for the execution of a Partnership. Currently, the Authority's main source of revenue consists of legislative appropriations approved in the budget from the Commonwealth and certified by the Fiscal Oversight Management Board ("FOMB") which are divided as follows: payment in advance for initiating the procurement process for the identification, qualification and selection of potential proponents and the evaluation, negotiation and award of the Partnerships contract for any governmental entity, public corporation or the Commonwealth itself and for operational purposes. Also, the FOMB approved fiscal plans in Commonwealth Instrumentalities including funds for future Partnerships and the payment of Authority services. As a result, the Authority's operations are dependent on the Commonwealth's ability to continue providing funding to the Authority through legislative appropriations and the collection of charges for the execution of a Public Partnership Agreement.

Management's evaluation of the Authority's going concern has identified the financial condition of the Commonwealth as an external matter that may affect the ability of the Authority to continue as a going concern.

For many years, the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, an increasing portion of the Commonwealth's General Fund budget has consisted of health care and pension related costs and debt service requirements, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted PROMESA establishing the Oversight Board. On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation.

After years of extensive litigations with creditors, on October 26, 2021, the Commonwealth enacted the Law 53 to End the Bankruptcy of Puerto Rico to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. In addition, to approving the Commonwealth's restructuring transactions, Act 53 conditioned the effectiveness of the Government's approval on the preservation of all accrued pension benefits owed to current public pension participants, which required the elimination of the pension cuts proposed in the Seventh Amended Plan. In response to Act 53, the Oversight Board modified the Seventh Amended Plan and proposed the Eighth Amended Plan with zero pension cuts to accrued pension benefits. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

As, result of the approval and execution of the Commonwealth's is Plan of Adjustment on March 2022, management does not believe there is substantial doubt about the Authority ability to continue as going concern as of the date of these basic financial statement.

4. CASH AND DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution's failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

The table presented below discloses the level of custodial credit risk assumed by the Authority as of June 30, 2020. As of June 30, 2020, none of the depository Authority balance is uninsured and uncollateralized as follows (in thousands):

Governmental Activities

	Carrying amount	Bank balance	Amount uninsured and uncollateralized
Cash	$ 7,533,363	$ 7,509,888	$ -

Business-Type Activities

	Carrying amount	Bank balance	Amount uninsured and uncollateralized
Cash	$ 17,206,597	$ 17,267,469	$ -

5. INTERGOVERNMENTAL RECEIVABLE

Governmental Activities

As of June 30, 2020, intergovernmental receivable amounting to approximately $100.3 million represents funds requested to FEMA related to natural disasters expenses incurred by COR3.

6. ACCOUNTS RECEIVABLE, NET

Business-Type Activities

As of June 30, 2020, the Authority's accounts receivable, net of allowance, is composed of the following (in thousands):

Description	Amount
Puerto Rico Electric Power Authority	$ 345
Municipality of Caguas, Department of Transportation and Public Works and the Puerto Rico Highway and Transportation Authority	6,577
Puerto Rico Maritime Transport Authority and Puerto Rico Integrated Transportation Authority	780
Others	5
Total accounts receivable	7,707
Less: allowance for uncollectible accounts	(7,702)
Net receivables	$ 5

The accounts receivable as of June 30, 2020, are described as follows:

- PREPA is related to the *Liquid Natural Gas Supply and Development of Related Infrastructure* project for PREPA.
- Municipality of Caguas, Department of Transportation and Public Works and the Puerto Rico Highway and Transportation Authority is related to Caguas — San Juan Mass Transportation Commuter Project.
- Puerto Rico Maritime Transport Authority and Puerto Rico Integrated Transportation Authority relates to the maritime transport project.

The above receivables are outstanding principally since June 30, 2015, without any repayment. Based on this and management's evaluation and after conversations with the respective agencies, the Authority understand that such receivables are not going to be collected as a result an allowance for doubtful account was provided in fiscal year ended June 30, 2017.

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7. CAPITAL ASSETS

Governmental Activities

Capital assets activity during the year ended June 30, 2020, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ 119	$ 1,079	$ -	$ 1,198
Total capital assets	119	1,079	-	1,198
Less accumulated depreciation for:				
Information systems	(8)	(128)	-	(136)
Total accumulated depreciation	(8)	(128)	-	(136)
Total capital assets - net	$ 111	$ 951	$ -	$ 1,062

Business-Type Activities

Capital assets activity during the year ended June 30, 2020, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending balance
Capital assets:				
Furniture and equipment	$ 27	$ -	$ -	$ 27
Information systems	1	-	-	1
Total capital assets	28	-	-	28
Less accumulated depreciation for:				
Furniture and equipment	(11)	(5)	-	(16)
Information systems	(1)	-	-	(1)
Total accumulated depreciation	(12)	(5)	-	(17)
Total capital assets - net	$ 16	$ (5)	$ -	$ 11

8. COMPENSATED ABSENCES

The activity for compensated absences during the year ended June 30, 2020, is as follows (in thousands):

Governmental Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 244	$ 694	$ (134)	$ 804	$ 176

Business-Type Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 34	$ 64	$ (41)	$ 57	$ 34

9. LINE OF CREDIT

On March 17, 2010, the Authority entered a $20 million revolving line of credit facility with GDB to provide financing for the Authority's operations. The credit facility expired on January 31, 2016, and bears interest at 7% (150 basis points over the prime rate at June 30, 2020) or 7%, whichever is higher. The source of repayment of this line of credit is the fees charged by the Authority for services provided as part of the process to establish the Partnerships.

On November 29, 2018, Government Development Bank (GDB) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA) created under Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio , its real estate owned assets and its unencumbered cash. This GDB Restructuring Act required certain offsets between financial instruments assets and liabilities held by GDB; therefore, the deposits held by the Authority amounting to $143 thousand at GDB were applied to notes payable owed by the Authority to GDB. Note that line of credit owed by the Authority to GDB was not transferred to the DRA as a result line of credit was retained by GDB after the execution of the RSA.

Pursuant to the GDB Restructuring Act, "all transactions effected pursuant [thereto] (including, without limitation, pursuant to determinations made by Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) or GDB under [the GDB Restructuring Act]) shall be valid and binding with respect to all Government Entities and no Government Entity shall have any further rights or claims against GDB, the Public Entity Trust, and any officers, directors, employees, agents and other representatives thereof".

As of June 30, 2020, the line of credit balance owed to GDB was approximately $6.2 million and accrued interest payable was approximately $1.7 million. Interest expense for the year ended June 30, 2020, amounted to approximately $367 thousand.

10. TRANSACTIONS WITH RELATED ENTITIES

During the year ended June 30, 2020, the Authority entered into an agreement with the FAFAA to receive certain management support and administrative services and established a fee to cover those services. The total fee paid to FAFAA for the year ended June 30, 2020, amounted to approximately $21 thousand. FAFAA, as part of the administrative services provided, may incur on payments on behalf of the Authority to cover certain of its operating expenses, which are paid by the Authority to FAFAA on a later date.

11. INTER-GOVERNMENTAL PROJECTS

At present, the Authority is carrying out the following projects (the “Projects”):

Water Consumption Measurement System Optimization Project **-** The advanced water measurement project for the Puerto Rico Aqueduct and Sewer Authority (PRASA) provides for the potential concession of the replacement of the outdated meters of the PRASA by advanced and intelligent meters, to reduce non-revenue water. This will increase operational efficiency and operating income by incorporating advanced technologies and innovation and optimization of practices and services. On March 27, 2018, the Authority’s Board of Directors (the Board) approved the Desirability and Convenience Study. On June 18, 2018, the Authority published the Request for Qualifications and on September 28, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. On November 30, 2021, the Board of Directors decided to cancel this project.

Social Infrastructure Project **-** The social infrastructure project (the Student Life Project), is an initiative in collaboration with the University of Puerto Rico, Mayagüez Campus (Campus), to transform and renovate the facilities of the Campus through the development, operation, construction and maintenance of housing facilities, parking lots and other service facilities that attend to the needs of the students and life in the Campus. The goal of transformation of the Campus facilities is to enrich the student experience by offering an attractive housing alternative within the Campus with more social and recreational alternatives, modern study and collaboration spaces, and innovative solutions to improve the quality of life of the students and the community of the Campus. This in turn will enhance academic performance and it will increase student retention.

On October 16, 2017, the Authority published a Draft Request for Qualifications to know the market input around the Student Life Project. The results of the market survey were considered in the evaluation of the project, particularly for the purpose of specifying and delimit the scope of the Desirability and Convenience Study. On March 1, 2018, the Study was completed successfully and approved by the Board. On May, 8 2018 the Authority issued the Request for Quotation. On July 13, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. At present, the Authority is in the negotiation process with the Preferred Proponent including other discussions related to the development of the Project. This process has faced delays due to the impact of COVID-19, among other reasons.

***Partnership Project for the San Juan Bay Cruise Terminals* -** In 2017, Global Ports Holdings PLC., submitted an unsolicited proposal for the development of a partnership agreements for the San Juan Bay Cruise Terminal The unsolicited proposal proposes a long-term concession for world-class modernization, expansion, and operation of the passenger seaports, specifically in Piers 1, 3, 4, 11 to 14, and Pan Americans 1 and 2 of San Juan Bay. It also including repairs and a long-term maintenance program of maritime facilities. On June 14, 2018, the Board approved the Desirability and Convenience Study. On September 5, 2018, the Partnership Committee continued with the processes for the formalization of the Partnership by publishing the Request for Qualifications. On November 16, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents the Request for Proposal was issued and then, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. At present, the Authority is in the negotiation process with the preferred proponent including other discussions related to the development of the Project. This process has faced delays due to the impact of COVID-19, among other reasons.

***Public Safety Training Center Project* -** Ana G. Méndez University System submitted an unsolicited proposal as an initiative that seeks to strengthen specialized education for public security forces through the offering of specialized curriculum, training courses for new members and courses for the certification and recertification of continuing education for the six bureaus of Public Safety Department (the DPS) and the Corrections and Rehabilitation Department (the DCR). On October 23, 2018, the Board approved the Desirability and Convenience Study. On February 20, 2019, the Authority published the Request for Qualifications and on April 11, 2019, the Partnership Committee notified the selection of the qualified proponents.

Currently, the Authority is waiting for both the DPS and the DCR to submit information necessary to complete the preparation of the Request for Proposals and proceed to the eventual publication of it.

Palo Seco Generation Plant Project - The metropolitan area in northern Puerto Rico has the highest demand for electric energy, but most of the energy generated comes from plants in the south, an imbalance that leads to a high level of loss of power in the lines. Palo Seco and Central San Juan units do not meet the real demand of energy of the north of Puerto Rico.

Through this project, a private operator will be responsible for carrying out the design, permission, financing, construction, management, operation, and maintenance of a new facility of dual fuel combined cycle generation with a capacity of approximately 300 MW, which will be interconnected to the currently existing 115 kV substation corresponding to the Palo Seco power plant. This facility will be in the Palo Seco Power Plant land or land adjacent to it. The private operator will sell, and the Puerto Rico Electric Power Authority (PREPA) will buy the net electricity production of the installation generation, in accordance with the contract. During the term of the contract, the private operator will provide operation and maintenance services for said facility. The project pursues improve the reliability of the electrical system, particularly to support energy demand from the north of Puerto Rico.

On July 12, 2019, the Authority published the Request for Qualifications and on June 10, 2020, the Partnership Committee notified the selection of the qualified proponents. Considering the recent situation in the energy sector of Puerto Rico, the Authority is evaluating certain different components of public policy to determine the steps to follow around this project.

Hydroelectric Plants Revitalization Project - The revitalization of hydroelectric plants project intends to impact the following facilities: Caonillas 1 and 2 in the Utuado Municipality; Garzas 1 and 2 in the Peñuelas Municipality; Patillas; Río Blanco in the Naguabo Municipality; Yauco 1 and 2; and Dos Bocas in the Arecibo Municipality. As part of this project, the Authority and PREPA are interested in forming a Partnership with one or more proponents, including Municipalities, Municipal Consortiums and companies of the private sector or consortiums, for the operation and maintenance of said hydroelectric system, or a part of it, in addition to the investment of capital improvements for its rehabilitation.

The system that will comprise the hydroelectric generation facilities will consist of 11 facilities with a combined generation capacity of approximately 100 MW. Currently, the available capacity of these facilities is 27 MW. Through Partnership, the purpose is to increase the generation capacity of these hydroelectric facilities to at least of approximately 70 MW.

This project contemplates the execution of a long-term contract with one or more entities. The Partnership contract structure could be one of the following: (1) a long-term lease of the facilities and a Power Purchase and Operation Agreement (PPOA) with PREPA; or (2) Operation agreement and long-term maintenance. During the term of the contract, the Government will retain the property and ownership of each hydroelectric facility of the project, and the entity will manage and will operate the hydroelectric facility. In addition, the selected entity will assist with the acquisition, administration and use of federal funds for the restoration of the hydroelectric system in case they are available.

On April 16, 2019, the Authority issued the Request of Qualifications where interested entities were requested to submit their qualifications no later than July 22, 2019. On November 25, 2019, the Partnership Committee notified the selection of the qualified proponents. Considering the recent situation in the energy sector of Puerto Rico, the Authority is evaluating certain different components of public policy to determine the steps to follow around this project.

Energy Storage Project - Through this Project, the hiring of a private entity is contemplated to carry out the development of a large-scale energy storage system in certain critical facilities to provide greater stability to Puerto Rico's energy system while provides resilience and responsiveness to power system fluctuations or blackouts. The project also seeks to reduce network costs by increasing operational efficiency, to meet the renewable energy objectives established by Act No. 17-2019, known as the Puerto Rico Energy Public Policy Law and offer operational flexibility that allows the modernization of the grid in an expeditious time, among other objectives and benefits of the project.

Specifically, the project contemplates an energy storage system in the substations of Sabana Llana and Bayamón, with an optional third facility in Humacao/Yabucoa.

On May 12, 2018, the Authority published the Desirability and Convenience Study. On June 22, 2018, the Authority published the Request for Qualifications by virtue of which, the Partnership Committee notified the selection of the qualified proponents.

On October 12, 2018, the Authority issued the Request for Proposals asking for proposals on or before January 11, 2019. Due to delays in the process of acquiring federal funds, the preferred proponent selection process remains delayed.

Flexible Power Distribution Units Project - This project seeks for a private entity to be the owner and operator of a fleet of 15 units flexible mobile or fixed power distribution systems (or a combination) with an individual capacity between 10-30 MW, for a total of approximately 450 MW. This project contemplates the execution of a "Power Purchase and Operation Agreement" with PREPA for a period of 25 years. These new dual fuel units (natural gas and diesel) will replace the fleet of gas turbines of PREPA and will use the existing interconnection framework. The private entity will be in charge of the design, permission, financing and installation of the units. PREPA anticipates that these units may eventually be relocated where necessary to stabilize the electrical network to meet the capacity requirements for the mini networks that are planned to eventually be established.

As previously mentioned, this project could generate up to a maximum of 450 MW through the location of the referred units in the following PREPA facilities: (1) Hidrogas Costa Sur; (2) Aguirre Station; (3) Jobos Station (Guayama); (4) Yabucoa Station; (5) Vega Baja Station; (6) Palo Viejo Complex; and (7) Daguao Station (Ceiba).

On July 12, 2019, the Authority published the Request for Qualifications. On July 7, 2020, the Authority issued a notification to the interested proponents informing that the Request for Qualifications would be extended. In said notification, the Authority also informed that the selection of the Qualified Proponent would be postponed subject to final approval of the Integrated Resource Plan that had been submitted by PREPA to the Puerto Rico Energy Bureau. Considering the recent situation in the Puerto Rico energy sector, the Authority is evaluating certain different components of public policy to determine the steps to follow around this project.

Legacy Generation Assets Project - Even before the impact of Hurricanes Irma and María and the 2019-2020 earthquakes, Puerto Rico already had a poor energy infrastructure. Although some of the Legacy Generation Assets of PREPA have been modernized to natural gas, many of the assets operate based on diesel, which is inefficient, expensive, and is the main reason for the high cost in the electric rate of Puerto Rico. PREPA together with the Authority are working on several initiatives to modernize the Puerto Rico's energy system, which seek to reduce dependence on the use of diesel, increase the use of renewable energy, increase the efficiency and resilience of the system, invest in repairs to facilities, and withdraw, replace, or modernize Inefficient Generation Assets.

This project contemplates entering into a contract with one or more private operators with terms tied directly to the remaining useful life of the Legacy Generation Assets for the management, operation, maintenance and decommissioning, as applicable, of these assets. In this way, the project pursues improving the efficiency and resilience of the electricity system using the experience of the private sector to the operation, maintenance and decommissioning of the Generation Assets as established in the Plan Integrated Resource.

On August 10, 2020, the Authority published the Request for Qualifications. On October 22, 2020, the Partnership Committee notified the selection of the qualified proponents. Subsequently, the Authority issued the Request for Proposals. The qualified proponents submitted the proposals on or before December 2021.

Currently, the Partnership Committee is evaluating the proposals submitted for selecting a Preferred Proponent.

Others - The Authority is evaluating other projects such as the Modernization of the Services and Collections of the Department of the Treasury of Puerto Rico, Regional Airports of the Puerto Rico Ports Authority and the Modernization of the Authority's Digital Infrastructure of Roads and Transportation of the Puerto Rico Highway and Transportation Agency.

12. RETIREMENT BENEFITS SYSTEMS

PayGo Pension Reform

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

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73*, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities new implementation procedures for adopting, effective July 1, 2017, the new PayGo system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act No. 106 of 2017. The Act created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2019 and fiscal year 2020. Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act No. 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106-2017, ERS's board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing ERS, the Judiciary Retirement System (JRS), and Teachers Retirement System (TRS). Act No. 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new System members hired on and after July 1, 2017 have been enrolled in a new defined contributions program selected by the Retirement Board. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new defined contributions program, effective as of June 22, 2020. ERS' active members of the defined contributions program retained their benefits as stated under Act No. 91 of March 29, 2003.

Act No. 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act No. 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentive, opportunities and retraining program for public workers.

Currently, the Authority does not have retirees, as a result the Authority does not participate PayGo system. As a result, 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,* does not apply to the Authority.

13. COMMITMENT AND CONTINGENCIES

Litigation

The Authority is a party in a legal claim arising in the ordinary course of operations. Management and their legal counsels are of the opinion that the ultimate disposition of this matter will not have a material adverse effect on its financial position and the results of its operations.

Federal Awards

COR3 participates in federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, FEMA may be required to reimburse the grantors. Nevertheless, the program compliance audits of certain programs for or including the fiscal year ended June 30, 2020, have not yet been concluded. Accordingly, the compliance with applicable grant requirements will be established at some future date.

Also, COR3 subgrantees are subject to compliance audits, if expenditures are disallowed due to noncompliance with grant program regulations COR3 or FEMA may require to reimburse the grantors. Nevertheless, subgrantees compliance audits have not yet been concluded, as a result disallowed cost can’t be determined as this time.

Grant Awards and Mission Assignments

The COR3 is a grantee in various Federal Assistance Programs funded by the Federal Government. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. These grants are described as follows:

- **PA CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) -** To assist state, tribal, territorial, and local governments and eligible private non-profits in responding to and recovering from the devastating effects of disasters by providing assistance for debris removal, emergency protective measures, and the repair, restoration, reconstruction or replacement of public and eligible private non-profit facilities or infrastructure damaged or destroyed as the result of federally declared disasters or emergencies. During fiscal year 2020 the drawdowns from this program amounted to approximately $633 million. Subsequently there have been additional drawdowns and funds approved related to the earthquakes that occurred in January 2020 and for the pandemic.

- **HMGP CFDA No. 97.039 Hazard Mitigation Grant Program -** The objective of the program is to provide funding support to states, Indian tribal governments, territories, communities, and other eligible applicants to reduce the risk of future damage, loss of life and property in any area affected by a major disaster. This program promotes implementation of activities designed to reduce injuries, loss of life, hardship, suffering, and damage and destruction to property from natural hazards which is consistent with DHS QHSR Goal 5.1, “Mitigate Hazards” and links to Presidential Policy Directive (PPD-8) - National Preparedness, Security, Resilience, Prevention, Mitigation, Response, Protection, and Recovery. During fiscal year 2020, there were approximately $225,000 drawdowns although the grant was approved and current.

- **PDM CFDA No. 97.047 Pre-disaster Mitigation -** The Building Resilient Infrastructure and Communities (BRIC) program makes federal funds available to states, U.S territories, Indian tribal governments (federally recognized), and local communities to apply for, implement, and monitor mitigation activities; create and support partnerships; encourage and enable innovative mitigation strategies and project implementation; enhance risk-informed planning and prioritization of mitigation needs; establish building codes and standards to protect the health, safety and general public welfare; and conduct other mitigation activities with a focus on critical services and facilities and large-scale infrastructure. Ultimately, activities funded by BRIC are designed to reduce the long-term risk to individuals and property from natural hazards and build mitigation capacity and capability, while also reducing reliance on federal funding from future disasters. The BRIC program strengthens national preparedness and resilience and supports the mitigation mission area through Strategic Goal #1 Building a Culture of Preparedness, Objectives 1.1, 1.2, 1.3, and 1.4 of the 2018 – 2022 FEMA Strategic Plan. During fiscal year 2020 the drawdowns from this program amounted to approximately $19 thousand.

- **PDM 93.982 Mental Health Disaster Assistance and Emergency Mental Health -** To provide supplemental emergency mental health counseling to individuals affected by major disasters, including the training of workers to provide such counseling. During fiscal year 2020, the drawdowns from this program amounted to approximately $3.2 million.

- **Mission assignment -** they relate to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for PREPA related to damages to the electrical grid after a disaster). In these cases, FEMA pays the federal agency directly, and thereafter invoices the Commonwealth of Puerto Rico ("Commonwealth"), through the COR3/GAR, for any outstanding non-federal cost share balance, if applicable. As such, COR3 does not manage any federal moneys related to Mission Assignments but serves as a pass-through entity in relation to any associated non-federal cost share requirements. The COR3 is also responsible for executing related paperwork.

  For Hurricane María, FEMA estimates the Commonwealth will receive approximately $35 billion in disaster funds which will require a match of approximately $3 billion for a total approximately of $38 billion in mitigation grant funding.

The Government continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, under FEMA's Public Assistance (PA) Program. This is FEMA's largest grant program providing funds to assist communities responding to and recovering from major disasters or emergencies declared by the President. The program provides funding for emergency assistance to save lives and protect property and assists with funding for permanently restoring community infrastructure affected by a federally declared incident, including the continued recovery following Hurricanes Irma and María. As of June 30, 2020, approximately $7 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately $3.8 billion has been committed by federal agencies for distribution and approximately $4.2 billion has been disbursed. The cost share for the COR3 is approximately $225 million.

14. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 19, 2022, to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. The subsequent events disclosed below are principally those related to the Commonwealth fiscal plan related matters that management believes are intrinsically related to the financial statements of the Authority.

Subsequent to fiscal year ended on June 30, 2020, COR3 received $3.8 million from subgrantees and refunded such amount to the FEMA. The amounts are related to grants closeouts and disallowed cost.

In October 27, 2020, Puerto Rico Maritime Transportation Authority (ATM), Commonwealth of Puerto Rico, the Municipality of Vieques, the Municipality of Culebra, HMS Ferries Inc. and HMS Ferries Puerto Rico signed an agreement for maritime transportation operation and maintenance of the ferries used for the transportation for the Municipality of Vieques and Culebra.

Commonwealth Plan of Adjustment

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

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

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

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

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

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

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

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

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET.

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

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

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

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

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

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

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

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

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

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

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