

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, 2021

(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, 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2021, 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.

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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, a Component Unit of the Commonwealth of Puerto Rico, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 3 to 9, 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
March 1, 2023.

Stamp No. E522934 was affixed to
the original of this report.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

This Management's Discussion and Analysis (unaudited) section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Public Private Partnerships Authority (the Authority) for the fiscal year ended June 30, 2021. 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 \$103.9 million as of June 30, 2021, a decrease of \$23.1 million or 18% when compared to prior year.
- The Authority's Total Liabilities government-wide was approximately \$82 million as of June 30, 2021, a decrease of \$37.1 million or 31% when compared to prior year.
- The Authority's Total Net Position government-wide was approximately \$21.8 million as of June 30, 2021, an increase of \$13.9 million or 179% 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, 2021. 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

In the Statement of Net Position and the Statement of Activities, the 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.

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. 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 Office for Recovery, Reconstruction and Resiliency of Puerto Rico (COR3).

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

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 one 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 for which a service fee is charged.

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 2021.

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, 2021, amounted to approximately \$60.4 million and \$58.7 million, respectively, for a net position of approximately \$1.8 million.

Condensed financial information from the statements of net position (net of internal balances) as of June 30, 2021, and June 30, 2020, is as follows (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percentage
Current ssets	\$ 59,473	\$ 90,115	\$ (30,642)	-34%
Non current assets	966	1,062	(96)	-9%
Total assets	60,439	91,177	(30,738)	-34%
Current liabilities	57,340	81,596	(24,256)	-30%
Non Current liabilities	1,337	8,102	(6,765)	-83%
Total liabilities	58,677	89,698	(31,021)	-35%
Net position	\$ 1,762	\$ 1,479	\$ 283	19%

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Total assets decreased by approximately \$30.7 million when compared to prior year due to the net effect of the following: (1) a decrease in intergovernmental receivable of approximately \$31.5 million mainly related to amounts requested to Federal Emergency Management Agency (FEMA) related to natural disaster expenses incurred by subgrantees and paid by FEMA, (2) a decrease in cash amounting to approximately \$6 million, (3) a decrease in capital assets of approximately \$97 thousand, (4) an increase in due from subrecipients amounting to approximately \$2.2 million, and (5) an increase in due from Commonwealth by approximately \$1.5 million related to amount owed by the Puerto Rico Department of Housing related to advances made by COR3 which were unspent, and (6) a decrease in internal balance amounting to approximately \$3.3 million.

Total liabilities decreased by approximately \$31 million when compared to prior year mainly due to: (1) a decrease in accounts payable amounting to approximately \$28.4 million related to professional service vendors, and (2) an increase in amount due to Commonwealth of Puerto Rico amounting to approximately \$4.1 million, (3) an increase in compensated absences for approximately \$709 thousand, and (4) a decrease 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, 2021, and June 30, 2020, is as follows (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percentage
Expenses	\$ (663,938)	\$ (635,168)	\$ (28,770)	5%
Program revenues:				
Operating grants and contributions	662,448	636,335	26,113	4%
General revenues:				
Other	9	238	(229)	-96%
Tranfers from other funds	1,764	-	1,764	100%
Change in Net Position	283	1,405	(1,122)	-80%
Net Position - Beginning	1,479	74	1,405	1899%
Net Position - Ending	\$ 1,762	\$ 1,479	\$ 283	19%

Program revenues are composed of approximately \$622.6 million of Federal Grants and approximately \$39.9 million of Commonwealth’s appropriations, an increase of approximately \$26.1 million. Increase is mainly related to an increase in funds received from FEMA related to Hurricanes Irma and María expenses reimbursement requested by subgrantees. General revenue is composed of transfers in transactions amounting to approximately \$1.8 million, interest income amounting to approximately \$2 thousand and other income amounting to approximately \$6 thousand. Increase in general revenues by approximately \$1.5 million is mainly due to transfers received from proprietary fund.

The expenses of approximately \$663.9 million are composed as follows: (1) grant disbursements to sub-grantees of approximately \$558.9 million related to reimbursements related to Hurricanes Irma and María, (2) professional services of approximately \$90.1 million, (3) payroll expenses of approximately \$14.3 million, and (4) other expenses of approximately \$620 thousand.

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Increase in expenses amounting to approximately \$28.8 million is mainly related to (1) an increase in grant reimbursement paid to subgrantees amounting to approximately \$100.5 million, (2) a decrease in professional services expense amounting to approximately \$77 million, and (3) an increase in payroll expenses amounting to approximately \$4.8 million.

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 2021.

Statement of Net Position - Proprietary Fund

Condensed financial information from the statements of net position (deficit) as of June 30, 2021, and June 30, 2020, is as follows (in thousands):

	June 30,		Change	
	2021	2020 (as restated)	Amount	Percentage
Current assets	\$ 30,221	\$ 21,354	\$ 8,867	42%
Non current assets	13,190	14,424	(1,234)	-9%
Total assets	43,411	35,778	7,633	21%
Current liabilities	10,746	11,640	(894)	-8%
Non current liabilities	12,613	16,025	(3,412)	-21%
Total liabilities	23,359	27,665	(4,306)	-16%
Net position	\$ 20,052	\$ 8,113	\$ 11,939	147%

Total assets increased by approximately \$7.6 million when compared to prior year due to the following: (1) an increase in cash amounting to approximately \$5 million, (2) a decrease in due from other fund (COR3) of approximately \$3.3 million related to payments made by the Authority on behalf of COR3, (3) a decrease in prepaid expenses of approximately \$403 thousand, and (4) an increase in due from the Puerto Rico Electric Power Authority (PREPA) amounting to \$6.3 million.

Total liabilities decreased by approximately \$4.3 million when compared to prior year due to the following: (1) a decrease in accounts payable and accrued liabilities of approximately \$922 thousand related to amount owed for services provided related to the development of public private partnerships, (2) a decrease in unearned revenues amounting to approximately \$3.4 million which were presented as service charge for services rendered by the Authority for the identification, analysis and development of partnerships projects, (3) a decrease in due to other governmental entities amounting to approximately \$55 thousand, and (4) an increase in compensated absences amounting to approximately \$84 thousand.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

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, 2021, and June 30, 2020, is as follows (in thousands):

	June 30,		Change	
	2021	2020 (as restated)	Amount	Percentage
Operating revenues	\$ 15,287	\$ 18,174	\$ (2,887)	-16%
Operating expenses	(14,641)	(20,278)	5,637	-28%
Non operating revenues	13,057	13,478	(421)	-3%
Transfers to other funds	(1,764)	-	(1,764)	-100%
Change in net position	11,939	11,374	565	5%
Net position (deficit) beginning as restated	8,113	(3,261)	11,374	-349%
Net position-ending	\$ 20,052	\$ 8,113	\$ 11,939	147%

Operating Revenues

The Authority’s operating revenues decreased by \$2.9 million mainly due to a decrease in services charges by approximately \$4.7 million, an increase by approximately \$2.4 million of release of account receivable previously reserved, and a decrease of other revenues by approximately \$604 thousand.

Operating Expenses

The Authority’s most significant operating expenses correspond to professional services, other operating expenses and interest expense amounting to approximately \$12.7 million, \$1.7 million and \$293 thousand, respectively.

Operating expenses decreased by approximately \$5.6 million when compared with fiscal year ended June 30, 2020, mainly related to a decrease in professional services amounting to approximately \$5.5 million, a decrease in other operating expenses amounting to approximately \$14 thousand and a decrease in interest expense amounting to \$74 thousand.

Net non-operating revenues decreased by approximately \$421 thousand mainly due to a decrease in Commonwealth’s appropriations of approximately \$359 thousand and a decrease in interest income amounting to approximately \$62 thousand.

The Authority’s principal business type 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.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

3. CURRENTLY KNOWN FACTS

Intergovernmental agreements

Currently, the Authority is working on other Public Private Partnerships related to PREPA energy generation and storage, the Puerto Rico Ports Authority modernization of the San Juan Bay cruise terminals (pending financial closing) 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.

Legacy Generation Assets Project

On January 15, 2023, the Authority board of directors approved by unanimity the Thermal Generation Facilities Operation and Maintenance Agreement (the project). On January 19, 2023, PREPA board of directors approved the project. On January 25, 2023 the Fiscal Oversight Management Board of Puerto Rico approved the agreement.

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, 2021

	Governmental Activities	Business- type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash	\$ 1,472,742	\$ 9,021,068	\$ 10,493,810
Due from subrecipients	2,643,784	—	2,643,784
Intergovernmental receivable	68,752,387	—	68,752,387
Due from Commonwealth of Puerto Rico	1,457,858	—	1,457,858
Due from Puerto Rico Electric Power Authority	—	6,333,334	6,333,334
Accounts receivable, net	—	—	—
Internal balance	(14,853,362)	14,853,362	—
Prepaid expenses	—	13,145	13,145
Total current assets	59,473,409	30,220,909	89,694,318
NON-CURRENT ASSETS:			
Restricted cash	—	13,182,758	13,182,758
Capital assets, net	965,692	7,910	973,602
Total non-current assets	965,692	13,190,668	14,156,360
Total assets	60,439,101	43,411,577	103,850,678
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	53,062,080	5,929,236	58,991,316
Due to Commonwealth of Puerto Rico	4,101,642	4,670,000	8,771,642
Due to Government Development Bank for Puerto Rico	—	17,564	17,564
Due to other governmental entities	—	11,722	11,722
Compensated absences	176,000	117,788	293,788
Total current liabilities	57,339,722	10,746,310	68,086,032
NON-CURRENT LIABILITIES:			
Compensated absences	1,337,064	23,152	1,360,216
Line of credit with Government Development Bank for Puerto Rico	—	6,159,116	6,159,116
Unearned revenues	—	6,430,839	6,430,839
Total non-current liabilities	1,337,064	12,613,107	13,950,171
Total liabilities	58,676,786	23,359,417	82,036,203
NET POSITION:			
Investment in capital assets	965,692	7,910	973,602
Restricted for Development of Public Private Partnerships	—	13,182,758	13,182,758
Unrestricted	796,623	6,861,492	7,658,115
Total net position	\$ 1,762,315	\$ 20,052,160	\$ 21,814,475

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
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Position		Total
		Charges for Services - Fees, Commissions, and Others	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
Economic development	\$ 663,937,707	\$ —	\$ 662,447,693	\$ (1,490,014)	\$ —	\$ (1,490,014)
Total governmental activities	663,937,707	—	662,447,693	(1,490,014)	—	(1,490,014)
Business-type activities:						
Public private partnerships	14,640,876	15,287,030	13,026,147	—	13,672,301	13,672,301
Total business-type activities	14,640,876	15,287,030	13,026,147	—	13,672,301	13,672,301
Total	\$ 678,578,583	\$ 15,287,030	\$ 675,473,840	(1,490,014)	13,672,301	12,182,287
General revenues:						
Interest income				2,576	31,061	33,637
Other income				6,000	—	6,000
Transfers				1,764,155	(1,764,155)	—
Total general revenues and transfers				1,772,731	(1,733,094)	39,637
CHANGES IN NET POSITION				282,717	11,939,207	12,221,924
NET POSITION – Beginning of year, as restated				1,479,598	8,112,953	9,592,551
NET POSITION – End of year				<u>\$ 1,762,315</u>	<u>\$ 20,052,160</u>	<u>\$ 21,814,475</u>

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, 2021

ASSETS:

Cash	\$	1,472,742
Due from subrecipients		2,643,784
Intergovernmental receivable		68,752,387
Due from Commonwealth of Puerto Rico		<u>1,457,858</u>
Total assets	\$	<u><u>74,326,771</u></u>

LIABILITIES AND FUND BALANCE:

Accounts payable and accrued liabilities	\$	53,062,080
Due to other fund		14,853,362
Due to Commonwealth of Puerto Rico		<u>4,101,642</u>
Total liabilities		72,017,084
Fund balance-unassigned		<u>2,309,687</u>
Total liabilities and fund balance	\$	<u><u>74,326,771</u></u>

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, 2021

FUND BALANCE OF GOVERNMENTAL FUND	\$ 2,309,687
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	965,692
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund	<u>(1,513,064)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,762,315</u>

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
FOR THE YEAR ENDED JUNE 30, 2021

REVENUES:

Federal grants	\$ 622,585,417
Contribution from Commonwealth of Puerto Rico	39,862,276
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Total revenues	662,447,693

EXPENDITURES:

Economic development	663,036,439
Capital outlays	95,755
	<hr/>
Total expenditures	663,132,194
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Excess of expenditures over revenues	(684,501)

OTHER REVENUES:

Other income	6,000
Interest income	2,576
	<hr/>
	8,576

OTHER FINANCING SOURCES:

Transfers in	1,764,155
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NET CHANGE IN FUND BALANCE	1,088,230
FUND BALANCE - Beginning of year, as restated	1,221,457
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FUND BALANCE - End of year	\$ 2,309,687
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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 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2021**

NET CHANGE IN FUND BALANCE- GOVERNMENTAL FUND \$ 1,088,230

**AMOUNT REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF
 ACTIVITIES ARE DIFFERENT BECAUSE:**

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 (708,795)

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	\$	95,755	
Less: Depreciation expense		<u>(192,473)</u>	
Subtotal			<u>(96,718)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 282,717

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, 2021

ASSETS

CURRENT ASSETS:

Cash	\$ 9,021,068
Due from other fund	14,853,362
Due From Puerto Rico Electric Power Authority	6,333,334
Accounts receivable, net	-
Prepaid expenses	13,145
	<u>30,220,909</u>
Total current assets	<u>30,220,909</u>

NON-CURRENT ASSETS:

Restricted cash	13,182,758
Capital assets, net	7,910
	<u>13,190,668</u>
Total non-current assets	<u>13,190,668</u>
Total assets	<u>43,411,577</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	5,929,236
Due to Commonwealth of Puerto Rico	4,670,000
Due to Government Development Bank for Puerto Rico	17,564
Due to other governmental entities	11,722
Compensated absences	117,788
	<u>10,746,310</u>
Total current liabilities	<u>10,746,310</u>

NON-CURRENT LIABILITIES:

Compensated absences	23,152
Line of credit with Government Development Bank for Puerto Rico	6,159,116
Unearned revenues	6,430,839
	<u>12,613,107</u>
Total non-current liabilities	<u>12,613,107</u>
Total liabilities	<u>23,359,417</u>

NET POSITION:

Investment in capital assets	7,910
Restricted for Development of Public Private Partnerships	13,182,758
Unrestricted	6,861,492
	<u>28,052,160</u>
Total net position	<u>\$ 20,052,160</u>

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
FOR THE YEAR ENDED JUNE 30, 2021

OPERATING REVENUES:	
Services charges	\$ 12,912,030
Release of account receivable reserve	2,375,000
	<hr/>
Total operating revenues	15,287,030
	<hr/>
OPERATING EXPENSES:	
Professional services	12,690,386
Other operating expenses	1,654,984
Interest expense	292,558
Depreciation expense	2,948
	<hr/>
Total operating expenses	14,640,876
	<hr/>
NET OPERATING REVENUES	646,154
	<hr/>
NON-OPERATING REVENUES:	
Contribution from the Commonwealth of Puerto Rico	13,026,147
Interest income	31,061
	<hr/>
Total non-operating revenues	13,057,208
	<hr/>
Income before transfers	13,703,362
	<hr/>
TRANSFERS TO OTHER FUND	(1,764,155)
	<hr/>
CHANGE IN NET POSITION	11,939,207
	<hr/>
NET POSITION - Beginning of year, as restated	8,112,953
	<hr/>
NET POSITION - End of year	\$ 20,052,160
	<hr/> <hr/>

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
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS USED IN OPERATING ACTIVITIES:

Services charges received	\$ 5,546,170
Payments to employees	(1,129,884)
Cash paid for operating activities	<u>(10,712,110)</u>
Net cash used in operating activities	<u>(6,295,824)</u>

CASH FLOWS PROVIDED BY CAPITAL AND NONCAPITAL FINANCING ACTIVITIES:

Cash received from Commonwealth of Puerto Rico	13,026,147
Transfers to other fund	<u>(1,764,155)</u>
Net cash provided by capital and noncapital financing activities	<u>11,261,992</u>

CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:

Interest received	<u>31,061</u>
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NET CHANGE IN CASH

Cash - beginning of year	4,997,229
	<u>17,206,597</u>
Cash - end of year	<u>\$ 22,203,826</u>

**RECONCILIATION OF NET OPERATING REVENUES TO NET CASH
USED IN OPERATING ACTIVITIES:**

Net operating revenues	\$ 646,154
Adjustments to reconcile net operating revenues to net cash used in operating activities:	
Release of account receivable reserve	(2,375,000)
Depreciation expense	2,948
Interest paid	292,558
Changes in assets and liabilities:	
(Increase) decrease in:	
Due from other fund	3,286,683
Due from Puerto Rico Electricity Power Authority	(3,958,334)
Prepaid expenses	403,398
Accounts receivable, net	4,503
Increase (decrease) in:	
Accounts payable and accrued liabilities	(1,215,304)
Due to other governmental entities	(55,129)
Unearned revenues	(3,412,030)
Compensated absences	<u>83,729</u>

NET CASH USED IN OPERATING ACTIVITIES

	<u>\$ (6,295,824)</u>
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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)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021

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's 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.

During fiscal year 2017-2018, the Governor of the Commonwealth of Puerto Rico (the Governor) created the Central Office for Recovery, Reconstruction and Resiliency of Puerto Rico (COR3) through Executive Order 2017-65 (EO-2017-65). COR3 was initially responsible for managing all efforts for the recovery of the 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 the Authority. COR3 became part of the Authority effective July 1, 2018, through Executive Order 2018-11 (EO 2018-11). Since then, it operates as a division of the Authority.

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.

COR3 is the recipient of FEMA Pre-disaster Mitigation (PM), Public Assistance (PA), Hazard Mitigation Grant Program (HMGP) and the Crisis Counseling Assistance and Training Program Grant, which is administered by the "Oficina de Calidad de la Administración de Servicios de Salud y Contra la Adicción (ASSMCA)". 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, 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 and paid to COR3.

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PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

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NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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 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.

There are other 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).

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, the results of operations and cash flows.

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.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021

- *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 disallowed. During fiscal year 2021, the approximate amount of funds received and returned to the grantor amounted to approximately \$8 million.

Fund Financial Statements

The Authority reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

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.

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.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021

- *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.

Governmental Funds

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

General Fund - The General fund accounts for funds received from FEMA and the Commonwealth related to reimbursement of expenses related to natural disasters, which are managed by COR3.

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 has one major proprietary fund (Public Private Partnership Fund) to 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, 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.

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NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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.

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 operating grants received from FEMA and the Commonwealth, and also funds received from, private parties to perform feasibility studies for possible Public Private Partnerships.
- *Service charges* - are costs or expenses incurred by the Authority for the services rendered by the Authority resulting from the process for the analysis and development of a Partnership. Service charges are included as part of the intergovernmental contracts signed for the analysis and development of a project as a Partnership. In these agreements, the Authority charge a determined amount, which should be paid monthly. Those service charges are recognized as revenues when earned.
- *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 Project. In these agreements, the Authority charges service expenses, and 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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

- Commonwealth contributions made for a specific purpose or with a restriction are recognized as revenues when that contributions funds are received.
- Interest income - is composed of interest earned on deposits.

Accounts Receivable

Accounts receivables 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 and Unearned Revenues

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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PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized. Estimated useful lives are as follows:

<u>Capital Assets</u>	<u>Years</u>
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, 2021.

Compensated Absences

The vacation policy of the Authority for 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

Unearned revenues represent resources received by the Authority before related services are rendered.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

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NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Interfund Activity

Interfund Transfers - 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.

Recent Accounting Pronouncements

During the fiscal year ended on June 30, 2021, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Authority.

Accounting Pronouncements Issued but Not Yet Effective

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

- **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 reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, which allowed for an eighteen-month postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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NOTES TO BASIC FINANCIAL STATEMENTS
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- **GASB Statement No. 89, *Accounting for Interest Cost Incurred before Year End before 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 the Statement are effective for reporting periods after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance* which allows one year postponement of its effective date. Earlier application is encouraged and permitted to the extent specified in each pronouncement as originally issued.
- **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.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

- **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, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.
- **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.

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The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- **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. 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.

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- **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.

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- **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.

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

- **GASB Statement No 100, *Accounting Changes and Error Corrections*.** An amendment of GASB Statements No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No 101, *Compensated Absences*.** The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

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

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3. RESTATEMENT OF NET POSITION

The following table describes the net change in the net position at the beginning of year as previously reported in the basic financial statements. The beginning net position balance has been restated as follows:

Governmental Funds

Net position, as previously reported, at June 30, 2020	\$ 8,694,789
Overstatement of revenues	<u>(7,473,332)</u>
Beginning net position, as restated, at July 1, 2020	<u>\$ 1,221,457</u>

Overstatement of revenues amounting to approximately \$7.4 million related to funds received during fiscal year 2020 with time restriction, that were incorrectly recognized as revenue. Those funds did not meet the available criteria of the modified accrual basis of accounting.

Proprietary Fund

Net position, as previously reported, at June 30, 2020	\$ 6,347,749
Understatement of revenues	<u>1,765,204</u>
Beginning net position, as restated, at July 1, 2020	<u>\$ 8,112,953</u>

Understatement of revenues amounting to approximately \$1.7 million is related to a Memo of Understanding signed by the Authority with the Puerto Rico Electric Power Authority (PREPA) for the development of public private partnerships during the fiscal year 2019, which were not recognized as revenues in prior years.

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, 2021. As of June 30, 2021, none of the depository Authority balance is uninsured and uncollateralized as follows:

Governmental Activities	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Commercial bank	<u>\$ 1,472,742</u>	<u>\$ 1,472,743</u>	<u>\$ -</u>

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Business-Type Activities	Amount uninsured and uncollateralized		
	Carrying amount	Bank balance	
Commercial bank unrestricted	\$ 9,021,068	\$ 17,846,426	\$ -
Commercial bank restricted	13,182,758	7,088,664	
Total	\$ 22,203,826	\$ 24,935,090	\$ -

Restricted cash is for the development of public private partnership.

5. INTERGOVERNMENTAL RECEIVABLE

Governmental Activities

As of June 30, 2021, intergovernmental receivable amounting to approximately \$68 million mainly represents funds requested to FEMA by COR3, related to natural disasters expenses incurred by subrecipients.

6. ACCOUNTS RECEIVABLE, NET

Business-Type Activities

As of June 30, 2021, the Authority's accounts receivable, net of allowance, is composed of the following (in thousands):

Description	Amount
Puerto Rico Electric Power Authority (PREPA)	\$ 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	(7,707)
Net receivables	\$ -

The accounts receivable as of June 30, 2021, 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.

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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 will not be collected and an allowance for doubtful account was provided in fiscal year ended June 30, 2017.

7. CAPITAL ASSETS

Governmental Activities

Capital assets activity during the year ended June 30, 2021, was as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets:				
Information systems	\$ 1,198	\$ 96	\$ -	\$ 1,294
Total capital assets	<u>1,198</u>	<u>96</u>	<u>-</u>	<u>1,294</u>
Less accumulated depreciation for:				
Information systems	(136)	(192)	-	(328)
Total accumulated depreciation	<u>(136)</u>	<u>(192)</u>	<u>-</u>	<u>(328)</u>
Total capital assets - net	<u>\$ 1,062</u>	<u>\$ (96)</u>	<u>\$ -</u>	<u>\$ 966</u>

Business-Type Activities

Capital assets activity during the year ended June 30, 2021, was as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets:				
Furniture and equipment	\$ 27	\$ -	\$ -	\$ 27
Information systems	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total capital assets	<u>28</u>	<u>-</u>	<u>-</u>	<u>28</u>
Less accumulated depreciation for:				
Furniture and equipment	(16)	(3)	-	(19)
Information systems	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Total accumulated depreciation	<u>(17)</u>	<u>(3)</u>	<u>-</u>	<u>(20)</u>
Total capital assets - net	<u>\$ 11</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 8</u>

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8. COMPENSATED ABSENCES

The activity for compensated absences during the year ended June 30, 2021, is as follows (in thousands):

Governmental Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	\$ 804	\$ 1,047	\$ (338)	\$ 1,513	\$ 176

Business-Type Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	\$ 57	\$ 123	\$ (39)	\$ 141	\$ 118

9. LINE OF CREDIT

On March 17, 2010, the Authority entered into a \$20 million operating revolving line of credit facility with Government Development Bank for Puerto Rico (GDB) bearing interest at 150 basis points over the prime rate (3.25% at June 30, 2021) or 7%, whichever is higher, or an interest rate determined by the GDB. Actual interest being charged by GDB as of June 30, 2021 is 4.75%. 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, 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, 2021, the line of credit balance owed to GDB was approximately \$6.2 million and accrued interest payable was approximately \$2 million. Interest expense for the year ended June 30, 2021, amounted to approximately \$293 thousand.

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10. TRANSACTIONS WITH RELATED ENTITIES

On August 13, 2019, the Authority entered into a Memo of Understanding (MOU) with PREPA in which PREPA agreed to pay a Service Fee in the total amount of \$9.5 million, to be paid in 12 equal installments amounting to \$791,666.66 each. As of June 30, 2021, approximately \$2.3 million are presented as part of Due from PREPA in the Statement of Net Position.

On July 2, 2020, the Authority entered into another MOU with PREPA in which PREPA agreed to pay a Service Fee in the amounting to \$9.5 million to be paid in 12 equal installments amounting to \$791,666.66 each. As of June 30, 2021, approximately \$4 million are presented as part of Due from PREPA in the Statement of Net Position.

As of June 30, 2021, due from PREPA amounts to approximately \$6.3 million.

On November 19, 2018, COR3 entered into an agreement as amended, with the Puerto Rico Infrastructure Financing Authority (PRIFA) to receive certain technical and legal services related to the Property Debris and Removal Program. During the fiscal years ended June 30, 2020 and 2021, the Authority contributed approximately \$5.2 and \$11.9 million to PRIFA, respectively, which will be recorded once recovered from FEMA and paid to the Commonwealth, once reimbursed by FEMA.

During the year ended June 30, 2021, 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, 2021, amounted to approximately \$260 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.

Due from Commonwealth amounting to approximately \$1.5 million is related to amount owed by the Department of Housing related to advances made by COR3 which were unspent.

Amount due to the Commonwealth amounting to approximately \$8.8 million is composed of approximately \$4.1 million related to certain amounts owed by subrecipients, which are going to be paid by COR3 to the Commonwealth at the time such funds are received from subrecipients. In addition, the Authority subsequently reimbursed the Commonwealth approximately \$4.7 million of unspent contributions.

11. INTER-GOVERNMENTAL PROJECTS

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

Inter-governmental Projects Financed by Commonwealth's Appropriations

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.

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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 includes 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. Refer to note 14 Subsequent events for more information.

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.

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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.

Inter-governmental Projects Financed by the Puerto Rico Electric Power Authority

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. The board of directors of the Authority cancel this project during the fiscal year 2022.

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.

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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. The board of directors of the Authority cancel this project during the fiscal year 2022.

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. The board of directors of the Authority cancel this project during the fiscal year 2022.

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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. Please refer to Note 14 of Subsequent events for more information.

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 Authority.

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.

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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. 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 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, 2021, have not yet been concluded. Accordingly, the compliance with applicable grant requirements will be established at some future date.

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Also, COR3's subrecipients 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, subrecipient compliance audits have not yet been concluded, as a result disallowed cost can't be determined as this time.

Grant Awards and Mission Assignments

COR3 is a recipient 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:

- **CFDA No. 97.036 Disaster Grants - Public Assistance PA (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 2021 the drawdowns from this program amounted to approximately \$643 million. Subsequently there have been additional drawdowns and funds approved related to the earthquakes that occurred in January 2020 and for the pandemic.
- **CFDA No. 97.039 Hazard Mitigation Grant Program HMGP** - 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 2021, there were approximately \$6 million drawdowns although the grant was approved and current.
- **CFDA No. 97.047 Pre-disaster Mitigation PDM** - 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 2021 the drawdowns from this program amounted to approximately \$48 thousand.
- **CFDA 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 2021, the drawdowns from this program amounted to approximately \$4.9 million.

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- **Mission assignments** - 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, through 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. COR3 is also responsible for executing related paperwork. During fiscal year 2021 approximately \$11.3 million were disbursed for mission assignments.

For Hurricane María, FEMA estimates the Commonwealth will receive approximately \$30.7 billion in disaster funds which will require a match of approximately \$2.7 billion for a total approximately of \$33.4 billion in public assistance 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, 2021, approximately \$23.2 billion has been committed by federal agencies for distribution and approximately \$4.9 billion has been disbursed. The cost share for COR3 is approximately \$1.9 billion.

Operating Lease

COR3, signed an operating lease agreement on March 21, 2021, which expires on June 30, 2023. The lease agreement establishes variable monthly payments for office rent ranging from approximately \$54 thousand to approximately \$55 thousand for office space, parking, and equipment. As of June 30, 2021, approximately \$378 thousand are presented as part of general government expenditures. Future payment of the lease agreement is as follows:

Year ending June 30,	Amount
2022	\$ 663,081
2023	649,830
	<u>\$ 1,312,911</u>

14. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 1, 2023, to determine if any such events should either be recognized or disclosed in the 2021 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, 2021, COR3 received approximately \$8 million from subgrantees and refunded such amount to the FEMA. The amounts are related to grants closeouts and disallowed costs.

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On November 23, 2021, the Authority entered into a MOU with PREPA in which PREPA agreed to pay a Service Fee in the amount of \$4,750,000. Thereafter, the MOU was amended on June 30, 2022, in order to increase the total amount of the MOU to \$9,500,000 to continue working with the development of Public Private Partnership related to transactions with PREPA.

Partnership Project for the San Juan Bay Cruise Terminals

On July 5, 2022, the Partnership Committee voted unanimously to approve the public private partnership agreement and to continue with the remaining approvals pursuant to the Public-Private Partnership Authority Act, Act No. 29-2009, as amended (“Act 29”).

On August 15, 2022, Puerto Rico Ports Authority (PRPA) and San Juan Cruise Port LLC, signed the public-private partnership contract for the repairment, design, building, financing, maintenance, and operation of the San Juan Bay Cruise Terminals. Financial close is expected by February 2023.

Toll Roads Monetization Project

On March 24, 2022, the Authority published the Desirability and Convenience Study for the monetization of PRHTA’s Toll Roads. The Study, commissioned by the Authority and prepared pursuant to Article 7 of Act 29, concluded that it is advisable to establish a public-private partnership for the Project Toll Roads PR-20, PR-52, PR-53 and PR- 66. On August 1, 2022, the Authority issued the Request for Qualifications (RFQ). On December 6, 2022, the Authority, informed that three (3) qualified respondents were shortlisted as a result of the Request for Qualifications (RFQ).

Legacy Generation Assets Project

On January 15, 2023, the Authority board of directors approved by unanimity the Thermal Generation Facilities Operation and Maintenance Agreement (the project). On January 19, 2023, PREPA board of directors approved the project and on January 24, 2023, the contract was signed.

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, 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), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), PREPA, and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the PRIFA, and Convention Center District Authority (CCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

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

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

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

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

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge’s Association [Case No. 22-1098] following a motion to voluntarily dismiss. 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. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers’ associations. See Case No. 22-1080. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-142. On July 18, 2022, the First Circuit affirmed the Title III Court’s finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-367. On October 27, 2022, the First Circuit denied another retiree group’s appeal of the Confirmation Order’s preemption of Acts 80, 81, and 82 for lack of appellate jurisdiction. See Case No. 22-1120. Oral argument on the merits of the remaining two appeals [Case Nos. 22-1079 and 22-1092] was held on April 28, 2022, but a final determination on those appeals remains pending.

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.

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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 the GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan discharges any claim related to budgetary appropriations, including appropriations for the repayment of the PFC Bonds and 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 General Obligation (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 were issued on July 1, 2021.

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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.

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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.

In their respective appeals, the teachers' association and judges' association argued that (i) the Commonwealth Plan of Adjustment's freeze of pension accruals and the elimination of COLAs were inconsistent with Act 53 and, therefore, those provisions were unauthorized by the legislature, and (ii) the Commonwealth laws authorizing the continued accruals for the JRS and TRS pension plans were not properly preempted by the Commonwealth Plan of Adjustment. See *In re The Fin. Oversight & Mgmt. Bd. for P.R.*, Case No. 17-3283-LTS, 2022 WL 620624, at *3-4 (D.P.R. Mar. 3, 2022). The First Circuit rejected these arguments, concluding that the operative provisions of Act 53 conditioned authority to issue securities under the Commonwealth Plan of Adjustment on the elimination of the "Monthly Benefit Modification" in the Seventh Amended Plan, which only concerned accrued pension rights of pension plan participants and retirees, not the defined benefit freeze or elimination of COLAs. See *In re The Fin. Oversight & Mgmt. Bd. for P.R.*, 32 F.4th 67, 81-82 (1st Cir. 2022). In addition, the First Circuit held that PROMESA preempts Commonwealth law—such as the JRS and TRS pension statutes—insofar as those laws purport to dictate contrary to the Commonwealth Plan of Adjustment the Commonwealth's financial obligations to participants in its pension plans. *Id.* at 78. As a result, the First Circuit affirmed the Title III Court's Confirmation Order as to the JRS and TRS pension provisions implementing benefits freeze and the elimination of COLAs.

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 the Title III Court confirmed on October 12, 2022 and became effective on December 6, 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>.

Aftermath of Hurricane Fiona

On September 17, 2022, Puerto Rico was impacted by Hurricane Fiona, knocking out power across the entire island and flooding many streets and roads, and disrupting the Authority's operations. On September 21, 2022, President Joseph R. Biden, Jr. approved Puerto Rico's governor Pedro Pierluisi's request for an expedited major disaster declaration. The Authority performed significant mitigation and recovery efforts financed by operating funds and estimated all damages suffered in about \$5 billion. At present, management has submitted claims amounting to \$115 million to FEMA for reimbursement through public assistance grants.