Puerto Rico Public Private Partnerships Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
June 30, 2022

(With Independent Auditors' Report)

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

Basic Financial Statements
Fiscal Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the basic 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, 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Puerto Rico Public Private Partnerships Authority, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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
September 29, 2023.

RSM Puerto Rico

Stamp No. E547818 was affixed to
the original of this report.

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, 2022. 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 $108.9 million as of June 30, 2022, an increase of approximately $5.1 million or 5% when compared to prior year.
- The Authority's Total Liabilities government-wide was approximately $74.1 million as of June 30, 2022, a decrease of approximately $7.9 million or 10% when compared to prior year.
- The Authority's Total Net Position government-wide was approximately $34.9 million as of June 30, 2022, an increase of approximately $13.1 million or 60% 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, 2022. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

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

The government-wide financial statements include two statements:

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

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

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

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 2022.

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, 2022, amounted to approximately $58.1 million and $56.9 million, respectively, for a net position of approximately $1.2 million.

Condensed financial information from the statements of net position (net of internal balances) as of June 30, 2022, and June 30, 2021, is as follows (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percentage
Current assets	$ 56,417	$ 59,473	$ (3,056)	-5%
Non-current assets	1,692	966	726	75%
Total assets	58,109	60,439	(2,330)	-4%
Current liabilities	55,701	57,340	(1,639)	-3%
Non-current liabilities	1,243	1,337	(94)	-7%
Total liabilities	56,944	58,677	(1,733)	-3%
Net position	$ 1,165	$ 1,762	$ (597)	-34%

Total assets decreased by approximately $2.3 million when compared to prior year due to the net effect of the following: (1) a decrease in intergovernmental receivable of approximately $6.6 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 $1.1 million, (3) an increase in right to use lease assets of approximately $850 thousand, (4) an increase in due from subrecipients amounting to approximately $378 thousand, (5) a decrease 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, (6) a decrease in due from COR3 amounting to approximately $5.6 million and (7) decrease in capital assets net amounting to approximately $121 thousand.

Total liabilities decreased by approximately $1.7 million when compared to prior year mainly due to: (1) a decrease in accounts payable amounting to approximately $1.4 million related to professional service vendors, (2) a decrease in amount due to Commonwealth of Puerto Rico amounting to approximately $1 million, (3) a decrease in compensated absences for approximately $93 thousand, and (4) an increase in lease payable of approximately $896 thousand.

Statements of Activities and Results of Operations

Condensed financial information from the statements of activities for the years ended June 30, 2022 and June 30, 2021, is as follows (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percentage
Expenses	$ (697,448)	$ (663,938)	$ (33,510)	5%
Program revenues:				
Operating grants and contributions	693,486	662,448	31,038	5%
General revenues:				
Other	-	9	(9)	-100%
Tranfers from other funds	3,365	1,764	1,601	91%
Change in Net Position	(597)	283	(880)	-311%
Net Position - Beginning	1,762	1,479	283	19%
Net Position - Ending	$ 1,165	$ 1,762	$ (597)	-34%

Program revenues are composed of approximately $692.1 million of Federal Grants and approximately $1.3 million of Commonwealth's appropriations, an increase of approximately $31 million. The 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 receives from the proprietary fund amounting to approximately $3.3 million.

The expenses of approximately $697.4 million are composed as follows: (1) grant disbursements to sub-grantees of approximately $601.3 million related to reimbursements related to Hurricanes Irma and María, (2) professional services of approximately $78.1 million, (3) payroll expenses of approximately $16.5 million, (4) other expenses of approximately $483 thousand and (5) depreciation expense amounting $1.1 million.

Increase in expenses amounting to approximately $33.5 million is mainly related to (1) an increase in grant reimbursement paid to subgrantees amounting to approximately $54.1 million, (2) a decrease in professional services expense amounting to approximately $12 million, and (3) a decrease in mission assignment cost share amounting to $11.2 million, (4) an increase in payroll expenses amounting to approximately $2.1 million, an (5) increase in depreciation expense amounting to approximately $900 thousand and (6) a decrease in other expenses amounting to approximately $400 thousand.

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 2022.

Statement of Net Position – Proprietary Fund

Condensed financial information from the statements of net position (deficit) as of June 30, 2022, and June 30, 2021, is as follows (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percentage
Current assets	$ 40,938	$ 30,221	$ 10,717	35%
Non-current assets	9,916	13,190	(3,274)	-25%
Total assets	50,854	43,411	7,443	17%
Current liabilities	8,164	10,746	(2,582)	-24%
Non-current liabilities	8,990	12,613	(3,623)	-29%
Total liabilities	17,154	23,359	(6,205)	-27%
Net position	$ 33,700	$ 20,052	$ 13,648	68%

Total assets increased by approximately $7.4 million when compared to prior year due to the following: (1) an increase in cash amounting to approximately $9 million, (2) a decrease in due from other fund (COR3) of approximately $5.7 million related to payments made by the Authority on behalf of COR3, (3) an increase in due from the Puerto Rico Electric Power Authority (PREPA) amounting to approximately $3.5 million, (4) an increase in account receivable net amounting to approximately $551 thousand.

Total liabilities decreased by approximately $6.2 million when compared to prior year due to the following: (1) an increase in accounts payable and accrued liabilities of approximately $2.1 million related to amount owed for services provided related to the development of public private partnerships, (2) a decrease in unearned revenues amounting to approximately $3.6 million which were presented as service charge for services rendered by the Authority for the identification, analysis and development of partnerships projects and (3) a decrease in due to Commonwealth of Puerto Rico amounting to approximately $4.6 million.

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, 2022, and June 30, 2021, is as follows (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percentage
Operating revenues	$ 13,134	$ 15,287	$ (2,153)	-14%
Operating expenses	(12,376)	(14,641)	2,265	-15%
Non operating revenues	16,255	13,057	3,198	24%
Transfers to other funds	(3,365)	(1,764)	(1,601)	-91%
Change in net position	13,648	11,939	1,709	14%
Net position-beginning	20,052	8,113	11,939	147%
Net position-ending	$ 33,700	$ 20,052	$ 13,648	68%

Operating Revenues

The Authority's operating revenues decreased by approximately $2.2 million mainly due to a decrease on release in account receivable reserve by approximately $2.3 million, an increase in service charges amounting to approximately $214 thousand and an increase of other revenues by approximately $8 thousand.

Operating Expenses

The Authority's most significant operating expenses correspond to professional services, other operating expenses and interest expense amounting to approximately $10 million, $2.1 million, and $303 thousand, respectively.

Operating expenses decreased by approximately $2.3 million when compared with fiscal year ended June 30, 2021, mainly related to a decrease in professional services amounting to approximately $2.7 million, an increase in other operating expenses amounting to approximately $428 thousand and an increase in interest expense amounting to approximately $10 thousand.

Net non-operating revenues increased by approximately $3.2 million mainly due to an increase in Commonwealth's appropriations of approximately $3.2 million and a decrease in interest income amounting to approximately $6 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.

3. CURRENTLY KNOWN FACTS

Inter-governmental projects

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 10.

Legacy Generation Assets Project

On January 15, 2023, the Authority's board of directors approved by the Thermal Generation Facilities Operation and Maintenance Agreement (the project). On January 19, 2023, PREPA's board of directors approved the project.

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 approximately $115 million to FEMA for reimbursement through public assistance grants.

Cost share portion of Hurricane Fiona disaster relief assistance

On April 14, 2023, FEMA approved a five (5) year payment plan to pay the cost share portion of the disbursements related to relief assistance for Hurricane Fiona which amounts to approximately $144.6 million (including interest) payable in annual installments. As part of the agreement, FEMA waived the penalty fees accrued on the state share amounting to approximately $314 thousand.

The first payment amounting to $29 million was paid in May 2023.

The payment plan, after the payment made, includes three (3) annual payments of $29 million due on May 1, 2024, 2025 and 2026 and a final payment of approximately $28.6 million due on May 1, 2027.

Working Capital Advances Program

On June 14, 2022, the Government of Puerto Rico (GPR) and the Central Office of Recovery, Reconstruction, and Resiliency (COR3) issued Version 3.0 of Chapter 7 "Payment and Cash Management" of the COR3 Disaster Recovery Federal Funds Management Guide to incorporate a Working Capital Advance Program for authorized subrecipients.

The Working Capital Advance is a one-time per Project Worksheet (PW) pilot program, thereafter, the Subrecipient must either transition to the traditional reimbursement program or the Authority's Request for Advance (RFA) payment program.

In accordance to the applicable policy, for an Authorized Subrecipient to be eligible to receive a one-time working capital advance of 25% of an obligated large permanent work PW, the following requirements must be met:

- Must have an adequate, Public Assistance compliant Procurement Policy, uploaded in the Puerto Rico Disaster Recovery System ("PRDRS");
- Must submit a Request for Working Capital Advance (RFCA) via the PRDRS through which it will have to certify that:
    - The related obligated permanent work project (PW Number) will be executed;
      That without the RFCA, it cannot provide the following which is required to utilize the Authority's Request for Advance (RFA) payment program:
        - Procurement documentation
        - Contract documentation; and
        - 90 day Spend plan
    - It lacks sufficient working capital to utilize either the traditional reimbursement program and/or the RFA payment program, and as such,
    - It requires a Working Capital Advance of 25% in accordance with the terms and requirements of 2 CFR§200.305(b)(4); and

The RFCA relates to an obligated large permanent work PW, without any submitted Requests for Reimbursements or RFAs and/or disbursements. As of June 13, 2023, approximately $1.2 billion have been disbursed to subrecipients under the working capital advances program since July 1, 2022.

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 damage 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. On January 3, 2023 approximately $14.7 million were disbursed for mission assignments related to Hurricane Maria.

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, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash	$ 369,103	$ 21,369,030	$ 21,738,133
Due from subrecipients	3,022,001	–	3,022,001
Intergovernmental receivable	62,146,197	–	62,146,197
Due from Puerto Rico Electric Power Authority	–	9,895,833	9,895,833
Accounts receivable, net	–	550,915	550,915
Internal balance	(9,119,974)	9,119,974	–
Prepaid expenses	–	1,980	1,980
Total current assets	56,417,327	40,937,732	97,355,059
NON-CURRENT ASSETS:			
Restricted cash	–	9,871,883	9,871,883
Capital assets, net	1,692,559	45,032	1,737,591
Total non-current assets	1,692,559	9,916,915	11,609,474
Total assets	58,109,886	50,854,647	108,964,533
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	51,606,811	7,984,688	59,591,499
Due to Commonwealth of Puerto Rico	3,022,011	–	3,022,011
Due to Government Development Bank for Puerto Rico	–	17,564	17,564
Due to other governmental entities	–	44,010	44,010
Lease liability	896,492	–	896,492
Compensated absences	176,000	118,000	294,000
Total current liabilities	55,701,314	8,164,262	63,865,576
NON-CURRENT LIABILITIES:			
Compensated absences	1,243,402	26,039	1,269,441
Line of credit with Government Development Bank for Puerto Rico	–	6,159,117	6,159,117
Unearned revenues	–	2,804,792	2,804,792
Total non-current liabilities	1,243,402	8,989,948	10,233,350
Total liabilities	56,944,716	17,154,210	74,098,926
NET POSITION:			
Net investment in capital assets	796,067	45,032	841,099
Restricted for Development of Public Private Partnerships	–	9,871,883	9,871,883
Unrestricted	369,103	23,783,522	24,152,625
Total net position	$ 1,165,170	$ 33,700,437	$ 34,865,607

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, 2022

		Program Revenues		Net Revenues (Expenses) and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services - Fees, Commissions, and Others	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Economic development	$ 697,448,168	$ —	$ 693,486,136	$ (3,962,032)	$ —	$ (3,962,032)
Total governmental activities	697,448,168	—	693,486,136	(3,962,032)	—	(3,962,032)
Business-type activities:						
Public private partnerships	12,376,337	13,134,047	16,230,463	—	16,988,173	16,988,173
Total business-type activities	12,376,337	13,134,047	16,230,463	—	16,988,173	16,988,173
Total	$ 709,824,505	$ 13,134,047	$ 709,716,599	(3,962,032)	16,988,173	13,026,141
General revenues:						
Interest income				—	24,991	24,991
Transfers				3,364,887	(3,364,887)	—
Total general revenues and transfers				3,364,887	(3,339,896)	24,991
CHANGES IN NET POSITION				(597,145)	13,648,277	13,051,132
NET POSITION — Beginning of year				1,762,315	20,052,160	21,814,475
NET POSITION — End of year				$ 1,165,170	$ 33,700,437	$ 34,865,607

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, 2022

ASSETS:		
Cash	$	369,103
Due from subrecipients		3,022,001
Intergovernmental receivable		62,146,197
Total assets	$	65,537,301
LIABILITIES AND FUND BALANCE:		
Accounts payable and accrued liabilities	$	51,606,811
Due to other fund		9,119,974
Due to Commonwealth of Puerto Rico		3,022,011
Total liabilities		63,748,796
Fund balance-unassigned		1,788,505
Total liabilities and fund balance	$	65,537,301

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, 2022

FUND BALANCE OF GOVERNMENTAL FUND	$	1,788,505
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITON ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUND BECAUSE:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund		1,692,559
Lease payable are not due and payable in the current period and, therefore are not reported in the governmental fund		(896,492)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund		(1,419,402)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	1,165,170

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, 2022

REVENUES:	
Federal grants	$ 692,156,063
Contribution from Commonwealth of Puerto Rico	1,330,073
Total revenues	693,486,136
EXPENDITURES:	
Economic development	696,400,047
Capital outlays	972,158
Total expenditures	697,372,205
Excess of expenditures over revenues	(3,886,069)
OTHER FINANCING SOURCES:	
Transfers in	3,364,887
NET CHANGE IN FUND BALANCE	(521,182)
FUND BALANCE - Beginning of year	2,309,687
FUND BALANCE - End of year	$ 1,788,505

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, 2022

NET CHANGE IN FUND BALANCE- GOVERNMENTAL FUND		$ (521,182)
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		93,662
Interest expense on lease allovated over the useful life in the statement of activities		(80,502)
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	$ 972,158	
Less: Depreciation expense	(1,061,281)	
Subtotal		(89,123)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (597,145)

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, 2022

ASSETS:	
CURRENT ASSETS:	
Cash	$ 21,369,030
Accounts receivable, net	550,915
Due from other fund	9,119,974
Due From Puerto Rico Electric Power Authority	9,895,833
Prepaid expenses	1,980
Total current assets	40,937,732
NON-CURRENT ASSETS:	
Restricted cash	9,871,883
Capital assets, net	45,032
Total non-current assets	9,916,915
Total assets	50,854,647
LIABILITIES AND NET POSITION:	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	7,984,688
Due to Government Development Bank for Puerto Rico	17,564
Due to other governmental entities	44,010
Compensated absences	118,000
Total current liabilities	8,164,262
NON-CURRENT LIABILITIES:	
Compensated absences	26,039
Line of credit with Government Development Bank for Puerto Rico	6,159,117
Unearned revenues	2,804,792
Total non-current liabilities	8,989,948
Total liabilities	17,154,210
NET POSITION:	
Net Investment in capital assets	45,032
Restricted for Development of Public Private Partnerships	9,871,883
Unrestricted	23,783,522
Total net position	$ 33,700,437

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, 2022

OPERATING REVENUES:	
Services charges	$ 13,126,047
Other Income	8,000
Total operating revenues	13,134,047
OPERATING EXPENSES:	
Professional services	9,976,801
Other operating expenses	2,082,953
Interest expense	302,481
Depreciation expense	14,102
Total operating expenses	12,376,337
NET OPERATING REVENUES	757,710
NON-OPERATING REVENUES:	
Contribution from the Commonwealth of Puerto Rico	16,230,463
Interest income	24,991
Total non-operating revenues	16,255,454
Income before transfers	17,013,164
TRANSFERS TO OTHER FUND	(3,364,887)
CHANGE IN NET POSITION	13,648,277
NET POSITION - Beginning of year	20,052,160
NET POSITION - End of year	$ 33,700,437

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, 2022

CASH FLOWS USED IN OPERATING ACTIVITES:		
Services charges received	$	5,945,500
Payments to employees		(1,383,456)
Cash paid for operating activities		(8,364,301)
Net cash used in operating activities		(3,802,257)
CASH FLOWS PROVIDED BY CAPITAL AND NONCAPITAL FINANCING ACTIVITIES:		
Cash received from Commonwealth of Puerto Rico		16,230,463
Capital expenditures		(51,223)
Transfers to other fund		(3,364,887)
Net cash provided by capital and noncapital financing activities		12,814,353
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received		24,991
NET CHANGE IN CASH		9,037,087
CASH - beginning of year		22,203,826
CASH - end of year	$	31,240,913
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED IN OPERATING ACTIVITIES:		
Net operating revenues	$	757,710
Adjustments to reconcile net operating revenues to net cash used in operating activities:		
Depreciation expense		14,102
Interest expense		302,481
Changes in assets and liabilities:		
(Increase) decrease in:		
Due from other fund		5,733,388
Due from Puerto Rico Electricity Power Authority		(3,562,500)
Prepaid expenses		11,165
Accounts receivable, net		(550,915)
Increase (decrease) in:		
Accounts payable and accrued liabilities		1,752,972
Due to Commonwealth		(4,670,000)
Due to other governmental entities		32,288
Unearned revenues		(3,626,047)
Compensated absences		3,099
NET CASH USED IN OPERATING ACTIVITIES	$	(3,802,257)

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

1. REPORTING ENTITY

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

The Authority's principal activities are the identification, analysis and development of Partnerships projects, for the delivery of needed public infrastructure or the provision or enhancement of public services. To that end, the Authority'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 ended on June 30, 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 has operated 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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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 money 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 on all the activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position.

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

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

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

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

Management has elected to account for funds recovered from subrecipients during the period that the funds are disallowed. During fiscal year ended on June 30, 2022, the approximate amount of funds received and returned to the grantor amounted to approximately $659 thousand.

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.

- *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 that 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.

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.

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 those 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, Unearned Revenues and Deferred Inflows of Resources

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 represents amount requested to FEMA related to natural disaster expenses incurred by subgrantees. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements are met, other than timing, are considered unearned revenue. Resources received before timing requirements are met, are considered deferred inflows of resources.

Prepaid Expenses

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

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Capital Assets

Capital assets are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Contributed assets are recorded at estimated fair value at the time received. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. 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:

Description	Years
Information systems	3-5 years
Furniture and equipment	5 years

The Authority follows the provisions of GASB Statement No. 42, Accounting *and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others. The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the fiscal year ended June 30, 2022.

Leases

The Authority follows GASB Statement No. *Leases* which was adopted for the fiscal year ended on June 30, 2022. GASB 87 requires to assesses whether a contract is or contains a lease, at inception of the contract. The Authority recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee. Lease liabilities include the net present value of fixed payments. The lease payments were discounted using the interest implicit rate in the lease which is 5.60%.

Lease payments are allocated between principal and interest or finance cost. The interest or finance cost is charged to statement of activities over the lease period. Right-of-use assets are measured at cost and are comprised of the following: 1) the amount of the initial measurement of lease liability; 2) any lease payments made at or before the commencement date less any lease incentives received; 3) any initial direct costs; and 4) restoration costs.

Right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation starts at the commencement date of the lease. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

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).

Interfund Activity

Interfund and 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.

Recently Adopted accounting pronouncements

Governmental Accounting Standard Board (GASB) issued the following accounting pronouncement which was adopted by the Authority during the fiscal year ended on June 30, 2022.

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 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.

Accounting Pronouncements Issued but Not Yet Effective

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

- **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.

- **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.

- **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 No. 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.

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

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- **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. 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, 2022. As of June 30, 2022, none of the depository Authority balance is uninsured and uncollateralized as follows:

Governmental Activities	Carrying amount	Bank balance	Amount uninsured and uncollateralized
Commercial bank	$ 369,103	$ 369,901	$ -

Business-Type Activities	Carrying amount	Bank balance	Amount uninsured and uncollateralized
Commercial bank unrestricted	$ 21,369,030	$ 24,177,822	$ -
Commercial bank restricted	9,871,883	7,067,091	-
Total	$ 31,240,913	$ 31,244,913	$ -

Restricted cash is for the development of public private partnerships.

4. INTERGOVERNMENTAL RECEIVABLE

Governmental Activities

As of June 30, 2022, intergovernmental receivable amounting to approximately $62.1 million mainly represents funds requested to FEMA by COR3, related to natural disasters expenses incurred by subrecipients.

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5. ACCOUNTS RECEIVABLE, NET

Business-Type Activities

As of June 30, 2022, 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
Other		556
Total accounts receivable		8,258
Less: allowance for uncollectible accounts		(7,707)
Net receivables	$	551

The accounts receivable as of June 30, 2022, 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 relate to the maritime transport project.

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

Other receivable is related to a payment made to a supplier for services to be rendered during the fiscal year ended on June 30, 2022 that were returned by the supplier during the fiscal year 2023.

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6. CAPITAL ASSETS

Governmental Activities

Capital assets activity during the year ended June 30, 2022, was as follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Right-to-use lease assets	$ -	$ 1,696	-	$ 1,696
Information systems	1,294	92	-	1,386
Total capital assets	1,294	1,788	-	3,082
Less accumulated depreciation for:				
Right-to-use lease assets	-	(848)	-	(848)
Information systems	(328)	(213)	-	(541)
Total accumulated depreciation	(328)	(1,061)	-	(1,389)
Total capital assets - net	$ 966	$ 727	-	$ 1,693

The Authority adopted GASB 87 – *Leases* and as a result recognizes a right-of-use asset and a corresponding lease liability with respect to office and parking space lease agreement signed by COR3 on March 21, 2021 which expires on June 30, 2023. The value of the right to use lease asset was calculated at present value of future minimum lease payments using 5.60% as discount rate.

Business-Type Activities

Capital assets activity during the year ended June 30, 2022, was as follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Furniture and equipment	$ 27	$ 51	$ (1)	$ 77
Information systems	1	-	-	1
Total capital assets	28	51	(1)	78
Less accumulated depreciation for:				
Furniture and equipment	(19)	(14)	1	(32)
Information systems	(1)	-	-	(1)
Total accumulated depreciation	(20)	(14)	1	(33)
Total capital assets - net	$ 8	$ 37	$ -	$ 45

7. COMPENSATED ABSENCES

The activity for compensated absences during the year ended June 30, 2022, is as follows (in thousands):

Governmental Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 1,513	$ 766	$ (860)	$ 1,419	$ 176

Business-Type Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 141	$ 92	$ (89)	$ 144	$ 118

8. LINE OF CREDIT

On March 17, 2010, the Authority had entered 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 (4.75% at June 30, 2022) or 6%, whichever is higher, or an interest rate determined by the GDB. 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. The 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, 2022, the line of credit balance owed to GDB was approximately $6.2 million and accrued interest payable was approximately $2.3 million. Interest expense for the year ended June 30, 2022, amounted to approximately $302 thousand.

9. TRANSACTIONS WITH RELATED ENTITIES

On November 23, 2021, the Authority entered into a Memo of Understanding (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. As of June 30, 2022, due from PREPA amounts to approximately $9.8 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. The Authority contributed approximately $17.7 million to PRIFA, which will be recorded and paid to the Commonwealth once reimbursed by FEMA.

During the year ended June 30, 2022, the Authority entered into an agreement with the FAFAA amounting to approximately $222 thousand to receive certain management support and administrative services and established a fee to cover those services. Total amount expended by the Authority for the year ended June 30, 2022, amounted to approximately $139 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.

During the year ended on June 30, 2022, the Authority entered into an agreement with the Puerto Rico Convention Center District Authority amounting to approximately $80 thousand to received certain administrative services. Total amount expended by the Authority for the year ended on June 30, 2022, amounts to approximately $55 thousand.

During the year ended on June 30, 2022, the Authority entered into an agreement with the Puerto Rico Ports Authority amounting to approximately $12 thousand to received certain administrative services. Total amount expended by the Authority for the year ended on June 30, 2022, amounts to approximately $11 thousand.

Amount due to the Commonwealth amounting to approximately $3 million is 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.

10. 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.

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 delimiting 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.

The board of directors of the Authority cancelled this project during the fiscal year 2023.

***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 13 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.

The board of directors of the Authority cancelled this project during the fiscal year 2023.

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 on 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 improving 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 cancelled this project during the fiscal year 2023.

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

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

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

On April 16, 2019, the Authority issued the Request of Qualifications, where interested entities were requested to submit their qualifications no later than July 22, 2019. On November 25, 2019, the Partnership Committee notified the selection of the qualified proponents. Considering the recent situation in the energy sector of Puerto Rico, the Authority is evaluating certain different components of public policy to determine the steps to follow around this project. The board of directors of the Authority cancelled this project during the fiscal year 2023.

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 2023.

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. Please refer to Note 13 of Subsequent events for more information.

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).

Currently, the Authority is in the Request for Proposal stage. Please refer to Note 13 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.

11. RETIREMENT BENEFITS SYSTEMS

PayGo Pension Reform

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

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

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

The PayGo system was one component of Act No. 106 of 2017. The Act created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. 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 newly 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 was 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 in the 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68,* does not apply to the Authority.

12. 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, 2022, have not yet been concluded. Accordingly, compliance with applicable grant requirements will be established at some future date.

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 reimbursing 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 2022 the drawdowns from this program amounted to approximately $686.7 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 2022, there were approximately $13.7 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 2022 the drawdowns from this program amounted to approximately $69 thousand.

- **CFDA No. 93.982 Mental Health Disaster Assistance and Emergency Mental Health -** This program, which provides supplemental emergency mental health counseling to individuals affected by major disasters, including the training of workers to provide such counseling, is established and managed by AASMCA with their own programmatic platform. Funds are requested directly to FEMA by AASMCA and the disbursement is made through COR3 as a "Pass Through Entity" and custodian of FEMA funds. During fiscal year 2022, AASMCA did not requested funds to FEMA to operate the program and approximately $3.6 million were returned by AASMCA through COR3 from funds received in prior years which were not expended.

- **CFDA No. 97.088 Disaster Assistance Projects -** To provide funding that has been designated by Congressionally appropriated authorization, generally for a specify project, or to provide unique or limited scope funding for certain Disaster Assistance Projects identified by congress or a DHS program office. During fiscal year 2022, the drawdowns from this program amounted to approximately $1.4 million.

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, 2022, approximately $34.9 billion has been committed by federal agencies for distribution and approximately $7.4 billion has been disbursed. The cost share for COR3 is approximately $2.8 billion.

Lease

COR3, signed an operating lease agreement on March 21, 2021, which expires on June 30, 2023. The lease agreement establishes monthly payments for office rent and parking of approximately $77 thousand up to February 28, 2023 and approximately $78 thousand from March 1 to June 30, 2023, at an implied interest rate of 5.60%. Additionally, there are variable monthly payments of approximately $29 thousand to $30 thousand for office maintenance and utilities. As of June 30, 2022, approximately $354 thousand are presented as part of general government expenditures. Fiscal year 2023 lease payments amounts approximately $896 thousand in principal and $29 thousand interest.

13. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 29, 2023, to determine if any such events should either be recognized or disclosed in the 2022 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.

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 September 2023.

Legacy Generation Assets Project

On January 15, 2023, pursuant to Act 120-2018, as amended, the Authority's board of directors approved by unanimity the Thermal Generation Facilities Operation and Maintenance Agreement. On January 19, 2023, PREPA board of directors approved the project and on January 24, 2023, the contract was signed.

Early Retirement Program Under Act 80-2020

On July 21, 2022, the Financial Oversight and Management Board issued a statement to accept a proposal from the Governor of the Commonwealth to partially implementing the early retirement program under Law 80-2020 and limit implementation of the law to certain non-essential governmental employees.

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.

Cost share portion of Hurricane Fiona disaster relief assistance

On April 14, 2023, FEMA approved a five (5) year payment plan to pay the cost share portion of the disbursements related to relief assistance for Hurricane Fiona which amounts to approximately $144.6 million (includes interest) payable in annual installments. As part of the agreement, FEMA waived the penalty fees accrued on the debt amounting to approximately $314 thousand.

The first payment amounting to $29 million was paid in May 2023.

The payment plan, after the payment made, includes three (3) annual payments of $29 million due on May 1, 2024, 2025 and 2026 and a final payment of approximately $28.6 million due on May 1, 2027.

Working Capital Advances Program

On June 14, 2022, The Government of Puerto Rico (GPR) and the Central Office of Recovery, Reconstruction, and Resiliency (COR3) issued Version 3.0 of Chapter 7 "Payment and Cash Management" of the COR3 Disaster Recovery Federal Funds Management Guide to incorporate a Working Capital Advance Program for authorized subrecipients.

The Working Capital Advance is a one-time per Project Worksheet (PW) pilot program, thereafter, the Subrecipient must either transition to the traditional reimbursement program or the Authority's Request for Advance (RFA) payment program.

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In accordance to the applicable policy, for an Authorized Subrecipient to be eligible to receive a one-time working capital advance of 25% of an obligated large permanent work PW, the following requirements must be met:

- Must have an adequate, Public Assistance compliant Procurement Policy, uploaded in the Puerto Rico Disaster Recovery System;
- Must submit a Request for Working Capital Advance (RFCA) via the PRDRS through which it will have to certify that:
    - The related obligated permanent work project (PW Number) will be executed;
    - That without the RFCA, it cannot provide the following which is required to utilize the Authority's Request for Advance (RFA) payment program:
        - Procurement documentation
        - Contract documentation; and
        - 90 day Spend plan
    - It lacks sufficient working capital to utilize either the traditional reimbursement program and/or the RFA payment program, and as such,
    - It requires a Working Capital Advance of 25% in accordance with the terms and requirements of 2 CFR§200.305(b)(4); and
    - The RFCA relates to an obligated large permanent work PW, without any submitted Requests for Reimbursements or RFAs and/or disbursements.

As of June 13, 2023, $1.2 billion have been disbursed to subrecipients under the working capital advances program since July 1, 2022.

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 damage 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. On January 3, 2023, approximately $14.7 million were disbursed for mission assignments related to Hurricane Maria.