PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements with Independent Auditor's Report,
Required Supplementary Information,
and Audit of Federal Awards

Fiscal Year Ended June 30, 2023

TABLE OF CONTENT

Crowe PR PSC
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
+1 (787) 625-1800
www.crowe.pr

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the

Puerto Rico Highways and Transportation Authority

(a Component Unit of the Commonwealth of Puerto Rico)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the **Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico)**, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's 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 auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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*, the *Schedule of Changes in Commonwealth Total Pension Liability and Related Ratios for Multiple-Employer Pension Plans*, and the *Schedule of Changes in the Authority's Total Postemployment Benefits other than Pensions (ERS MIPC OPEB Plan) Liability and Related Ratios* be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements.

Supplementary Information (Continued)

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

March 29, 2024

Crowe PR PSC

Stamp number E555334 was

affixed to the original of this report.

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2023, and 2022. This discussion was prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follows this section.

Financial Statements

The basic financial statements provide information about the Authority's financial activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by GASB, except as follows:

The Authority restated the beginning balance of the net position due to specific accounting misstatements that were identified, stemming from previously unrecorded rents to Public Buildings Authority (PBA) due to a disagreement over terms, and the inaccurate accounting of OPEB benefits, which were terminated in 2017. Refer to Note 22 for details.

The Authority's Plan of Adjustment (POA), became effective on December 6, 2022, significantly reducing the Authority's bonds and other long-term obligations. Furthermore, with the concessioning of the remaining toll-roads on December 14, 2023, the Authority became debt free as it relates to bonds and other obligations. Nonetheless, with the reorganization, the Authority's long-term budget shows significant annual cash shortfalls from operations, which have been provided by the Commonwealth in its extended budget. Therefore, the Authority's management does not believe there is substantial doubt about the Authority's ability to continue as a going concern as of the date of these basic financial statements.

Financial Highlights

The Authority's net position as of June 30, 2023, totaled $5,389.4 million as compared to net deficit of $1,229.7 million as of June 30, 2022 (as restated). Net Position increased by $6,619 million during the fiscal year ended June 30, 2023, as compared to an increase in net deficit of $523.1 million during the fiscal year ended June 30, 2022, as restated. This change is mainly attributable to an increase of operating revenues of $33.6 million, an increase of $146.1 million in operating expenses, a decrease of interest on bonds and GDB Debt Recovery Authority (GDB DRA) (formerly known as GDB) obligations of $25.1 million, an increase of $178.8 million of operating transfers from the Commonwealth of Puerto Rico (Commonwealth), and an extraordinary gain of $6,820.7 million due to the reduction of the Authority's bond payable obligations to $1,245 million in accordance with the POA during the fiscal year ended June 30, 2023. Refer to Notes 2 and 13 for additional information.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled $8,434.8 million on June 30, 2023, as compared to $8,529.6 million on June 30, 2022. Net capital assets, excluding assets under Service Concession Agreements decreased by 1.2% on June 30, 2023, when compared with the balance on June 30, 2022.

The total aggregate amount of the Authority's non-current liabilities was $2,324.9 million as of June 30, 2023, as compared to $9,074.3 million on June 30, 2022, which consisted principally of bonds payable, accrued interest, accrued legal claims, voluntary termination incentive plans, the Authority's net pension liability and general unsecured claims.

On May 5, 2021, the Authority executed the Highways and Transportation Authority / Convention Center District Authority Plan Support Agreement (HTA/CCDA PSA) to exchange the outstanding bonds, together with the GDB Debt Recovery Authority Obligation (including accrued interest), for a combination of bonds to be issued by the Authority, contingent value instruments to be issued by the Commonwealth, and certain cash consideration to be paid at the time of the exchange. On October 12, 2022, the court confirmed the Authority's POA to restructure said liabilities under certain conditions. See Note 13 for more details. The HTA/CCDA PSA, as confirmed on October 12, 2022, by the Title III Court, reduced the Authority's bond payable obligations to $1,245 million, to be paid in forty years, at 5%. This represents an estimated discharge of debt of approximately $6,600 million. On December 6, 2022, the Authority's POA was substantially consummated. Therefore, the federal court established that date as the effective date of the POA.

Overview of the Basic Financial Statements

The basic financial statements consist of the: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the Financial Statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

Statement of Net Position

The Statement of Net Position reports all financial and capital resources of the Authority. The statement is formatted to show that assets combined with deferred outflows of resources are equal to liabilities plus deferred inflows of resources and Net Position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and non-current. The focus of the statement of Net Position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's Net Position is reported in the following categories:

Net Investment in Capital Assets - This component of Net Position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of Net Position is used to account for restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of Net Position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted Deficit - This component consists of Net Position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes: (i) Operating revenues, including toll fares, other operating income, concession agreements, and operating expenses like the operation of toll roads, transportation systems, administrative costs, road and bridge maintenance, and capital asset depreciation; and (ii) non-operating revenues and expenses, such as transfers from the Commonwealth, income from interest and investments, interest expenses, and others. The statement also includes capital contributions and payments received from the Commonwealth and federal government grants. The focus of the Statement of Revenues, Expenses, and Changes in Net Position is the change in net position (economic resources measurement focus). This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The Statement of Cash Flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, commitments, contingencies, PROMESA, and the restatement of the 2022 financial statements. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority

Reclassifications of Prior Year Balances

Due to the effectiveness of the Authority's POA during the fiscal year 2023, certain 2022 balances were reclassified to better conform to the 2023 presentation. These reclassifications did not have an impact to the change in net deficit for 2022, as restated.

Condensed Statements of Net Position

The following table reflects the condensed Net Position of the Authority as of June 30, 2023 and 2022:

	2023	**2022 Restated**
Assets		
Current assets	$ 54,464,414	$ 66,503,156
Restricted assets	423,571,525	284,517,280
Capital assets, net	8,234,264,995	8,332,354,942
Highways and bridge under concession agreements, net	200,509,215	197,261,844
Lease receivable	3,110,238	4,497,858
Total assets	8,915,920,387	8,885,135,080
Deferred outflows of resources	90,697,477	173,943,278
Total assets and deferred outflows of resources	$9,006,617,864	$9,059,078,358
Liabilities		
Current liabilities	$ 229,777,374	$ 166,348,028
Non-current liabilities	2,324,892,573	9,074,253,091
Total liabilities	2,554,669,947	9,240,601,119
Deferred inflows of resources	1,062,547,008	1,048,138,645
Total liabilities and deferred inflows of resources	3,617,216,955	10,288,739,764
Net position/(deficit)		
Net investment in capital assets	7,337,579,029	1,326,153,268
Restricted for debt service	290,983,389	-
Restricted for construction	40,994,376	77,040,557
Unrestricted	(2,280,155,885)	(2,632,855,231)
Total net position (deficit)	5,389,400,909	(1,229,661,406)
Total liabilities, deferred inflows of resources and net position (deficit)	$9,006,617,864	$9,059,078,358

Current assets decreased by approximately 18.1% to $54.5 million during the fiscal year ended June 30, 2023. The net decrease in current assets of $12.0 million was principally due to a decrease in cash and cash equivalents, by approximately $9.9 million, a decrease in accounts receivable by approximately of $6.2 million, and an increase in accounts receivable from the Commonwealth by approximately $3.3 million. Cash and cash equivalents decreased by approximately $9.9 million mainly due to a decline of toll revenues received during the fiscal year ended June 30, 2023. This decrease is mainly due to toll revenues being pledged and transferred to the fiscal agent, who will use them for the purpose of payment of principal and interest of new bonds and the subordinated series. The accounts receivable decreased by $6.2 million due to a decrease in toll revenues. The accounts receivable from the Commonwealth increased by approximately $3.3 million, mainly due to increased operating transfers received from the Commonwealth during fiscal year 2023.

Restricted assets increased by approximately 48.9% to $423.6 million during the fiscal year ended June 30, 2023. This increase is mainly due to the receipt of Puerto Rico Infrastructure funds by approximately $66.2 million, and funds assigned for a new escrow that may be required for certain events as defined in the PR-5 and PR-22 Toll Concession by approximately $30.1 million as a result of the Authority's POA. In addition, accounts receivables from U.S. Federal government related to Federal Highway Administration (FHWA) funding decreased by 26.0% to approximately $35.5 million. All other restricted assets remained in line with the prior fiscal year.

During the fiscal year ended June 30, 2023, capital assets decreased by 1.2% to approximately $8,234.3 million as compared to fiscal year 2022. The decrease was mainly due to the net result of an aggregated increase in construction in process, roads, bridges and equipment, and vehicles of approximately $178.9 million, offset by depreciation and amortization expense of approximately $277 million, for the fiscal year ended June 30, 2023.

During the fiscal year ended June 30, 2023, highways and bridges under the Service Concession Agreements (as defined below) increased by 1.65% to approximately $200.5 million as compared to fiscal year 2022. This increase was due to an increase of approximately $4.9 million in capital improvements performed to PR-5 and PR-22 and offset by depreciation expense of approximately $1.6 million related to the Teodoro Moscoso Bridge. Note that other assets under service concession agreements are not depreciated, since the service concession agreements require the concessionaire to return the assets to the Authority in their original or enhanced condition.

Deferred outflows of resources decreased by approximately $83.2 million during the current fiscal year. This represents a decrease of 47.9%, which is mainly due to a decrease of deferred outflows related to the Authority's share of the Puerto Rico Government Employees Retirement System (PRGERS) by $24.6 million for the fiscal year ended June 30, 2023, and the decrease of the deferred loss on advance refunding by approximately $58.3 million related with the debt reduction in accordance with the Authority's POA.

During the fiscal year ended June 30, 2023, current liabilities increased by 38.13% to approximately $229.8 million as compared to fiscal year 2022. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including vacations, increased by 32.6% to approximately $197.6 million during the fiscal year ended June 30, 2023.

Unearned revenue increased by $5.8 million due to advances received from Federal Emergency Management Agency (FEMA) and American Rescue Plan Act (ARPA) funds received and incurred for repairs and maintenance of buildings, roads, and bridges during the current fiscal year.

The current portion of bonds payable increased by 84.9% to approximately $24.8 million during the fiscal year ended June 30, 2023, as compared to prior fiscal year. The current portion of bonds payable is related to the Subordinated Indebtedness and bonds payable of the Teodoro Moscoso Bridge. The increase is mainly due to an increase in principal bond payable amounts due for fiscal year 2023 when compared to amounts that were due during fiscal year 2022.

During the fiscal year ended June 30, 2023, non-current liabilities decreased by 74.3% to approximately $2,324.9 million as compared to fiscal year 2022. The decrease in non-current liabilities of approximately $6,695.8 million during the current fiscal year was the net effect of: a decrease in bonds payable and bonds payable, Teodoro Moscoso of approximately $2,747.0 million related with the decrease of the Authority's bond payable obligations in accordance with the POA; a decrease in accrued interest payable on bonds payable by 98.4% to approximately $20.1 million during the fiscal year ended June 30, 2023 as compared to prior fiscal year; a decrease of GDB Debt Recovery Authority obligation by $1,733.7 million, a decrease of $149.1 million in total pension liability and a decrease of $3.5 million in obligations under vacations and voluntary termination incentive plan liability.

Legal claims not related to expropriation and related costs, increased by 1.6% to approximately $19.5 million during the fiscal year ended June 30, 2023, as compared to the prior year period. Legal claims related to expropriation of properties decreased by 5.5% to approximately $42.6 million. The value of the legal claims was recorded based on advice from internal and external legal counsel.

Deferred inflows of resources during the fiscal year ended June 30, 2023, increased by 1.4% to $1,062.5 million as compared to fiscal year 2022. The increase was mainly due to the net effect of a decrease of $21.0 million by the amortization of deferred inflows of resources on concession agreements and an increase of deferred inflow of the GASB 73 Pension Expense Report of the Pension Plan by 120.2% to approximately $66.3 million.

During the fiscal year ended June 30, 2023, the Authority's Net Position increased by 338.3% to $5,389.4 million as compared to fiscal year 2022. The increase in Net Position was due to an extraordinary gain of approximately $6,820.7 million after capital grants during the current fiscal year 2023 due to the reduction of the Authority's bond payable obligations to $1,245 million in accordance with the POA during the fiscal year ended June 30, 2023. The largest portion of the Authority's Net Position was its investments in capital assets net of related debt outstanding used to acquire such capital assets.

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

The following table reflects a condensed summary of the revenues, expenses, and changes in Net Position (Deficit) for fiscal years Ended June 30, 2023 and 2022:

	2023	2022 Restated
Operating revenues:		
Toll fares	$ 215,159,339	$ 202,288,895
Other operating income	36,123,365	15,391,100
Concession agreements	41,582,130	41,537,872
Total operating revenues	292,864,834	259,217,867
Total operating expenses	476,208,820	330,152,169
Depreciation and amortization	277,036,708	489,456,503
Operating loss	(460,380,694)	(560,390,805)
Non-operating revenues (expenses):		
Operating transfers from the Commonwealth of Puerto Rico	178,777,000	-
Operating grants from U.S. Federal Government	43,857,282	21,843,518
Investment income	3,654,679	1,120,116
Interest on bonds and GDB Debt Recovery Authority Obligations	(242,523,890)	(267,575,666)
Other non-operating revenues	4,381	102,297
Total non-operating expenses, net	(16,230,548)	(244,509,735)
Loss Before Capital Contributions	(476,611,242)	(804,900,540)
Capital grants (U.S. Federal and Commonwealth)	281,917,510	281,821,158
Extraordinary gain	6,820,650,413	-
Change in net position (deficit)	6,625,956,681	(523,079,382)
Net deficit at beginning of year, including ($6,894,366), restatement in 2022	(1,236,555,772)	(706,582,024)
Net position (deficit) at end of year	$ 5,389,400,909	$(1,229,661,406)

Operating revenues, which consisted of toll fares, concession agreements and other operating revenues increased by 13.0% to $292.9 million during the fiscal year ended June 30, 2023, as compared to fiscal year 2022. This increase is the net effect of the following:

a. An increase in toll fares of $12.9 million is mainly attributable to an increase in the use of tolls roads and an increase in violations collections.

b. An increase in other operating income of approximately $20.7 million during the current fiscal year was the aggregate effect of: 1) an increase of Teodoro Moscoso revenues by approximately $1.0 million; 2) an increase in insurance reimbursement of $3.0 million and 3) a cash recovery of approximately $16.1 million related with federal funds impaired from the GDB Debt Recovery Authority.

c. The concession agreement's revenues remained in line with the prior year.

Operating expenses increased by 44.2% to approximately $476.2 million during the fiscal year ended June 30, 2023, as compared to fiscal year 2022. The increase in operating expenses of approximately $146.1 million during the current fiscal year was the aggregate effect of: 1) the net effect of an increase in salaries and related benefits of approximately $2.4 million; 2) a Pay-Go recovery of $52.7 million; 3) an increase in toll highways administration of approximately $169.8 million, where $140 million are related with restriction and consummation fees in accordance with the Authority's POA; 4) an increase in the train operating and maintenance expense of approximately $5.5 million; 5) a decrease on the integrated transportation system of approximately $1.6 million; 6) an increase in repairs and maintenance of roads and bridges of approximately $38.8 million; 7) an increase in utilities of approximately $7.2 million, and 8) an increase in legal and professional services of approximately $6.1 million including Title III legal services.

Capital and operational grants from the Commonwealth increased by approximately $216.0 million when compared to fiscal year ended June 30, 2022, because of an increase in amounts granted by the Commonwealth.

Investment and interest income increased by approximately $2.5 million during the fiscal year ended June 30, 2023, as a result of an increase in interest income from cash balances. In addition, interest expense on bonds and GDB Debt Recovery Authority obligations decreased by approximately $25.1 million during fiscal year ended June 30, 2023, principally due to the reduction of bondholders' debt by approximately 65% of the balance owed, in exchange for the issuance of new debt and the decrease in interest payable related with GDB Debt Recovery Authority obligation outstanding balance.

Other non-operating expenses remained in line with the prior fiscal year.

The Authority also received capital and operating grants from the U.S. federal government. Capital grants may only be used for construction, major improvements, preservation of highways and bridges while operating grants are used to finance repair and maintenance for roads and bridges, and other operating expenses of other mass transportation systems. Such capital and operating grants amounted to approximately $206.0 and $221.0 million during the fiscal years ended June 30, 2023, and 2022, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2023, the Authority had approximately $8,234.3 million in capital assets, net of accumulated depreciation, which represents a decrease of $98.1 million, when compared with the prior year. Capital assets consist of roads, bridges, mass transportation system, transportation equipment, buildings, lands, construction in progress, and highways and bridges under concession agreements.

Since the end of fiscal year 2005, the Authority operates the mass rail transportation system for the San Juan metropolitan area known as "Urban Train". The Authority originally incurred approximately $2.42 billion in costs in connection with the Urban Train, of which $685.7 million was paid with federal funds. The Urban Train in San Juan consists of approximately seventeen kms of track running from San Juan to Bayamón. Maintenance services are partially funded with operating grants from the Federal Transit Administration (FTA). Total operating grants received from FTA used for maintenance services and other programs amounted to approximately $40.0 million during the fiscal year ended June 30, 2023. Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years. The total annual operation and maintenance cost, for the fiscal year ended June 30, 2023, was approximately $58.4 million. The Authority is required to continue to implement the comprehensive reorganization outlined in the certified December 2023 Authority's Fiscal Plan, including among others, the transfer of the Urban Train to Puerto Rico Integrated Transit Authority (PRITA). Refer to Note 23 for additional information on the comprehensive reorganization plan.

On September 22, 2011, the Authority entered into a toll road service concession agreement (the Toll Road Service Concession Agreement) with Metropistas, in which the Authority granted Metropistas the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 9 to the basic financial statements. On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for ten additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways.

On December 14, 2023, the Authority signed a Toll Road Service Concession Agreement with Puerto Rico TollRoads LLC for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. This agreement involves a concession fee payment of $2.85 billion. For additional information, refer to Note 23 for more details.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (as amended in 1992, 2004, and 2009, the Bridge Service Concession Agreement, and together with the Toll Road Service Concession Agreement, the Service Concession Agreements) for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge that crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Teodoro Moscoso Bridge, which began operating on February 23, 1994, as more fully described in Note 9 to the basic financial statements. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

Debt Administration

Since May 2017 to December 6, 2022, all debt obligations of the Authority had been stayed under PROMESA Title III, and only the Teodoro Moscoso Bridge bonds, which were the only debt not in default at the date of the Stay, were kept current until approval of the POA. See the *Authority's Fiscal Plan and Plan of Adjustment*, within this Management Discussion and Analysis, for the approval of the POA and the negotiations of the Authority's Bonds and other obligations.

CURRENTLY KNOWN FACTS

The Authority's POA, confirmed on October 12, 2022, and effective on December 6, 2022, provides a path for the Authority to exit bankruptcy and enables the Authority to make the necessary investments to improve and maintain Puerto Rico's roads and other transportation infrastructure. It represents several years of engagement by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), creditor groups, and the Government of Puerto Rico. It cuts the Authority's outstanding debt from $6.4 billion to $1.2 billion (approximately 80% decrease) by defining the recovery rate for 19 classes of claims (e.g., HTA 68 Bond Claims, Authority 98 Senior Bond Claims, HTA General Unsecured Claims) and providing repayment in the form of $1.2 billion of New Authority Bonds or cash. It includes a $360 million loan from the Commonwealth to the Authority for liquidity which will be repaid over 30 years at 2.5% annual interest from fiscal years 2023 through 2052. The Authority is required to continue to implement the comprehensive reorganization outlined in the certified December 2023 Authority Fiscal Plan, including the organizational separation of the Toll Roads and Non-toll Roads Management Offices, regular toll fare increases to cover its expenses and debt payments, and transfer of Tren Urbano to PRITA. Refer to Note 23.

Toll Collection System Cyberattack

On April 16, 2022, the privately managed toll collection system was affected by a cyberattack. This attack affected the mobile application, the collection systems at toll stations, and the website. The economic impact of the cyber-attack on the Authority's operations resulted in the recognition of a balance due from the toll users of $7.6 million, which approximately $2.1 million is still outstanding as of the date of issuance of the financial statements.

Hurricane Fiona

On September 18, 2022, Hurricane Fiona made landfall in Puerto Rico, bringing sustained winds of 85 miles per hour and significant rainfall. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the Island completely without power. Management has initially determined that replacing or repairing the property damaged by this hurricane will have a replacement cost of approximately $150 million.

Authority's Fiscal Plan and Plan of Adjustment

On December 8, 2023, the Oversight Board certified a modified version of the FY 2023 fiscal plan for the Authority that was initially approved on June 30, 2022. The modified FY 2023 fiscal plan incorporates elements of the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022, and became effective on March 15, 2022. The fiscal plan also incorporates elements of the Authority's POA, confirmed on October 12, 2022, and subsequently effective on December 6, 2022.

The Authority's POA restructured approximately $6.6 billion of debt and other claims against the Authority. The POA saved the Authority more than $3 billion in debt service payments, before interest, through its effective term to the holders of about $4.2 billion in Authority bonds. The Authority issued $1.2 billion in new bonds and $389 million in cash. The Authority's POA also established a cap for the payment of all General Unsecured Claims at $48 million, to be paid in cash. Under the POA, the Commonwealth of Puerto Rico issued to the Authority a $360 million loan, that together with the $92 million held by the Fiscal Agent, will be used to pay the bondholders and other debtors. Effective December 6, 2022, the $360 million loan was converted into subordinated indebtedness and is payable over 30 years at 2.50% interest. In addition, the Authority's POA settles about $2.2 billion in outstanding loans held by the GDB DRA, which receives no consideration from the Authority, but instead receives CVIs that were issued under the Commonwealth Plan of Adjustment as confirmed by the U.S. District Court on January 18, 2022, but which the Authority's portion was withheld issuance until the Authority's POA was declared effective on December 6, 2022. Refer to Note 3 for additional information on the Authority's POA. Notwithstanding the POA's plan to settle the newly issued bonds long-term, on December 14, 2023, all bonds were settled with the proceeds of a Concession Agreement. Refer to Note 23.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, and other parties in interest, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Statement of Net Position

June 30, 2023

Assets	
Current assets:	
Cash	$ 11,526,894
Accounts receivable, net	10,406,576
Due from Commonwealth of Puerto Rico, net	26,881,965
Current portion lease receivable	659,442
Prepaid expenses and other assets	4,989,537
Total current assets	54,464,414
Restricted assets:	
Cash and cash equivalents	313,900,170
Due from trustee, net	48,000,000
Due from U.S. federal government	61,671,355
Total restricted assets	423,571,525
Other non-current assets:	
Capital assets, net	8,234,264,995
Highways and bridge under concession agreements, net	200,509,215
Lease receivable	3,110,238
Total other non-current assets	8,437,884,448
Total assets	8,915,920,387
Deferred outflows of resources:	
Pension related	89,531,477
Other postemployment benefits related	1,166,000
Total deferred outflows of resources	90,697,477
Total assets and deferred outflows of resources	$ 9,006,617,864

Continued.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Continued)

June 30, 2023

Liabilities	
Current liabilities:	
Accounts payable	$ 67,216,760
Accrued and other liabilities	39,782,711
Accounts payable subcontractors	90,551,406
Unearned revenue	6,350,460
Accrued legal claims	1,027,901
Bonds payable, current portion	24,848,136
Total current liabilities	229,777,374
Non-current liabilities:	
Bonds payable, long term portion	1,679,124,084
Accrued interest on bonds payable	20,119,815
Compensated absences	3,444,007
Termination benefits	17,656,665
Total pension liability	497,286,112
Other postemployment liabilities	13,474,703
Subscription liabilities	3,199,498
General unsecured claims reserve	48,000,000
Accrued legal claims	42,587,689
Total non-current liabilities	2,324,892,573
Total liabilities	2,554,669,947
Deferred inflows of resources:	
Service concession agreement	992,558,774
Pension related	66,307,735
Lease related	3,680,499
Total deferred inflows of resources	1,062,547,008
Net position	
Net investment in capital assets	7,337,579,029
Restricted for debt service	290,983,389
Restricted for construction	40,994,376
Unrestricted deficit	(2,280,155,885)
Total net position	5,389,400,909
Total liabilities, deferred inflows of resources and net position	$ 9,006,617,864

The Notes to the Financial Statements are an integral part of the Financial Statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position

for the Fiscal Year Ended June 30, 2023

Operating revenues:	
Toll fares	$ 215,159,339
Other operating income	36,123,365
Concession agreements	41,582,130
Total operating revenues	292,864,834
Operating expenses (recoveries):	
Salaries and related benefits	16,480,803
PayGo recoveries [1]	(52,710,468)
Other postemployment recoveries [1]	(684,141)
Toll highways administration and maintenance	219,635,684
Train operating and maintenance costs	58,422,025
Integrated transportation system	10,728,826
Repairs and maintenance of roads and bridges	146,141,048
Utilities	15,580,983
Insurance	14,010,054
Other	48,604,006
Total operating expenses, net	476,208,820
Operating loss before depreciation and amortization	(183,343,986)
Depreciation and amortization	277,036,708
Operating loss	(460,380,694)
Non-operating revenues (expenses):	
Operating transfers from the Commonwealth of Puerto Rico	178,777,000
Operating grants from U.S. federal government	43,857,282
Interest on bonds and GDB Debt Recovery Obligation, net	(242,523,890)
Investment income	3,654,679
Other	4,381
Total non-operating expenses, net	(16,230,548)
Loss before capital grants and extraordinary gain	(476,611,242)
Capital Grants:	
U.S. federal government	162,099,393
Commonwealth	119,818,117
Total capital grants	281,917,510
Extraordinary gain	6,820,650,413
Change in net position	6,625,956,681
Net deficit at beginning of the year	(1,229,661,406)
Prior period adjustment	(6,894,366)
Net position at end of the year	$ 5,389,400,909

[1]Recovery results from actuarial changes in assumptions in the Commonwealth retirement plan and the ERS MIPC Plan. Refer to Notes 14 and 15.

The Notes to the Financial Statements are an integral part of the Financial Statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

for the Fiscal Year Ended June 30, 2023

OPERATING ACTIVITIES:	
Receipt from tolls and train fares	$ 229,995,457
Receipt from other sources	29,120,933
Payments to employees, PayGo and related benefits	(58,053,987)
Payments to suppliers for goods and services	(484,864,997)
Net cash used in operating activities	(283,802,594)
NONCAPITAL FINANCING ACTIVITIES:	
Operating grants received	36,306,779
Operating transfers from the Commonwealth of Puerto Rico	178,777,000
Net cash provided by noncapital financing activities	215,083,779
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	291,935,337
Acquisition and construction of capital assets	(174,168,261)
Interest paid on bonds	(15,000,000)
Loan from Commonwealth received	359,635,807
Commonwealth loan proceeds used	(311,635,807)
Net cash flows provided by capital and related financing activities	150,767,076
INVESTING ACTIVITIES:	
Withdrawals from trustee	92,368,437
Interest receipts from lease receivable	8,626
Interest receipts from savings and other instruments	1,484,036
Net cash provided in investing activities	93,861,099
NET INCREASE IN CASH AND CASH EQUIVALENTS	175,909,360
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	149,517,704
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 325,427,064

Continued.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows (Continued)

for the year ended June 30, 2023

RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash	$ 11,526,894
Cash and cash equivalents - restricted	313,900,170
Total	$ 325,427,064
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW USED IN OPERATING ACTIVITIES:	
Operating loss	$ (460,380,694)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	277,036,708
Net change in operating assets and liabilities:	
Accounts receivable	2,893,309
Prepaid expenses and other assets	(175,770)
Other post employment benefits	(3,387,974)
Deferred outflows of resources related to pensions	279,728
Pension liability	(149,091,631)
Accounts payable	29,007,404
Accrued liabilities	6,315,344
Accrued legal claims	(2,129,327)
Accrued vacation	156,163
Accrued voluntary incentive plan liability	(4,246,537)
Deferred outflows from concession agreement	(21,026,866)
TMB Concession	(15,610,643)
Deferred outflows pension related	24,650,484
Subscription liabilities / ROU assets	(4,284,068)
Deferred inflows pension related	36,196,019
Other	(4,243)
Net cash flows used in operating activities	$ (283,802,594)
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Non-cash transaction:	
Improvement to roads under concession arrangements	$ 4,944,621
Extraordinary gain	$6,820,650,413

The Notes to the Financial Statements are an integral part of the Financial Statements.

1. ORGANIZATION

The Authority is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 74 of June 23, 1965, as amended ("Act No. 74-1965"), to design, construct and administer toll roads, highways, and other facilities for the mobility of individuals, vehicles, and vessels, and for the planning, promotion, and feasibility of mass transportation systems. As a component unit, the Authority is included in the basic financial statements of the Commonwealth.

With the enactment of PROMESA on June 30, 2016, as more fully discussed in Note 3, certain corporate actions may also require approval by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board). In addition, the enactment of Act No. 2-2017, the *Puerto Rico Fiscal Agency and Financial Advisory Authority Ac*t, expanded the powers and authority of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) so that AAFAF has the responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity, including the Authority.

Furthermore, as discussed in Notes 3 and 23 to the basic financial statements, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under PROMESA Title III in the United States District Court for the District of Puerto Rico. On October 12, 2022, the Authority's POA was confirmed by the Title III court, and became effective on December 6, 2022, under which the Authority restructured its outstanding debt. Furthermore, on December 14, 2023, the Authority executed a service concession agreement with Puerto Rico TollRoads LLC under the Public Private Partnership Act (Act 29-2009). The Concession agreement includes all existing toll roads not previously ceded under the existing concession agreements (refer to Note 9). This agreement grants the concessionaire control and operation of the toll roads PR-52, PR-53, PR-20, and PR-66, in exchange for a concession fee in the amount of $2.85 billion (the “Concession Fee”). The Concession Fee was used for (i) the redemption of all Authority bonds, (ii) repayment of a subordinated Commonwealth loan, (iii) settlement of certain closing and transaction costs, (iv) segregation of funds for the creation of escrow and reserve accounts that may be required for potential Concession Compensation Events (as defined in the Concession Agreement), and (v) with the remaining balance, the creation of a capital improvement fund at the Authority.

To fulfill its responsibilities as a transportation authority, the Authority collaborates closely with the Commonwealth and the Federal Highway Administration (FHWA). The following is the support that the Commonwealth and the FHWA will provide to the Authority upon its reorganization (see Note 23 for further information):

- The Authority receives an annual allocation of approximately $177 million from FHWA to execute capital projects. This allocation is included in the Fixing America’s Surface Transportation Act Funding (FAST Act) and is projected to further increase by $3 million per year over FY23-27 with the enactment of the Bipartisan Infrastructure Law (BIL). Further to the above, new funding is at times made available to the Authority, including Emergency Repair (ER) funds.

- To cover the Authority’s projected cash shortfalls, the Commonwealth has budgeted to annually provide operational financial support to the Authority as reported in the Authority’s December 2023 Certified Fiscal Plan (the Fiscal Plan). The average budgeted annual amount is $110 million, plus $68.8 million in operating and CapEx funds, respectively, through fiscal year 2051. The Federal-Aid Highway Program (FAHP) is currently the primary source of funding for construction of Puerto Rico highways, roads, bridges, and streets. The FAHP is funded from the transportation user-related revenues deposited in the Federal Highway Trust Fund, primarily federal excise taxes on motor fuels along with excise taxes on tires, trucks and trailers and truck-use taxes. Furthermore, on March 31, 2014, FHWA approved $756.4 million in toll credits that may be applied toward the non-federal matching share of transit projects.

1. ORGANIZATION (Continued)

The basic financial statements presented herein relate solely to the Authority's financial position and results of operations and are not intended to present the financial position of the Commonwealth or the results of its operations or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America (GAAP), as promulgated in Governmental Accounting Standards Board (GASB) pronouncements.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Authority's operations are included in the statement of Net Position. Revenue is recognized in the period in which it was earned, and expenses are recognized in the period in which they were incurred.

The Authority accounts for its operations and financing in a manner similar to a private business enterprise. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these basic financial statements have been prepared on the basis that the Authority will continue as a going concern, as a legally separate governmental entity and component unit of the Commonwealth.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities within three months or less from the date of purchase.

Receivables

Accounts receivable consist of amounts due from the Commonwealth, which includes unremitted Commonwealth operating transfers, amounts due from Federal programs, government agencies, public corporations, municipalities of the Commonwealth and others. Amounts that are significantly overdue are included in the allowance for doubtful accounts. Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions, among other factors.

Allowance for Doubtful Accounts

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Cost Basis - Capital assets are recorded at historical cost or acquisition value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights of way, bridge substructures, highways, and bridges), toll facilities, equipment, and other related costs (including software), buildings, and furniture. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses associated with the project.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $1,000 and an estimated life of more than two years.

Costs to acquire additional capital assets, which replace existing assets, extend their useful lives, and/or enhance the capital asset's capacity are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for new roads, highways and road widenings, 50-59 years for new bridges and transportation systems (including transportation equipment and facilities), 20 years for bridge improvements, 15 years for road resurfacing of freeways and 10 years for equipment, vehicles, and road resurfacing of non-freeways.

Impairment of Capital Assets - The Authority evaluates 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 and determined that there was no significant impairment as of June 30, 2023.

Lease Receivables

Lease receivables are recorded by the Authority at the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on prevailing market rates as of June 30, 2023, for discounting cash flows based on a 100% cash allocation.

Service Concession Agreements

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and are amortized into concession revenue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in a systematic and rational manner over the term of the agreements. Improvements performed by Metropistas (Concessionaire) to the transferred assets are capitalized by the Authority. The assets are still owned by the Authority and, therefore, are reported in the Authority's basic financial statements. Refer to Note 9 to the basic financial statements, for additional information regarding the service concession agreements in effect as of June 30, 2023. See also Note 23 for further information on a new concession agreement executed on December 14, 2023.

Claims and Judgments

The estimated amount of liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. However, accruals from dates prior to the Authority's filing for relief under PROMESA, on May 21, 2017, have been adjusted by the maximum amount allowed by the Authority's POA, under PROMESA. Refer to Note 19 for additional information regarding the status of the Authority's key litigation as of the date of these basic financial statements.

Compensated Absences

Compensated absences include paid time off made available to employees in connection with vacation, and sick leave. The liability for compensated absences is reported in the statement of Net Position. A liability for compensated absences is reported in the financial statements only when payment is due. The liability for compensated absences recorded in the accompanying statement of Net Position is limited to leave that is attributable to services already rendered and is not contingent on a specific event.

On April 29, 2017, the Governor signed into law Act No. 26 of 2017 "Law for the Compliance with the Fiscal Plan," which, among other things, changed the vacation and sick leave accrual formula for all government employees. Through the Act, it was established that as of May 1, 2017, all public employees will have the right to accumulate vacation leave at the rate of one and one-fourth days for each month of service. In addition, the payment of sick leave was eliminated when the employee resigns or at the time of separation. New employees accumulate vacation leave retroactively after the first 3 months of employment.

In addition, as of the effective date of this Act, no public employee, whether a union member or not, who works for the Commonwealth in any of its agencies, instrumentalities or public corporations will have the right to receive pay for the liquidation of days in excess of the maximum allowable leave.

Subscription-Based Information Technology Arrangements (SBITA)

On July 1, 2022, the Authority adopted the provisions of Statement No. 96 of the Governmental Accounting Standards Board, *Subscription-Based Information Technology Arrangements* (GASB No. 96, SBITA). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for Subscription-Based Information Technology Arrangements by governments. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use (RTU) 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. Refer to Note 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

Since July 1, 2017, the pension obligation of the PRGERS was transformed into an unfunded pension trust, where pension obligations are funded on a pay-as-you-go basis. On that date, active employees stopped contributing to the ERS and new employees will not become members either. The funding change resulted in the change in accounting principle from GASB 68 – *Accounting and Financial Reporting for Pensions* to GASB 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 Commonwealth Plan of Adjustment and Commonwealth Confirmation Order (each as defined and discussed below), a Pension Reserve Trust was created to fund future ERS' pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevents the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

For purposes of measuring the total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the total pension liability of the PRGERS, and changes in total pension liability have been determined on the same basis as they are reported by the PRGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Refer to Note 14.

Postemployment Benefits Other Than Pensions

The Authority accounts postemployment benefits other than pensions in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefits other than pensions (OPEB) expense is recognized and disclosed using the accrual basis of accounting. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change; recognition occurs in the period the OPEB expense, deferred inflows, or deferred outflows, as applicable, are incurred. Those changes in total OPEB liability that are recorded as deferred inflows or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense, beginning with the period in which they occurred.

Voluntary Termination Benefits

The Authority accounts for voluntary termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category: (i) the difference between expected and actual experience, due to changes in assumptions and employer's contribution to the pension plan subsequent to the measurement date of the net pension liability, and (ii) the difference between actual and expected experience related to the OPEB obligation.

In addition to liabilities, the statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of Net Position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has three items that qualify for reporting in this category: (i) the deferred amounts of service concession agreements, (ii) the difference between expected and actual experience, changes in assumptions and employer's contribution to the pension plan subsequent to the measurement date of the total pension liability, and (iii) the deferred amount of lease receivables.

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, or changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). Deferred inflows of resources related to the service concession agreement amounted to \$992.6 million. These amounts are being amortized over the 50-year term of the agreement. Deferred inflows of resources also include pension related amounts of \$66.3 million and \$3.7 million related to deferred amounts of the lease receivable. Deferred outflows of resources include pension related amounts of \$89.5 million and \$1.2 million related to OPEB amounts.

The Authority's amounts presented as deferred inflows of resources from lease receivables in the Statement of Net Position are related to lease agreements where the Authority is the lessor. These deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease.

Bond Premiums (Discounts) and Bond Issuance Costs

Bond discounts and premiums are amortized over the term of the related debt using the effective interest-rate method. Bonds payables are reported net of applicable discounts and premiums.

Amortization related to bond premiums (discounts) was approximately \$5.8 million until December 6, 2022, when the Authority's POA became effective, and is included as a component of interest expense in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

Net Position

Net Position is classified in the following four components in the accompanying statement of Net Position:

Net Investment in Capital Assets - This component of Net Position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of Net Position. If

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

there are significant unspent related debt proceeds or deferred inflows of resources at fiscal year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same Net Position's component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service – This component of Net Position consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of Net Position consists of restricted assets for the specific purpose of financing construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted Deficit - Unrestricted Net Position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of Net Position. As of June 30, 2023, the Authority has an accumulated deficit of approximately $2,280.2 million.

Operating and Non-Operating Revenue and Expense Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with tolls and train fares are recorded as operating revenues when earned, based on activity reports provided by the toll and train operators, respectively.

Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues primarily comprise operating transfers from the Commonwealth and the federal government, which are allocated to the Authority to fund its operational and capital project activities.

Capital and Operating Grants

Capital and operating grants are funds allocated by the Commonwealth and federal government, including the FHWA and the FTA, to the Authority for the construction of specific capital projects or infrastructure repairs and maintenance. These are reported as capital and operating grants as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the financial statements and (iii) the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extraordinary Gain

On December 6, 2022, the POA became effective. Under the POA, bondholders agreed to a reduction of approximately 80% of the balance owed, in exchange for the issuance of new debt. Even though the Commonwealth of Puerto Rico's component units are not subject to Chapter 9 of the Federal Bankruptcy Law, the unique circumstances introduced by the PROMESA Act and its influence on court rulings make it reasonable for the Authority to apply GASB 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies* as a basis for recording these transactions. Under this statement, the reduction in debt must be recognized as a payout gain in the year in which the exchange takes place. The effect of said transaction was as follows:

Bonds forgiveness, including advance refundings	$3,052,072,250
Line of credit plus interests assumed by the Commonwealth	2,806,732,430
Interest on bonds discharged	1,227,344,133
Consideration given	(261,722,796)
Liabilities assumed	(3,775,604)
	$6,820,650,413

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims for more than its insurance coverage during the fiscal year ending June 30, 2023, or to the date the basic financial statements were issued.

New Accounting Pronouncements

The Government Accounting Standards Board (GASB) is a private non-governmental organization that creates accounting reporting standards, or generally accepted accounting principles (GAAP), for state and local governments in the United States. The mission of the GASB, among other things, is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to understand and implement those standards most effectively.

The GASB has issued the following Statements:

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

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement’s introduction of the new term is founded on a commitment to promoting inclusiveness. The adoption of this statement had no impact on the Authority’s financial statements.

- GASB Statement No. 99, Omnibus 2022, which establishes or amends accounting and financial reporting requirements for specific issues related to 1) the transition from the London Interbank

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology which is effective immediately and had not impact on the Authority's financial statements; 2) leases, public-public and public-private partnerships (PPPs), subscription based information technology arrangements (SBITAs) which is effective for fiscal years beginning after June 15, 2022 and all reporting periods, thereafter; and 3) financial guarantees and the classification and reporting of derivative instruments which is 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 statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

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

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

  Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

  The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged. The Authority is currently evaluating the effect this pronouncement could have on the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 101, *Compensated Absences*: The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

  This Statement requires that 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 liability for specific types of compensated absences not be recognized until the leave is used.

  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. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The Authority is currently evaluating the effect this pronouncement could have on the basic financial statements.

- GASB Statement Number 102, *Certain Risk Disclosures*: This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

  This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event is associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged. The Authority is currently evaluating the effect this pronouncement could have on the basic financial statements.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING

The Commonwealth and many of its component units, including the Authority, suffered an economic and fiscal crisis, which caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. Thereafter, the Commonwealth and other governmental entities including the Authority, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employee Retirement System (ERS), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under PROMESA Title III, and the Government Development Bank for Puerto Rico (GDB), Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA), the Puerto Rico Tourism Development Fund (TDF), the Puerto Rico Industrial Development Company (PRIDCO), and the Puerto Rico Public Finance Corporation (PFC) initiated proceedings under Title VI of PROMESA, each at the request of the then Governor of the Commonwealth, to restructure or adjust their existing debt. The most relevant Commonwealth and federal legislation enacted to address the fiscal crisis and to initiate the economic recovery is as follows:

Overview of PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under PROMESA Title III, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board."

Title II – Fiscal Plan and Budget Certification Process and Compliance

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

Title III - In-Court Restructuring Process

PROMESA Title III establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under PROMESA Title III, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a POA of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a POA prior to confirmation.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

Title IV - Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one time 75-day extension by the Oversight Board or a onetime 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also requires the filing of certain federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on June 29, 2023.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 29, 2023, the GAO published its latest biannual report on the public debt of the U.S. territories.

Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for "critical projects" as identified by the Revitalization Coordinator.

Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA establishes an out of court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States."

Commonwealth Legislation and Other Fiscal Measures

Act No. 2-2017, *the Puerto Rico Fiscal Agency and Financial Advisory Authority Act*, was enacted to expand AAFAF's powers and authority so that AAFAF has the sole responsibility to negotiate restructure and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. AAFAF is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2-2017 established AAFAF as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president was a member at that time; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

Commonwealth Plan of Adjustment

On May 3, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the Title III Court. On July 30, 2021, the Oversight Board–as representative to the Commonwealth, ERS, and PBA in their respective Title III cases–filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17627] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the Title III Court. On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment [ECF No. 19812] (the Commonwealth Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Commonwealth Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of New GO bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment. On March 15, 2022 (the Commonwealth Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, thereby, causing the plan to become effective.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

As of the Commonwealth Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to approximately $16.1 billion, representing a total debt reduction of 53%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also, as of the Commonwealth Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities have been deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws.

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

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

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

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

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

The Authority's Title III Case

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case on behalf of the Authority by filing a petition for relief under PROMESA Title III in the United States District Court for the District of Puerto Rico.

On May 2, 2022, the Oversight Board filed an initial plan of adjustment for the Authority in the Title III Court, which was subsequently amended on June 17, 2022 as the *Third Amended Title III Plan of Adjustment of the Puerto Rico Highways and Transportation Authorit*y [Case No. 17-3567-LTS, ECF No. 1242 1350] (the Third Amended Plan) and submitted with a corresponding disclosure statement [Case No. 17-3567-LTS, ECF No. 1241] that the Title III Court approved [Case No. 17-3567-LTS, ECF No. 1248]. The Third Amended Plan was further amended on August 7, 2022, as the *Fourth Amended Title III Plan of Adjustment of the Puerto Rico Highways and Transportation Authority* [Case No. 17-3567-LTS, ECF No. 1350] (the Fourth Amended Plan). The confirmation hearing on the Fourth Amended Plan was held on August 17, 2022. Following the confirmation hearing, the Fourth Amended Plan was further amended on September 6, 2022, as the *Modified Fifth Amended Title III Plan of Adjustment of the Puerto Rico Highways and Transportation Authority* [Case No. 17-3567-LTS, ECF No. 1404] (as confirmed, the Plan of Adjustment). On October 12, 2022, the Title III Court entered an order confirming the Plan of Adjustment [Case No. 17-3567-LTS, ECF No. 1415] (the Authority Confirmation Order) and related findings of fact and conclusions of law [Case No. 17-3567-LTS, ECF No. 1416] (the Authority Findings of Fact).

On December 6, 2022 (the Authority Effective Date), the conditions precedent to the Effective Date of the POA were satisfied and/or waived by the Oversight Board, and the POA became effective. The POA reduced the Authority's funded debt by 80%, from approximately $6.4 billion to $1.2 billion senior and $359 million subordinate Authority toll road-supported debt.

The POA provides a path for the Authority to exit bankruptcy and enables the Authority, with the support of the Commonwealth and the federal government, to make the necessary investments to improve and maintain Puerto Rico's roads, and other transportation infrastructure, while the latter is transferred to PRITA.

The following are the major provisions of the POA:

a. New Bonds Issuance

The Authority issued new bonds (the "New Authority Bonds"), which serve, in part, to pay holders of previous HTA 68 and HTA 98 bonds. The New Authority Bonds are disclosed in Note 13 of the basic financial statements.

The Authority's rights, title, and interest in the revenues pledged and funds and accounts created under the New Authority Bonds Indenture are subject to the terms of the New Authority Bonds Indenture. The senior lien and security interest granted to New Authority Bonds holders are superior to the subordinate lien and security interest granted to Subordinated Indebtedness holders. The Authority Expense Fund and the Arbitrage Rebate Fund are excluded, and the priority in which money and securities are applied to repay the Secured Obligations are specified in the New Authority Bonds Indenture. Interest on the New Authority Bonds began accruing, as applicable, on July 1, 2022. Specific covenants, and associated waterfalls, were included in the New Authority Bonds Indenture to safeguard the Authority's liquidity during the life of the New Authority Bonds.

Pursuant to Section 25.3(d) of the Confirmation Order, debt issued after December 6, 2022, can only be used to finance Capital Improvements as approved by AAFAF and the Oversight Board (while in existence), or to refinance outstanding debt. Proceeds from such an issuance can be used to cover expenses necessary to carry out

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) AND OTHER LEGISLATION RELATED TO DEBT RESTRUCTURING (Continued)

Capital Improvements, including those related to the issuance itself. This limitation on the issuance of new debt ensures that the Authority achieves, and maintains, a structurally balanced budget that is consistent with PROMESA's requirement for the achievement of fiscal responsibility.

As of December 14, 2023, the New Authority Bonds were repaid with the proceeds of the Concession Fee, as further discussed in Note 23.

b. Subordinated Commonwealth Loan

The POA also includes a $359 million loan from the Commonwealth ("Commonwealth Loan") to the Authority for liquidity which has a term of 30 years at 2.5% annual interest from fiscal year 2023 through fiscal year 2052. On the effective date of the POA, the Commonwealth Loan was converted into subordinated indebtedness under the New Bond Indenture (the Subordinated Indebtedness).

The Subordinated Indebtedness is subject to redemption prior to maturity (with the prior written consent of the Oversight Board for so long as the Oversight Board remains in existence) so long as no part of the trust estate securing the New Authority Bonds and Subordinated Indebtedness shall be used to pay the redemption price thereof.

As of December 14, 2023, the Subordinated Indebtedness was repaid with the proceeds of the Concession Fee, as further described in Note 23.

c. GDB DRA Consideration from Commonwealth on behalf of the Authority

Under the POA, the Authority also settled approximately $2.2 billion in outstanding loans held by the GDB DRA, through the Contingent Value Instruments (CVIs) issued under the Commonwealth Plan of Adjustment.

d. Authority's Comprehensive Reorganization Plan

The Authority is required to continue to implement the comprehensive reorganization outlined in the Fiscal Plan, including the organizational separation of the Toll Roads and Non-toll Roads Management Offices, establishment of a Toll Roads Management Office, instituting regular toll fare increases sufficient to cover its expenses and debt payments, and the transfer of the Urban Train to PRITA.

e. Aggregate extraordinary gain as of the POA's Effective Date

As of the Effective Date, the net cancellation of debt recognized equals 1) the amount discharged, plus 2) the amount assumed by the Commonwealth, 3) less the New Authority Bonds and Commonwealth Loan, plus 4) interest accrued from July 1, 2022, to December 6, 2022. The net extraordinary gain generated from the implementation of the POA was approximately $6,820.7 million. Refer to Note 2.

f. How to obtain a copy of the POA

For a copy of the Plan of Adjustment refer to https://cases.ra.kroll.com/puertorico/Home-DownloadPDF?id1=MTExMDc3Mg==&id2=-1.

4. CASH

Cash on June 30, 2023, consisted of:

Cash on hand and in banks (unrestricted funds)	$ 11,526,894
Cash on hand and in banks (restricted funds)	313,900,170
Total cash in banks	$ 325,427,064

Cash and cash equivalents include certificates of deposit with local commercial banks. Certificates of deposit with the Economic Development Bank (EDB) in the total aggregate amount of $5.9 million as of June 30, 2023, were recognized as impaired in prior years, as further described in Note 7 to the basic financial statements.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of June 30, 2023, consisted of:

Government, agencies and other, excluding the Commonwealth	$ 57,940,325
Rent receivables	5,611,463
Repairs to highways recoverable from users	1,571,646
Toll escrow agent	7,033,793
Other	7,154,643
Total	79,311,870
Less allowance for doubtful accounts	(68,905,294)
Accounts receivable, net	$ 10,406,576

Toll Collection System Cyberattack

On April 16, 2022, the privately operated toll collection system was affected by a cyberattack. This attack affected the mobile application, the collection systems at toll stations, and the website. After the system was reestablished by the private operator, the Authority was able to recognize a balance due from the toll users of $7.6 million, of which approximately $2.1 million remained uncollected as of the date of issuance of the financial statements.

Due from Commonwealth of Puerto Rico, net

Current balances due by the Commonwealth amounting to $26.9 million, were collected as of the date of issuance of the financial statements.

6. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents with held in custody with the Fiscal Agent as of as of June 30, 2023, consisted of:

Cash and cash equivalents	$ 93,061,764

As part of the POA, the funds accumulated in the cash accounts as of July 1, 2022, were transferred for payment to bondholders and other expenses related to the New Authority Bonds issuance. As of December 6, 2022, a new structure was created based on the approved New Authority Bond Indenture. The pledged toll collections are

6. RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

transferred to the fiscal agent, who used them for the payment of the principal and interest of the New Authority Bonds and the Subordinated Indebtedness and for the creation of other reserves for the Authority.

As of June 30, 2023, these restricted assets are held by Bank of New York (the Fiscal Agent) under the New Authority Bond Indenture in the following funds and accounts:

- **Trustee Expense Fund**: Funded in an amount equal to the Trustee Expenses Cap, which is $100,000. The annual Trustee expense was estimated to be $25,000.

- **Priority Authority Expense Fund**: Funded in an amount equal to 2 months of toll asset operating expenditures (or $14 million in FY23 based on the Fiscal Plan average), provided that if a Consulting Engineer has not been appointed, these operating expenditures will consist solely of direct (and not allocated) operating expenditures.

- **Debt Service Fund**: Funded in an amount equal to one-sixth (1/6) of next interest payment and one-twelfth (1/12) of next principal payment on Authority's bonds (not less than 1.0x debt service, or $30 million).

- **Subordinated Indebtedness**: Includes amounts required to pay all past due principal and interest on the Subordinated Indebtedness if a payment default under the Subordinated Indebtedness has occurred.

- **Shared Authority Expense Fund**: Funded in an amount equal to 2 months of toll asset operating expenditures (or $14 million in FY23 based on the Fiscal Plan average) if a consulting engineer has not been appointed.

- **Operating Reserve Fund ("Opex Reserve")**: Funded in an amount equal to 2 months of toll asset operating expenditures (or $14 million in FY23 based on the Fiscal Plan average).

- **Arbitrage Rebate Fund**: Defined as amounts, if any, required to rebate payments to the DOT.

- **Renewal & Replacement Fund ("Capex Reserve")**: Funded in an amount equal to one-twelfth (1/12) of the Renewal and Replacement Requirement, defined in the New Authority Bonds Master Trust Agreement as annual toll asset capital expenditures (or $7 million in FY23 based on the Fiscal Plan average).

- **Subordinated Indebtedness**: Funded in an amount equal to next interest payment and next principal payment on the Subordinated Indebtedness, i.e., not less than 1.0x debt service (or $22 million in FY23).

- **General Reserve Fund**: Net surplus from toll assets after debt service and reserve funding.

6. RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

As of June 30, 2023, cash and cash equivalent amounts held by the Fiscal Agent in the following accounts amounted to:

Tolls Received in Master Trust Account	$ 18,791,606
Operating Reserve Fund ("Opex Reserve")	14,000,000
Renewal & Replacement Fund ("Capex Reserve")	18,386,073
Trustee Expense Fund	50,000
Subordinated Indebtedness	15,882,950
General Reserve Fund	10,951,135
Debt Service Fund - Interests	15,000,000
Total	$ 93,061,764

As of December 14, 2023, the New Authority Bonds and Subordinated Indebtedness have been repaid with the proceeds of the Concession Fee, as further described in Note 23.

7. CUSTODIAL CREDIT RISKS

Legally, the Authority is obligated to place funds solely in financial institutions sanctioned by the DOT, and it must maintain these deposits in distinct accounts under the Authority's name.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority’s deposits may not be recoverable. Under Commonwealth law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the federal depository insurance.

All monies deposited with the Fiscal Agent or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Fiscal Agent as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities. As of June 30, 2023, the Authority’s deposits maintained in commercial banks are as follows:

	Unrestricted		Restricted	
	Book Balance	**Bank Balance**	**Book Balance**	**Bank Balance**
Commercial banks	$ 11,526,894	$ 12,066,618	$ 313,900,170	$313,936,904

Custodial Credit Risk Loss on Economic Development Bank (EDB)

The Authority has certificates of deposit with EDB in the total aggregate amount of approximately $5.9 million as of June 30, 2023. Management believes that EDB faces significant risks and uncertainties, and it currently lacks sufficient liquidity to meet obligations when they come due. As a result, all certificates of deposit held with EDB were fully allowed in prior years.

8. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, on a net-basis, held by the Authority as of June 30, 2023:

	Balance at June 30, 2022 restated	Increases	Decreases	Balance at June 30, 2023
Assets not being depreciated				
Land	$ 1,958,820,630	$ 9,613,798	$ (4,507,321)	$ 1,963,927,107
Construction in progress	497,668,008	175,279,795	(275,397,532)	397,550,271
Total Assets not being depreciated	2,456,488,638	184,893,593	(279,904,853)	2,361,477,378
Assets being depreciated				
Transportation system	2,417,030,243	1,099,239	-	2,418,129,482
Roads	13,627,637,042	238,728,594	(14,746,580)	13,851,619,056
Bridges	3,642,882,058	35,061,747	-	3,677,943,805
Equipment, vehicles, and other	124,655,083	11,706,400	(780,714)	135,580,769
Total	19,812,204,426	286,595,980	(15,527,294)	20,083,273,112
Less accumulated depreciation /amortization	(13,936,338,122)	(274,298,935)	151,562	(14,210,485,495)
Total Assets being depreciated	5,875,866,304	12,297,045	(15,375,732)	5,872,787,617
Total capital assets, net	$ 8,332,354,942	$ 197,190,638	$ (295,280,585)	$ 8,234,264,995

9. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS

Highways and bridge under Service Concession Agreements as of June 30, 2023, is summarized as follows:

	Balance at June 30, 2022	Increases	Decreases	Balance at June 30, 2023
Toll roads (PR 5 and PR 22)	$ 310,362,533	$ -	$ -	$ 310,362,533
Toll roads concession improvements	53,933,551	4,944,621	-	58,878,172
Teodoro Moscoso bridge	109,500,000	-	-	109,500,000
Total	473,796,084	4,944,621	-	478,740,705
Less accumulated depreciation	(276,534,240)	(1,697,250)	-	(278,231,490)
Total	$ 197,261,844	$ 3,247,371	$ -	$ 200,509,215

Toll Road Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Metropistas, in which the Authority granted the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on the Toll Roads.

9. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)

The Authority received an upfront concession fee payment of $1,136 million, of which approximately $873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

The Authority recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of $1,136 million that is being amortized and recognized as revenue over the 40-year term of the agreement. Amortization expense for the year ended June 30, 2023, amounted to $24.7 million. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession agreements. As of June 30, 2023, the total aggregate amount of the Toll Roads capital assets was approximately $149.6 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011, until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to the Authority in their original or an enhanced condition.

On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for ten additional years and to create five bidirectional tolling points on the Toll Roads. The Authority received an upfront concession fee payment of $100 million, which was used to pay $18.2 million of the Authority's current debt and $79.8 million was transferred to the Commonwealth in fiscal year 2016. Also, in June 2017, the Authority received an additional $15 million payment concurrently with the commencement of the bidirectional system described above.

In addition, the Authority capitalized and considered as deferred inflows of resources $4.9 million during the fiscal year ended June 30, 2023, for improvements made by Metropistas to the Toll Roads.

On December 14, 2023, the Authority signed an additional Toll Road Service Concession Agreement with Puerto Rico TollRoads LLC for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. This agreement involves a concession fee payment of approximately $2.85 billion. For additional information refer to Note 23.

Bridge Service Concession Agreement

On December 20, 1992, the Authority and Autopistas entered into the Bridge Service Concession Agreement for the design, construction, operation, and maintenance of the Teodoro Moscoso Bridge (TMB), a toll bridge, which crosses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Teodoro Moscoso Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

Upon the implementation of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, on June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge at fair value, equivalent to what the Authority might have paid to have the Teodoro Moscoso Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 59 years. The asset balance related to the Teodoro Moscoso Bridge was adjusted to recognize the first 17 years of operations and the remaining amortization balance will be amortized over 42 years. The Teodoro Moscoso Bridge is being depreciated because, in the opinion of management, the Bridge Service Concession Agreement does not require Autopistas to return the Teodoro Moscoso Bridge to its original condition. As of June 30, 2023, the net book value of the Teodoro Moscoso Bridge was $50.9 million.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027, through the end

9. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS (Continued)

of the agreement. During the fiscal year ended June 30, 2023, Autopistas paid the Authority approximately $3.6 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund, in advance, the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

The activity of the TMB bonds during the fiscal year ended June 30, 2023, as recorded in the accompanying financial statements is as follows:

	Balance at June 30, 2022	Increases / Accretions	Payments / Amortization	Balance at June 30, 2023
Term bonds	$ 42,020,000	$ -	$ (4,915,000)	$ 37,105,000
Capital appreciation bonds	36,389,519	1,718,478	(8,525,000)	29,582,997
Total	$ 78,409,519	$ 1,718,478	$ (13,440,000)	66,687,997
Less: Current portion				(14,085,000)
Long term portion				$ 52,602,997

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the bonds unless the agreement is terminated as specified in the Bridge Service Concession Agreement. Because the bonds are being paid by Autopistas, the Authority records concession revenue for the principal and interest paid by Autopistas annually until settlement, which totaled $15.6 million during the fiscal year ended June 30, 2023.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay the principal of, and interest on the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Teodoro Moscoso Bridge. Although Autopistas has the ability to terminate the Bridge Service Concession Agreement and have the Authority assume its obligations, the Authority has not received such notice and does not currently expect the Bridge Service Concession Agreement to terminate.

As of June 30, 2023, the total deferred inflows of resources, amounting to approximately $992.6 million were associated with the Toll Roads Concession Agreement. The deferred inflows related to the Toll Roads Concession Agreement significantly reduce the net position for net investment in capital assets by $992.6 million, as of June 30, 2023.

2023 Toll Road Service Concession Agreement

On December 14, 2023, the Authority signed the Toll Road Service Concession Agreement with Puerto Rico TollRoads LLC for the operation and administration of toll roads designated as PR-52, PR-53, PR-20, and PR-66. This agreement involves a concession fee payment of approximately $2.9 billion. For additional information refer to Note 23.

10. LEASES RECEIVABLE

The Authority is a lessor in various executed lease agreements related to several buildings and land parcels through fiscal year 2046. The Authority has outstanding lease receivable balances and unamortized deferred inflows of resources amounting to $3.8 million and $3.7 million, respectively as of June 30, 2023.

Lease revenue and interest revenue recognized on these leases was $707,066 and $103,356, respectively for the year ended June 30, 2023. The interest rate on these leases is 2.50%.

11. ACCOUNTS PAYABLE

Accounts payable as of June 30, 2023, consisted of:

Due to Government and other agencies	$	19,559,509
Other customers		47,657,251
Total accounts payable	$	67,216,760

12. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities as of June 30, 2023, consisted of:

Accrued vacations (less than one year)	$	1,852,879
Termination benefits (less than one year)		3,995,712
Pension liability (less than one year)		32,000,000
Other postemployment benefits liabilities (less than one year)		1,200,000
Others		734,120
Total accrued and other liabilities	$	39,782,711

13. BONDS PAYABLE

On December 6, 2022, the Authority issued the New Authority Bonds, payable in forty years, at 5% interest rate.

Each maturity of the New Authority Bonds were designated as a Term Bond. The Series 2022A Bonds are Tax-Exempt Bonds and are designated as "*Restructured Toll Revenue Senior Bonds, Series 2022-A*". The Series 2022B Bonds are Tax Exempt Bonds and are designated as "*Restructured Toll Revenue Senior Bonds, Series 2022-B (Capital Appreciation Bonds)*". The Series 2022C are Tax-Exempt Bonds and are designated as "*Restructured Toll Revenue Senior Bonds, Series 2022-C (Convertible Capital Appreciation Bonds)".*

Additionally, on December 6, 2022, a loan from the Commonwealth to the Authority, issued on July 8, 2022, was converted to the Subordinated Indebtedness named "*Puerto Rico Highways and Transportation Authority Restructured Toll Revenue Subordinated Indebtedness, Series 2022-1*" (the "Series 2022-1"). This financial instrument issued by the Authority and accepted by the Commonwealth had a total principal amount of $359.6 million.

Interest amortization on the New Authority Bonds started in fiscal year 2022-2023, with principal amortization scheduled to commence two years later. On December 14, 2023, the Authority executed a service concession agreement with Puerto Rico TollRoads LLC under the Public Private Partnership Act (Act 29-2009) in exchange for the Concession Fee in the amount of $2.85 billion. The Concession Fee was used to pay all the New Authority Bonds and Subordinated Indebtedness. Refer to Note 23 for additional information.

13. BONDS PAYABLE (Continued)

As of June 30, 2023, bonds outstanding under the Bond Resolutions, were as follows:

RESTRUCTURED TOLL REVENUE SENIOR BONDS, SERIES 2022-A	
Current Interest Bonds, maturing through 2062, with interest at 5%	$ 600,000,000
RESTRUCTURED TOLL REVENUE SENIOR BONDS, SERIES 2022-B (CAPITAL APPRECIATION BONDS)	
Capital Appreciation Bonds, maturing through 2032, with interest at 5%	250,000,466
RESTRUCTURED TOLL REVENUE SENIOR BONDS, SERIES 2022-C (CONVERTIBLE CAPITAL APPRECIATION BONDS)	
Convertible Capital Appreciation Bonds, maturing through 2053, with interest at 5%	427,647,950
Total bonds	1,277,648,416
PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY RESTRUCTURED TOLL REVENUE SUBORDINATED INDEBTEDNESS, SERIES 2022-1	
Subordinated Indebtedness, maturing through 2052, with interest at 2.5%	359,635,807
Total bonds outstanding	1,637,284,223
TEODORO MOSCOSO BONDS	
Term bonds, maturing through 2027 with interest ranging from 5.55% to 5.85%	37,105,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 5.90% to 6.15%	29,582,997
Total Teodoro Moscoso bonds	66,687,997
Total bonds outstanding	1,703,972,220
Less: Current portion	(24,848,136)
Long-term portion	$1,679,124,084

13. BONDS PAYABLE (Continued)

Long-term debt activity for the fiscal year ended June 30, 2023, was as follows:

	Balance at June 30, 2022	Increases / Accretions	Payments / Amortization / Discharge	Balance at June 30, 2023	Due within One Year
Serial bonds					
Resolution 1968-18	$ 396,389,997	$ -	$ (396,389,997)	$ -	$ -
Resolution 1998-06	1,186,895,000	-	(1,186,895,000)	-	-
Series 2022-A	-	600,000,000	-	600,000,000	-
Total	1,583,284,997	600,000,000	(1,583,284,997)	600,000,000	-
Term bonds					
Resolution 1968-18	393,095,000	-	(393,095,000)	-	-
Resolution 1998-06	1,842,045,000	-	(1,842,045,000)	-	-
Teodoro Moscoso	42,020,000	-	(4,915,000)	37,105,000	6,730,000
Total	2,277,160,000	-	(2,240,055,000)	37,105,000	6,730,000
Variable rate bonds					
Resolution 1998-06	200,000,000	-	(200,000,000)	-	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	(57,965,000)	-	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	(700,000)	-	-
Capital appreciation bonds					
Resolution 1968-18	33,503,286	1,423,656	(34,926,942)	-	
Resolution 1998-06	81,264,404	-	(81,264,404)	-	-
Teodoro Moscoso	36,389,519	-	(6,806,522)	29,582,997	7,355,000
Series 2022-B	-	250,000,466	-	250,000,466	-
Series 2022-C	-	427,647,950	-	427,647,950	-
Total	151,157,209	679,072,072	(122,997,868)	707,231,413	7,355,000
Subordinated Indebtedness					
Serie 2022-1	-	359,635,807	-	359,635,807	10,763,136
Total before bond premium	4,270,267,206	1,638,707,879	(4,205,002,865)	1,703,972,220	24,848,136
Add net bond premium amortization	169,297,184	-	(169,297,184)	-	-
Total bonds outstanding	$ 4,439,564,390	$ 1,638,707,879	$ (4,374,300,049)	$ 1,703,972,220	$ 24,848,136

The outstanding bonds as of June 30, 2023, require future payments of principal and interest as follows:

Fiscal years ending June 30,	**Principal**	**Interest**	**Total**
2024	$ -	$ 30,000,000	$ 30,000,000
2025	-	30,000,000	30,000,000
2026	25,289,589	34,038,328	59,327,917
2027	22,310,861	34,872,584	57,183,445
2028-2029	53,900,877	76,963,758	130,864,635
2030-2039	333,303,323	555,830,760	889,134,083
2040-2049	202,757,566	502,757,100	705,514,666
2050-2059	347,836,200	300,604,400	648,440,600
2060-2062	292,250,000	37,422,000	329,672,000
Total	$ 1,277,648,416	$ 1,602,488,930	$ 2,880,137,346

The above outstanding bonds were fully settled on December 14, 2023, as discussed in Note 23.

13. BONDS PAYABLE (Continued)

The outstanding subordinated indebtedness as of June 30, 2023, require future payments of principal and interest as follows:

Fiscal years ending June 30,	Principal	Interest	Total
2024	$ 10,763,135	$ 5,119,815	$ 15,882,950
2025	9,447,509	8,721,817	18,169,326
2026	4,810,622	8,485,629	13,296,251
2027	5,197,995	8,365,364	13,563,359
2028-2029	11,618,696	16,330,817	27,949,513
2030-2039	86,954,593	70,746,452	157,701,045
2040-2049	149,989,564	42,376,565	192,366,129
2050-2052	80,853,693	5,082,997	85,936,690
	$ 359,635,807	$ 165,229,456	$ 524,865,263

The above outstanding subordinated indebtedness was fully settled on December 14, 2023, as discussed in Note 23.

Bonds Payable -Teodoro Moscoso

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund, in advance, the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

Teodoro Moscoso Debt Maturities

The following schedule has been presented in accordance with original terms of the bonds payable. The outstanding bonds as of June 30, 2023, require future payments of principal and interest as follows:

Fiscal years ending June 30,	Principal	Interest	Total
2024	$ 14,085,000	$ 1,776,938	$ 15,861,938
2025	15,843,279	1,294,606	17,137,885
2026	17,601,999	690,008	18,292,007
2027	12,132,719	410,962	12,543,681
2028	7,025,000	-	7,025,000
Total	$ 66,687,997	$ 4,172,514	$ 70,860,511

Autopistas is currently paying the scheduled interest and principal payments for these bonds in accordance with the service concession agreement. Refer to Note 9.

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under PROMESA Title III for ERS in the United States

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

District Court for the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases. On January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment, which includes the restructuring of ERS's outstanding debts and other financial obligations. The Commonwealth Plan of Adjustment became effective on March 15, 2022.

Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

PayGo Pension Reform

On June 27, 2017, the DOT issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system, in which ERS and the Commonwealth's other retirement systems stopped receiving contributions from employers or plan participants and are no longer managing contributions on behalf of participants. Since fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated.

On August 23, 2017, the Governor signed into law the Act No. 106 of 2017, known as the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable participating employers, including the Authority. The Commonwealth allocation percentages are based on the ratio of each participating entity's actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date. Approximately $2 billion was allocated for these purposes in each of the Commonwealth's budgets starting in fiscal year 2022. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at the ERS.

Act 106-2017, among other things, amended Act No. 447 with respect to the ERS's governance, funding, and benefits for active members of the actual program and newly hired members. Under Act 106-2017, the ERS's Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created a new defined contribution plan (PRGERS) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity, but where no contributions are received from the employer. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the PRGERS. Act 106-2017 also ordered a suspension of the ERS' loan programs and ordered a merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

of benefits under the new Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

Plan Description Prior to July 1, 2017

This summary of ERS' pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January 1, 1952, for members hired up to March 31, 1990;

- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999;

- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other changes were also made to the Plan. Upon the enactment of the Act. No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

After the approval of Act No. 106-2017, the PRGERS assets were liquidated and GASB No. 73 is now implemented in substitution of GASB No. 68. The Authority's Total Pension Liability was measured as of June 30, 2022, (measurement date) for the reporting period June 30, 2023 (reporting date) based on an actuarial valuation dated February 13, 2024.

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

Total Pension Liability

As of June 30, 2023, the Authority's proportional share of the PRGERS' Total Pension Liability used was as follows:

Proportion - June 30, 2023 (reporting date)	2.389290%
Proportion - June 30, 2022 (reporting date)	2.495470%
Change - Increase (Decrease)	-0.106180%

As of June 30, 2023, the Authority reported $529.3 million as Total Pension Liability for its proportionate share of the Total Pension Liability of PRGERS.

Pension Recoveries

During the fiscal year ended June 30, 2023, the Authority reported PayGo recoveries amounting to $52.7 million.

Deferred Outflows/Inflows of Resources

As of June 30, 2023, (reporting date), the Authority reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 6,639,944	$ 11,222,737
Changes in assumptions	42,719,346	41,638,472
Changes in proportions	6,785,931	13,446,526
	56,145,221	66,307,735
Benefits payments made after measurement date	33,386,256	-
Total outflows/inflows	$ 89,531,477	$ 66,307,735

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the following reporting years:

Year Ending June 30,	Amount
2024	$ (27,634,666)
2025	17,472,151
	$ (10,162,515)

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

Actuarial Methods and Assumptions

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate increased from 2.16% as of June 30, 2021, to 3.54% as of June 30, 2022 (measurement date).

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method' determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by PRGERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2022, (measurement date) are based on projecting the System obligations determined as of the census data collection date of July 1, 2021, for one year using roll-forward methods, assuming no liability gains or gains or losses. There have been no changes in actuarial methods since the prior valuation.

Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2022 (measurement date) is provided below, including any assumptions that differ from those used in the June 30, 2021, measurement date. Total pension liability represents a portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Municipal Bond Rate: 3.54% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.54% per annum

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021, as result of Act No. 3-2017, four-year extension of the Act No. 66-2014, salary freeze and the current general economy. Based on professional judgment and System input.

Defined Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to Pay-Go funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for Demographic Assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007. Certain demographic assumptions (e.g., termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with PRGERS staff for reasonableness and are documented in this Section.

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

100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958. *Post-retirement Retiree Mortality*: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Post-retirement Beneficiary Mortality: Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013, commencing at retirement eligibility; otherwise, a modified cash refund.

14. PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM (Continued)

For members retiring after June 30, 2013, under Act No. 127-1958, a Joint & 100% Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016, but was not provided as of July 1, 2017, for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed, with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No, 211-1958 and those not married were assumed to have a modified cash refund. The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by PRGERS. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2022, (measurement date), was as follows:

	June 30, 2022 (Measurement Date)
Discount Rate	3.54%
20 Year Tax-Exempt Municipal Bond Yield	3.54%

Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the Total Pension Liability calculated using the discount rate, as well as what the Authority's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Total Pension Liability	$ 604,617,988	$ 529,286,112	$ 467,958,750

Pension Plan Fiduciary Information

Additional information on the Puerto Rico Government Employees Retirement System for the fiscal year ended June 30, 2021, can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan PR 00940-2003.

15. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The Authority participates in the OPEB plan of the Commonwealth for retired participants of the Employees Retirement System Medical Insurance Plan Contribution Benefit (ERS MIPC). The Plan is administered on a pay-as-you-go basis.

15. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

ERS MIPC is an unfunded cost sharing, multiple employers defined benefit OPEB plan (other than pension) sponsored by the Commonwealth. This ERS MIPC was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities, and component units of the Commonwealth. For ERS MIPC, Commonwealth and Authority employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013, (Act No. 483, as amended by Act No. 3). The ERS MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial methods and assumptions

The total ERS MIPC OPEB liability as of June 30, 2023 (reporting date), was determined by an actuarial measurement date as of June 30, 2022, which was rolled forward to June 30, 2023 (reporting date). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	3.54% as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Mortality	*Pre-retirement Mortality:* For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. *Post-retirement Healthy Mortality*: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality

15. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Beneficiary Mortality:

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2023 (reporting date) valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2022 (measurement date), and 2021 (measurement date) was 3.54% and 2.16%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including, for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial assumptions are revised periodically to reflect more closely actual, as well as anticipated, future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The Authority's Proportion of Total OPEB Liability of the ERS MIPC

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2022 (measurement

15. OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

date), was approximately $14.7 million and 2.1%, respectively. As the ERS MIPC is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Commonwealth of Puerto Rico and its component units are considered to be one employer. Other employers also participate in the ERS MIPC. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such a proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Sensitivity of total ERS MIPC OPEB liability to changes in the discount rate

The following table presents the Authority's proportionate share of the ERS MIPC OPEB liability on June 30, 2023 (reporting date), for ERS calculated using the discount rate of 3.54%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.54%) or one percentage point higher (4.54%) than the current rate:

	1% Decrease (2.54%)	Current Assumption (3.54%)	1% Increase (4.54%)
Total OPEB liability	$ 15,972,746	$ 14,674,703	$ 13,558,793

Deferred outflows of resources and deferred inflows of resources

OPEB adjustments recognized by the Authority for the year ended June 30, 2023 (reporting date), related to the ERS MIPC amounted to approximately $684.1 thousand. Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date. Additional information on the ERS MIPC OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2022, and 2021 (measurement date), a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

16. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

The Authority has entered into subscription arrangements for many different types of software. These subscription agreements have been recorded at the present value of the future minimum subscription payments. The initial value of the right-to-use (RTU) assets recognized is $4.3 million. As of June 30, 2023, accumulated amortization for these RTU assets amounted to $1.1 million. As of June 30, 2023, the net RTU assets and corresponding subscription obligations associated with future subscription payments reported on the Statement of Net Position amount to $3.2 million, respectively. The principal and interest expenses for the next five years and beyond are presented in the following table:

Fiscal Years Ending June 30,	**Principal**	**Interest**	**Total**
2024	$ 1,111,997	$ 67,303	$ 1,179,300
2025	1,140,117	39,083	1,179,200
2026	585,004	17,012	602,016
2027	346,186	3,022	349,208
2028	16,194	95	16,289
Total	$ 3,199,498	$ 126,515	$ 3,326,013

17. VOLUNTARY TERMINATION BENEFITS

Act No. 70-2010

On July 2, 2010, the Commonwealth enacted Act No. 70, established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees. The program was available to eligible employees that completed between 15 to 29 years of creditable services and provided monthly benefits ranging from 37.5% to 50% of each employees' monthly salary until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. The PRGERS is responsible for benefit payments. The employees had until December 31, 2012, to elect to participate in this program. As of June 30, 2023, the Authority's total outstanding liability under this program was approximately $17.2 million, discounted at 2.85%.

Act. No. 211-2015

On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allowed eligible active employees to participate in a voluntary retirement program if they were hired before April 1990 and have accrued a minimum of twenty years of service. The voluntary program, which was initially adopted during the fiscal year ended June 30, 2017, provided eligible participants with 60% of their average compensation, determined as of December 31, 2015, until the employee attains age sixty-one. As of June 30, 2023, the outstanding balance under Act No. 211 amounted to $4.5 million. The liability under this program was discounted at 3.00%.

The aggregate adjustment for changes in discount rate under Act No. 70 and Act No. 211 during the fiscal year ended June 30, 2023, resulted in an expense of $1.1 million.

18. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2023, operating expenses included approximately $14.8 million in charges from the Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. Furthermore, the Authority has outstanding debt payable to PREPA from electricity charges amounting to approximately $1.1

18. RELATED PARTY TRANSACTIONS (Continued)

million. In addition, for the year ending June 30, 2023, the Authority incurred rental charges from the PBA, a component unit of the Commonwealth, totaling around $1.3 million for building occupancy. Furthermore, the Authority has outstanding debt payable to PBA from past due rents amounting to approximately $9.8 million (refer to Note 22). During the year ended June 30, 2023, the Authority made current rent payments each month as required.

As of June 30, 2023, the Authority had an amount due from the Commonwealth of approximately $26.8 million, which was fully collected as of the date of issuance of the financial statements. The amount due from the Commonwealth relates to Capital Expenditures (CAPEX) appropriation transfers made to the Authority.

During the year ended June 30, 2023, the Authority used Commonwealth capital grants amounting to $119.8 million for repair maintenance and resurfacing of certain roads and bridges.

As of June 30, 2023, the Authority had amounts due to other governmental entities for operating leases, utilities, and other agreements of approximately $19.6 million, which are presented in the accounts payable and accrued liabilities in the accompanying Statement of Net Position.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

As of June 30, 2023, the Authority had commitments of approximately $506.6 million related to construction contracts.

Lease Commitments

The Authority has various operating leases for office space with the PBA. The operating leases expired on June 30, 2023, and the Authority continues to use the premises on a month-to-month basis. During the fiscal year ended June 30, 2023, the total aggregate amount of rental expense recorded by the Authority on these contracts was approximately $1.7 million.

Construction Claims

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects. Furthermore, those claims pertaining to periods prior to the petition date are considered *General Unsecured Claims*, as more fully disclosed below. Based on the advice of legal counsel, no accrual for losses, if any, has been provided in the financial statements.

Summary of Pending Legal Claims

Under the Title III claims process, approximately $83.1 billion in claims were filed. As of March 30, 2024, approximately 1,590 claims in the total aggregate asserted amount of approximately $82.3 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court, expunged through the Commonwealth Plan of Adjustment or Authority's Plan of Adjustment, or resolved through the ACR process. As a result, approximately 378 claims in the total aggregate asserted amount of approximately $502.5 million remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ACR).

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Most of the remaining unresolved claims fall into the General Unsecured Claims class, for which $48 million has been apportioned in the POA for the full settlement of this class of claims. As of June 30, 2023, all funds required to settle this obligation are held in a trust account. As of June 30, 2023, the Authority has recorded a liability of approximately $64.7 million for probable losses on those claims not fully covered by insurance. Some of these claims against the Authority have been filed in different local and federal courts of law. Outstanding legal liability is composed of $20.5 million in legal cases related to construction projects and other operating matters and $44.2 million related to expropriation and related costs, which accrual is based on legal counsel's best estimate using, current facts and circumstances as of June 30, 2023. Most of the amounts accrued relate to prepetition claims, which were classified under the following claim classes in the Authority's POA:

- ***General Unsecured Claims (GUC)***: All such claims against the Authority will be settled through the $48 million allocation provided under the POA.

- ***Allowed Eminent Domain / Inverse Condemnation Claims***: Allowed claims shall be entitled to receive one hundred percent of such unpaid balance, with certain limitations. Claims not allowed as eminent domain claim may be deemed general unsecured claims and treated under the POA consistent with other GUC claims.

The Authority believes that the amount provided for these claims is sufficient to settle the possible final settlement, including prepetition liabilities that will be settled in accordance with the POA. However, the estimate, as it relates to the eminent domain claims, may change in the future.

Contingent Liabilities due to COVID-19 Shutdown

The Authority is also a defendant in several other lawsuits filed by different contractors for alleged breach of contract. These Authority's contractors claim, among other things, for extended overhead resulting from the executive orders of the Governor of Puerto Rico that decreed a government shutdown from March to May 2020. The contractors have sent notices for claims for contractual damages, particularly extended overhead. Based on the advice of counsel, the Authority believes that such claims are meritless and will vigorously defend its position. Accordingly, no accrual losses, if any, have been recorded in the basic financial statements.

Hurricane Fiona

On September 18, 2022, Hurricane Fiona made landfall in Puerto Rico, bringing sustained winds of 85 miles per hour and significant rainfall. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the Island completely without power. Management has determined that replacing or repairing the property damaged by this hurricane will have a replacement cost of approximately $150 million.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and compliance audits by grantor agencies.

On January 11, 2023, the Authority entered into an agreement with the Puerto Rico Department of Housing (PRDH) as a subgrantee of Community Development Block Grant- Mitigation Program (CDBG-MIT) to provide financial assistance in areas impacted by recent disasters. The funds sub awarded to the Authority constitute a Subaward of the PRDH's Federal Award, the use of which must be in accordance with requirements imposed by

19. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

federal statutes, regulations, and the terms and conditions of the PRDH's Federal Award. The total appropriated funds amounted to approximately $540 million. As of the date of issuance of the financial statements, none of the funds for this agreement have been disbursed.

20. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS

Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years.

The total annual operation and maintenance cost, for the fiscal year ended June 30, 2023, was approximately $58.4 million, including the base fee under the contract. The Authority is committed to the payment of the base fees throughout the remaining life of the contract.

The Authority contracted First Transit of Puerto Rico, Inc. (First Transit) to operate a fixed route bus services of three bus systems known as Metrobus, Metro Urbano and Urban Train Conexión with a total bus fleet of 54 vehicles that feed the Urban Train transportation system.

The Metrobus consists of two fixed routes that provide service between the Sagrado Corazon Station and Old San Juan area. The Metro Urbano consists of two express commuter type bus services with stops only at the end points of the routes. Route E20 operates between the Campanillas-Toa Baja Park-and-Ride Station and the Bayamon Station and route E30 operates between Cupey Station and the Caguas Municipality Transit Terminal. The Conexión service consists of four fixed route bus services. Routes C22, C35 and C36 operates between Sagrado Corazon Station and the north area of the San Juan Municipality and E40 operates from the Piñero Station to Luis Muñoz Rivera International Airport getting access to the Mall of SJ area.

The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2023. The total aggregate expense amount under this contract was $10.7 million for the fiscal year ended June 30, 2023. Effective on October 1, 2023, the Authority entered into a new contract with First Transit to extend the fixed route bus services. The contract expires on June 30, 2028, with an option to extend the term for an additional period of 5-year period.

The Authority is required to continue to implement the comprehensive reorganization outlined in the Authority’s Fiscal Plan, including, among other things, the transfer of the Urban Train to PRITA. Refer to Note 23.

21. OTHER OPERATING INCOME

For the year ended June 30, 2023, other operating income includes:

Urban Train revenues	$ 4,016,340
Teodoro Moscoso revenues	3,613,030
Rental income	646,785
Electronic toll revenues and label sales	1,288,611
Impact fee	1,287,552
Metrobus fare fees	459,403
Federal funds recovery (GDB DRA)	16,056,687
Insurance Reimbursement	3,307,259
Other	5,447,698
Total	$ 36,123,365

22. RESTATEMENT OF PRIOR YEAR NET DEFICIT

Restatement of net deficit as of July 1, 2022

During the fiscal year 2023, specific accounting misstatements were identified, stemming from previously unrecorded rents to PBA, due to a disagreement over terms, and the continued accounting of OPEB benefits, which were terminated in 2017. These adjustments led to a net $6.9 million increase in the net deficit as of July 1, 2022.

The Authority's beginning net deficit was changed as follows:

Net deficit, at beginning of fiscal year, as previously reported	$ (1,229,661,406)
Prior period adjustments:	
PBA rent not accrued on prior years	(9,822,869)
Total other post employment benefits GASB Statement No. 75	2,928,503
Net deficit, at beginning of fiscal year, as restated	$ (1,236,555,772)

23. SUBSEQUENT EVENTS

The Authority evaluated its subsequent events until March 29, 2024, the date on which the financial statements were ready for issuance. The Authority's management understands that no other material events occurred subsequent to June 30, 2023, that require to be disclosed in the financial statements, except as mentioned below. The Authority has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2023, have not been adjusted to reflect their impact.

Status of Federal Disaster Relief Funds

The Commonwealth continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, including the continued recovery following Hurricanes Irma and Maria and the earthquakes that impacted the southern and southwestern part of Puerto Rico. As of March 17, 2024, approximately $85 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief

23. SUBSEQUENT EVENTS (Continued)

and recovery efforts. Of this amount, approximately $77.3 billion has been committed by federal agencies for distribution and $32.1 billion has been disbursed. Of the amounts obligated and disbursed, FEMA has approved approximately $49 billion and disbursed approximately $45.7 billion of the total amounts detailed above. The use of these funds is detailed by the Commonwealth on the COR3 website and can be accessed at: https:\\recovery.pr\en.

Act 80-2020

In October 2020, the Commonwealth enacted Act No. 80-2020, which established a program that provides benefits for early retirement for voluntary employment termination to eligible employees, as defined. The program was available to eligible employees that were eligible for retirement according to Act No. 447-1951 or Act No. 1-1990. Act No. 80-2020 will provide only to the eligible employees' lifetime pension with 50% of each employee's monthly salary. The PRGERS is responsible for benefit payments. On April 1, 2024, the Authority will implement Act. No.80-2020 with the early termination of 48 employees.

New Concession Agreement

On December 14, 2023, the Authority finalized an agreement with Puerto Rico TollRoads LLC under the Public Private Partnership Act (Act 29-2009), securing a Concession Agreement for the toll roads designated as PR-52, PR-53, PR-20, and PR-66 (collectively, the Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire shall have the right to operate, manage, maintain, rehabilitate, and expand the Toll Roads and receive the Toll Road revenues. This agreement was in return for a concession fee payment totaling $2.85 billion (the "Concession Fee"). This Concession Fee was used for (i) the redemption of the New Authority bonds, (ii) repayment of the Subordinated Indebtedness, (iii) certain closing and transaction costs, (iv) funds for escrow and reserve accounts for potential Concession Compensation Events (as defined in the Concession Agreement), and (v) the creation of a capital improvement fund at the Authority. The Concession Agreement establishes the maximum level of tolls that the Concessionaire may charge. After the effective date of the Concession Agreement, the Authority and the Concessionaire entered into certain amendments to the existing escrow arrangements to provide for the allocation of cash tolls among the Concessionaire, Metropistas, Autopistas, the Municipality of Guaynabo and the Authority. In addition, the Concession Agreement includes two different types of immediate capital improvements: Authority Capital Improvements and Concessionaire Capital Improvements. The Authority Capital Improvements are those capital improvements and operational deliverables for which the Authority will remain responsible after the Toll Roads have been concessioned, including the ORT Improvement Project, the Canopy Demolition Project, the CD Project (if and when undertaken), and the DTL Extension Project (if and when undertaken). The Authority agreed to complete these projects in accordance with the Concession Agreement and the applicable Authority Capital Improvement Contract. The Concessionaire Capital Improvements are those capital improvements for which the Concessionaire will become responsible, at its own expense, once the Toll Roads have been concessioned.

Authority's Comprehensive Reorganization Plan

The Authority is required to continue to implement the comprehensive reorganization outlined in the Fiscal Plan, including the organizational separation of the Toll Roads and Non-toll Roads Management Offices, establishment of the Toll Roads Management Office, regular toll fare increases to cover its expenses and debt payments, and transfer of the Urban Train to PRITA.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in Commonwealth Total Pension Liability and Related Ratios
for Multiple-Employer Pension Plans (Unaudited)

June 30, 2023

The Schedule of Changes in the Total Pension Liability for Multiple-Employer Pension Plans presents the changes in the Authority's share of the total pension liability of the PRGERS for the period ended June 30, 2023 (Reporting Date).

	June 30,			
	2023	2022	2021	2020
	(Reporting Date)			
Proportional Share	2.38929%	2.49547%	2.46841%	2.47743%
Service cost	$ 2,427,831	$ 1,290,044	$ 1,697,274	$ 2,499,105
Interest	16,552,233	10,117,187	20,188,238	36,591,715
Effect of plan changes	(51,409,855)	-	(2,370,756)	-
Effect of economic/demographic gain (losses)	11,931,586	(8,319,608)	2,380,342	(11,662,171)
Effect of assumptions changes inputs	(90,241,299)	4,230,974	86,875,433	39,885,365
Benefit payments	(38,352,127)	(21,818,930)	(31,543,883)	(52,605,325)
Net Change in total pension liability	(149,091,631)	(14,500,333)	77,226,648	14,708,689
Total pension liability - beginning	678,377,743	692,878,076	615,651,428	600,942,739
Total pension liability - ending	$529,286,112	$678,377,743	$692,878,076	$615,651,428
Covered payroll	$ 31,877,239	$ 66,511,497	$ 67,566,181	$ 71,381,348
Employer's total pension liability as a percentage of covered- employee payroll	1,660.39%	1,019.94%	1,025.48%	862.48%

Notes:
Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported. There are no assets accumulated in a trust that meets the criteria in GASB 73, paragraph 4 to pay related benefits.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Commonwealth's Total Postemployment
Benefits other than Pensions (ERS MIPC OPEB Plan) Liability and Related Ratios (Unaudited)

June 30, 2023

Total OPEB liability (Reporting Date)	2023	2022	2021	2020	2019	2018
Proportional Share	2.10964%	1.93333%	1.90838%	1.91496%	1.90903%	1.83511%
Service Cost at end of year	$ -	$ -	$ -	$ -	$ -	$ -
Interest	117,209	321,482	519,064	432,988	100,701	546,940
Effect of economic/demographic gains or (losses)	202,652	(553,509)	(110,788)	72,723	(36,759)	(199,653)
Effect of assumption changes or inputs	(610,895)	112,625	1,620,155	314,933	(639,259)	(3,472,025)
Benefit payments	(464,543)	(1,141,579)	(1,274,031)	(960,696)	(240,299)	(1,305,139)
Net change in total OPEB liability	(755,577)	(1,260,981)	754,400	(140,052)	(815,616)	(4,429,877)
Total OPEB liability - beginning	15,430,280	16,691,261	15,936,861	16,076,913	16,892,529	21,322,406
Total OPEB liability - ending	$14,674,703	$15,430,280	$16,691,261	$15,936,861	$16,076,913	$16,892,529
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB Liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

Note to schedule:

The Commonwealth's total OPEB liability as of June 30, 2023, was measured on June 30, 2022 (measurement date), by an actuarial valuation as of February 13, 2024, for the reporting period June 30, 2023.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Crowe PR PSC
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
+1 (787) 625-1800
www.crowe.pr

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the

Puerto Rico Highways and Transportation Authority

(a Component Unit of the Commonwealth of Puerto Rico)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico)**, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 29, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item **2023-01** that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 29, 2024

Crowe PR PSC

Stamp Number E555335 was

affixed to the original of this report.

Crowe PR PSC
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
+1 (787) 625-1800
www.crowe.pr

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of the

Puerto Rico Highways and Transportation Authority

(a Component Unit of the Commonwealth of Puerto Rico)

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **Puerto Rico Highways and Transportation Authority’s (the “Authority”) (a Component Unit of the Commonwealth of Puerto Rico)** compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority’s major federal programs for the year ended June 30, 2023. The Authority’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor’s Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2023-02** and **2023-04**. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of

Report on Internal Control over Compliance (Continued)

compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2023-02, 2023-03,** and **2023-04** to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

March 29, 2024

Crowe PR PSC

Stamp number E555336 was

affixed to the original of this report.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

Assistance Listing Number	Program or cluster title/Federal grantor	Total Federal Expenditures	Provided to Sub-Recipients
	U.S. Department of Transportation		
	Federal Transit Administration Cluster		
20.500	Capital Investment Grants (Fixed Guideway Capital Investment Grants)	$ 1,589,748	$ -
20.507	Federal Transit - Formula Grants (Urbanized Area Formula Program)	26,966,221	5,593,298
20.525	State Of Goods and Repair	4,715,576	-
20.526	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	2,109	2,109
	Total Federal Transit Administration Cluster	33,273,654	5,595,407
	Transit Services Programs Cluster		
20.513	Enhanced Mobility for Seniors and Individuals with Disabilities	14,913	-
	Total Transit Services Programs Cluster	14,913	-
	Other Programs:		
20.205	Highway Planning and Construction (Federal-Aid Highway Program)	149,222,628	-
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	2,574,755	364,673
20.509	Formula Grants for Rural Areas and Tribal Transit Program	2,432,643	2,381,356
20.509	COVID-19 Formula Grants for Rural Areas and Tribal Transit Program	1,062,688	1,062,688
20.527	Public Transportation Emergency Relief Program	672,792	672,792
20.933	National Infrastructure Investments	212,794	212,794
	Total Other Programs	156,178,300	4,694,303
	Total U.S. Department of Transportation	189,466,867	10,289,710
	U.S. Department of Homeland Security		
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	426,869	-
	Total U.S. Department of Homeland Security	426,869	-
	U.S. Department of the Treasury (Pass-Through - Puerto Rico Fiscal Agency and Financial Advisory Authority):		
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds	1,503,746	-
	Total US Department of the Treasury	1,503,746	-
	U.S. Department of Housing and Urban Development		
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants	31,765	-
	Total Department of Housing and Urban Development	31,765	-
	Total Expenditures of Federal Awards	$191,429,247	$10,289,710

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule") includes the federal award expenditures of the Puerto Rico Highways and Transportation Authority (the “Authority") for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). The Schedule presents only a selected portion of the financial activities of the Authority. Therefore, it is not intended to, and does not present the net position, changes in net position, or cash flows of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the accrual basis of accounting. The financial transactions are recorded by the Authority in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. FEDERAL ASSISTANCE LISTING NUMBERS

The Assistance Listing Numbers included in the Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget’s Catalogue of Federal Domestic Assistance. Pass-through entity identifying numbers are presented where available and applicable.

4. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal awards revenues and expenses are reported in the Authority’s statement of revenues, expenses, and changes in net position in accordance with standards issued by the Government Accounting Standards Board (“GASB”) No. 34. Because the Schedule presents only federal activities of the Authority, it is not intended to and does not present the financial position, assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows of the Authority, as a whole.

5. CLUSTER PROGRAMS

The Uniform Guidance defines a cluster of programs as a group of closely related programs that share common compliance requirements. According to this definition, the Federal Transit Cluster and the Transit Services Programs Cluster were deemed to be cluster programs.

6. INDIRECT COSTS

The Authority has elected not to use the ten percent de minimis indirect cost rate allowed by the Uniform Guidance.

7. CONTINGENCIES

Federal Award Programs

The Authority receives funds under various federal award programs and such awards are to be expended in accordance with the provisions of each award. Compliance with the awards is subject to audit by various government agencies, which may impose sanctions in the event of non-compliance.

7. CONTINGENCIES (continued)

Memorandum of Understanding – Federal Highway Administration

On February 25, 2016, the Authority signed a Memorandum of Understanding (MOU) with the US Department of Transportation and FHWA for the Puerto Rico highway project and program delivery improvement. The purpose of the MOU is to facilitate improvements to the Authority's Federal-aid billing procedures, to facilitate and enable the Authority's ability to be suitably equipped and organized to meet federal requirements by reinvigorating its organizational capacity, and to expedite project delivery in Puerto Rico.

The MOU establishes procedures, systems, and project delivery objectives for the Puerto Rico Highway Program. It identifies the roles, responsibilities, and actions for the Authority and FHWA to accelerate the funding, planning, design, and construction of various highway and bridge and surface transportation improvement projects. The Authority needs to adhere to certain provisions detailed as follows in the MOU: 1) Federal-aid Billing Procedures, 2) Toll Credits, 3) Organizational Capacity Development, 4) Expediting Project Delivery, and others. The Authority's compliance with the MOU provisions is subject to periodic performance reviews by FHWA throughout the term of the MOU.

Management believes that, except as disclosed in finding 2023-04 in the Schedule of Findings and Questioned Costs, the Authority has complied with all aspects of the MOU and federal award provisions for the year ended June 30, 2023.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

Financial Statements

1. Type of auditors' report issued.	Unqualified Opinion
2. The independent auditors' report on internal control over financial reporting described:	
a. Material weakness (es) identified?	No
b. Significant deficiency(es) identified?	Yes
c. Noncompliance material to financial statements noted?	No

Federal Awards

3. Internal control over major federal programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(es) identified?	Yes
4. Type of audit report issued on compliance with requirements applicable to major Federal awards.	Unmodified
5. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
6. Identification of major programs:	ALN No.
a. Formula Grants for Rural Areas and Tribal Transit Program	20.509
b. Coronavirus State and Local Fiscal Recovery Funds	21.027
c. Highway Planning and Construction	20.205
7. Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
8. Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding Reference 2023-01

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition

From a sample of twenty-six disbursement transactions related to road and highway maintenance expenses, the auditors identified project transactions which were inadvertently expensed in the wrong accounting period. Total project costs amounting to $1,727,145 should have remained capitalized within the Construction in Progress account during the current fiscal year. According to the evidence examined, the work performed for this project was incurred during fiscal year 2022.

Criteria

In accordance with the Governmental Accounting Standards Board (GASB) guidelines, specifically GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, costs incurred in the construction and development of infrastructure assets such as roads and highways should be capitalized. These costs are to be reported as capital assets in the governmental entity's financial statements until the asset is completed and ready for its intended use. Capitalization of such costs is essential for accurately reflecting the Authority's investment in its infrastructure and for ensuring that the financial statements provide a faithful representation of the entity's financial position and the results of its operations.

Cause

The misclassification of the project transactions as expenses in the wrong accounting period rather than capitalizing them as Construction in Progress was due to an oversight in the financial accounting and reporting process. This oversight may be attributed to a lack of oversight controls related to classification and review of construction-related disbursements for specific NBIS projects.

Effect

The expensing of capitalizable transactions in the incorrect accounting period could lead to misstatements of the Authority's financial statements, affecting the accuracy of reported expenses and capital asset balances for the current and prior fiscal period.

Questioned Costs

$1,727,145

Recommendation

To correct the identified misclassification and to prevent similar occurrences in future reporting periods, we propose the following steps, tailored to align with GASB standards and Yellow Book requirements for governmental entities:

- *Enhancement of Financial Controls*: Strengthen internal controls related to the accounting and financial reporting processes, especially those governing the capitalization of construction and development costs. This enhancement may involve the development of detailed procedures for reviewing and classifying such expenditures, regular training sessions for finance and accounting staff on GASB standards, and the establishment of a more rigorous internal audit function to oversee compliance with these standards.

- *Comprehensive Review of Capital Projects*: Conduct a thorough review of all ongoing and recently completed NBIS capital projects to ensure that all associated costs have been appropriately capitalized. This review should extend to examining the accuracy of the classification of similar transactions such as other NBIS Projects in both the current and subsequent fiscal years, making any necessary adjustments to uphold the integrity of the entity's financial statements.

Views of Responsible Officials

Refer to Management's unaudited corrective action plan.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding Reference	**2023-02**
Assistance Listing Number	**20.500 Capital Investment Grants (Fixed Guideway Capital Investment Grants), 20.507 Federal Transit – Formula Grants (Urbanized Area Formula), 20.525 State of Good Repair Grants, 20.505 Metropolitan Transportation Planning Grants, and 20.513 Enhanced Mobility of Seniors and Individuals with Disabilities**
Name of Federal Agency	**Department of Transportation**
Type of Finding:	**Significant Deficiency and Non-Compliance**

Condition:

During the audit, it was found that the auditee incorrectly classified the following:

- *Assistance Listing Number 20.500 Capital Investment Grants (Fixed Guideway Capital Investment Grants)* – Management reported $2,455,795 as federal awards expended instead of $1,589,748, which were the amounts validated by the auditors.
- *Assistance Listing Number 20.507 Federal Transit – Formula Grants (Urbanized Area Formula)* – Management reported $25,222,452 as federal awards expended instead of $21,372,923, which were the amounts confirmed by the auditors.
- *Assistance Listing Number 20.525 State of Good Repair Grants* – Management did not report federal awards expended instead of $4,715,576, which was the amount validated by the auditors.
- *Assistance Listing Number 20.505 Metropolitan Transportation Planning Grants* – Management reported $2,279,469 as federal awards expended instead of $2,210,082, which were the amounts confirmed by the auditors.
- *Assistance Listing Number 20.513 Enhanced Mobility of Seniors and Individuals with Disabilities* – Management reported $15,848 as federal awards expended instead of $14,912, which were the amounts confirmed by the auditors.

The Authority issued an updated SEFA, which corrected the amounts presented.

Criteria:

Under 2 CFR 200.510(b), auditees are required to prepare a Schedule of Expenditures of Federal Awards (SEFA), which must include accurate information about expenditures for each federal program, including the correct Assistance Listing number. In addition, the auditee must provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available.

Cause:

The misclassification appears to have resulted from a misunderstanding of the program guidelines and a lack of adequate internal controls to ensure the complete and accurate reporting of federal expenditures.

Effect:

This misclassification could result in noncompliance with federal regulations and may affect the federal agency's ability to accurately monitor and allocate funding. Furthermore, it may lead to incorrect conclusions about the auditee's compliance with specific program requirements.

Questioned Costs:

None

Recommendation:

It is recommended that the auditee:

- Review and revise its procedures for classifying federal expenditures to ascertain assistance listing numbers are correctly used.

- Implement additional training for staff responsible for preparing the SEFA.

Views of Responsible Officials

Refer to Management’s unaudited corrective action plan.

Finding Reference	**2023-03**
Assistance Listing Number	**COVID-19 - 21.027 Coronavirus State and Local Fiscal Recovery Funds**
Name of Federal Agency	**Department of Treasury**
Compliance Requirement	**Reporting**
Type of Finding:	**Significant Deficiency on Internal Control**

Condition:

The Authority lacks qualified personnel to oversee and review the reporting process, resulting in a lack of appropriate internal controls.

Criteria:

The Uniform Guidance section 200.303, requires, among other, non-Federal entities to establish and maintain effective internal control over Federal awards that provide reasonable assurance that the management of Federal awards is in compliance with Federal statutes, regulations, and terms and conditions of the Federal awards. This includes accurate financial reporting and proper segregation of duties to prevent any individual from both preparing and reviewing the same transaction or report.

Cause:

Lack of sufficient personnel designated for oversight roles. This shortage has resulted in the absence of formal review and oversight, as there are inadequate human resources to fulfill these critical control functions.

Effect:

The lack of management review and oversight in the reporting process increases the risk of non-compliance with federal requirements and inaccuracies in reporting over federal funds.

Questioned Costs:

None

Recommendation:

To resolve these issues and prevent future occurrences, the Authority should consider the following actions:

- *Strengthen Internal Controls*: Implement stronger internal control procedures to ensure complete and accurate financial reporting, which require, among other, oversight and supervisory functions. This should include establishing clear protocols for the preparation and review of financial reports, with distinct roles assigned to different individuals to maintain segregation of duties.

- *Address Staffing Issues*: Take steps to address the employee shortage, either by hiring additional staff or by training existing staff to take on multiple roles, ensuring that duties can be adequately segregated even with limited personnel.

- *Regular Training and Awareness*: Conduct regular training sessions for all relevant staff on compliance with Federal program requirements and the importance of internal controls, including the need for segregation of duties in financial reporting.

Views of Responsible Officials

Refer to Management's unaudited corrective action plan.

Finding Reference	**2023-04**
Assistance Listing Number	**20.205 Highway Planning and Construction (Federal-Aid Highway Program)**
Name of Federal Agency	**Department of Transportation**
Compliance Requirement	**Matching**
Type of Finding	**Significant Deficiency on Internal Control and Non-Compliance**

Condition:

From a sample of forty federal construction projects examined, we noticed that for three projects, the toll credit usage reported in the Authority's Toll Credits Report differed from the amounts reported in the Federal-Aid Project Agreements as approved by the Federal Highway Administration (FHWA). In addition, the Authority was unable to provide sufficient evidence for the auditors to confirm the toll credit usage in seven projects for the fiscal year. Furthermore, it was observed that the Authority lacks sufficient personnel designated to oversee and review the toll credits reporting process.

A similar finding was reported during the prior year's single audit as finding number 2022-02.

Criteria:

In accordance with the signed Memorandum of Understanding (MOU) between the Authority and FHWA (signed on February 25, 2016), the Authority shall implement modifications to its processes for approving, tracking, and reconciling toll credits as identified by the FHWA and submit a report (i.e., Toll Credits Report) and a certification to FHWA ascertaining that it has implemented these modifications. FHWA shall accurately identify the amount of toll credits available for use by the Authority and identify the modifications that the Authority must make to its processes for approving, tracking, and reconciling toll credit usage, as applicable.

Cause:

The causes for this finding include:

- *Recordkeeping Issues*: The Authority has implemented a recordkeeping system endorsed by FHWA to monitor toll credit usage. However, recordkeeping issues were identified as disclosed in the condition. These issues led to discrepancies between the reported amounts in the Toll Credits Report and those in the Federal-Aid Project Agreements.

- *Lack of Adequate Internal Controls*: The Authority has implemented a recordkeeping system endorsed by FHWA to monitor toll credit usage. However, recordkeeping issues were identified as disclosed in the condition. These issues led to discrepancies between the reported amounts in the Toll Credits Report and those in the Federal-Aid Project Agreements.

Effect:

Non-compliance with the toll credits matching requirement per the MOU requirements. In addition, the Authority could inadvertently use toll credits for a federal project that may lack toll credits balances.

Questioned Costs:

Could not be determined.

Recommendation:

To address the identified compliance issues related to the discrepancies in toll credit usage reporting and the lack of sufficient evidence for certain projects, the auditors recommend the following:

- *Strengthen Internal Controls*: Enhance internal control procedures to ensure accurate and compliant reporting of toll credit usage. This includes establishing clear guidelines for documentation, reporting, and verification processes related to federal construction projects.

- *Implement a Review Process*: Introduce a formal review process for the toll credits reporting procedure. This review should be conducted by an individual or a team that is independent of the initial reporting process to ensure objectivity. The review should verify the accuracy of the reported toll credit usage against project agreements and supporting documentation.

- *Enhance Documentation Practices*: Develop and enforce rigorous documentation practices. Ensure that all relevant documents supporting the toll credit usage, such as agreements, approvals, and calculations, are systematically collected, filed, and readily available for audit purposes.

- *Training and Awareness*: Conduct training sessions for staff involved in the reporting and management of federal construction projects. The training should cover the requirements for toll credit usage, the importance of accurate reporting, and the procedures for ensuring compliance with federal guidelines,

- *Regular Reconciliation*: Implement regular reconciliation procedures between the toll credits reported in the Authority's Toll Credits Report and the amounts in the Federal-Aid Project Agreements. Any discrepancies identified should be investigated and resolved promptly.

- *Leverage Technology*: Consider the use of accounting or project management software that can help track and report toll credit usage accurately. Automation can reduce human errors and improve the efficiency of the reporting process.

Views of Responsible Officials

Refer to Management's unaudited corrective action plan.

Finding 2022-01 Financial Statements Finding

Condition

From a sample of thirty-two project certifications which were expensed by management during fiscal year 2022, the auditors identified the following:

a) Three project certifications amounting to $1,962,373 were expensed in the wrong accounting period. According to the evidence examined, the work performed for these certifications was incurred during fiscal year 2021. During fiscal year 2021, management had erroneously accounted for these certifications within the Construction in Process accounts. However, after evidence observed, these certifications should have been expensed during fiscal year 2021.

b) Three project certifications amounting to $1,096,000 were expensed in the wrong accounting period. According to the evidence examined, the work performed for these certifications was incurred during fiscal year 2021.

Status

This finding was partially corrected during the fiscal year ended June 30, 2023. However, a similar finding was reported in the current year as finding no. 2023-01.

Finding 2022-02 Compliance Finding

ALN Program: 20.205 Highway Planning and Construction (Federal-Aid Highway Program)

Condition

From a sample of sixteen federal construction projects examined, we noticed that in three projects, the toll credit usage reported in the Authority's Toll Credits Report differed from the amounts reported in the Federal-Aid Project Agreements as approved by FHWA.

Status

This finding was not remediated. Refer to current year finding no. 2023-04.

PUERTO RICO
HIGHWAYS &
TRANSPORTATION
AUTHORITY

March 29, 2024

Department of Transportation
Federal Highway Administration

The Puerto Rico Highways and Transportation Authority (the Authority) respectfully submits the following corrective action plans for the fiscal year ended June 30, 2023.

Name and address of independent public accounting firm:
Crowe PR PSC
100 Carr. 165 Ste. 410
Centro Internacional De Mercadeo
Guaynabo PR 00968-8051

Audit Period: Fiscal Year Ended June 30, 2023

Finding Reference 2023-01

Corrective Action Plan:
The Authority will review the internal controls in place for special projects accounting using the National Bridge Inspection Standards (NBIS) to correctly record costs in the period in which they were incurred. When NBIS project transactions are processed for federal reimbursement purposes, the box in the capitalized transaction system will be unchecked once the Federal Highway Administration (FHWA) division approves uploading the transaction to the FMIS system. The accountant in charge will send the supervisor a screenshot showing that the project has been expended in the system to prevent duplicate capitalizable costs or being recorded in the wrong period. In addition, the Authority has created a separate ledger account to record professional services transactions that provide general support to the Construction and Design Program.

Responsible:
Mr. Angel M. Felix Cruz, Finance Office Auxiliary Director

Planned Implementation Date: In process. Expected to be completed on or before June 30, 2024.

Finding Reference 2023-02

Corrective Action Plan:
The Authority will develop a new procedure to ensure compliance with these reporting requirements. All personnel involved in the administration of these programs for which federal funds are expended should receive adequate training about federal compliance and reporting requirements related to such programs. In addition, an individual should be assigned with the responsibility to monitor compliance with all related federal requirements. These procedures will also include a quarterly reconciliation of amounts reported between the Schedule of Federal Awards with the trial balance.

Responsible:
Mr. Angel M. Felix Cruz, Finance Office Auxiliary Director
Ms. Maria Del R. Ramos Ocasio, Accounting and Finance Manager

Status: In process. Expected to be completed on or before December 31, 2024.

March 29, 2024
Department of Transportation
Federal Highway Administration
Page 2

Finding Reference 2023-03

Corrective Action Plan:
The Authority assigned an Analyst and a Supervisor the responsibility to monitor compliance with all related Federal requirements for the reporting process of these funds. Also, an adequate training was provided to the personnel involved in the administration of this program.

Responsible:
Mr. Ramon L. Rivera Rivera, Analyst
Mr. Enrique J. Rosa Torres, Budget Office Auxiliary Director

Status: Completed on June 30, 2023.

Finding Reference 2023-04

Corrective Action Plan:
The Authority will perform an internal review of the toll credits usage Excel spreadsheet and will reconcile all credits used by the projects with a starting date in FY 2023 and later with the last version of the Federal-Aid Project Agreement approved by FHWA. Also, the credits summary will be delivered on a quarterly basis to the Executive Staff for the approval process. For the fiscal year 2024, the manual process of reconciling toll credits balance of the new projects with a starting date of January 2024 and later will be changed to an automated process with the PMIS Program, as agreed in Section II of the Memorandum of Understanding (MOU) signed in February 2016 between FHWA and the Authority. In addition, current toll credits tracking, reconciliation, and approval processes are reviewed by FHWA PR Division for compliance.

Responsible:
Mr. Enrique J. Rosa Torres, Budget Office Auxiliary Director

Status: In process. Expected to be completed on or before June 30, 2025.

If you require additional information in the above matters, please contact at your earliest convenience.

Best Regards,

Mr. Enrique J. Rosa Torres
Executive Director of Administration and Finance