COMMONWEALTH OF PUERTO RICO

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS AUDIT, REQUIRED SUPPLEMENTARY INFORMATION, OTHER SUPPLEMENTARY INFORMATION AND SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)

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Governmental Audit Quality Center
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PART I

FINANCIAL

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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the **Puerto Rico Industrial Development Company *(A Component Unit of the Commonwealth of Puerto Rico)*** **(PRIDCO)**, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the **PRIDCO**'s basic 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 financial position of **PRIDCO** as of June 30, 2022, and the changes in its financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 **PRIDCO**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Restatement of Prior Year Financial Statements

As discussed in Note 5 to the basic financial statements, the 2021 basic financial statements have been restated to correct misstatements. Our opinions are not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that **PRIDCO** will continue as a going concern. As discussed in Note 4 to the financial statements, **PRIDCO** has incurred in recurring losses and is currently negotiating a restructuring of its debts under Title VI of the U.S. Congress Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). Management's evaluation of the events and conditions and plans regarding these matters are also described in Note 4. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion on the basic financial statements is not modified with respect to this matter.

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 **PRIDCO**'s ability to continue as a going concern for twelve months beyond the financial statements 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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 do 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 **PRIDCO**'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 the **PRIDCO**'s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-13, employees' retirement systems information and employees' other postemployment benefits information, on pages 67 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **PRIDCO**'s basic 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, Costs Principles, and Audit Requirements for Federal Award,* on pages 71-73, is presented for purposes of additional analysis and is not required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023 on our consideration of **PRIDCO**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is 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 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 **PRIDCO**'s internal control over financial reporting and compliance.

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539388 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal year ended June 30, 2022. The MD&A is intended to serve an introduction to PRIDCO's basic financial statements, which have the following components: (1) proprietary fund financial statements, (2) notes to the basic financial statements (3) required supplementary information, and (4) other supplementary information. The MD&A is designed to (a) assist the reader in focusing on significant matters, and (b) provide an overview of PRIDCO's financial activities. The following presentation is by necessity highly summarized, and to gain a thorough understanding of PRIDCO's financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

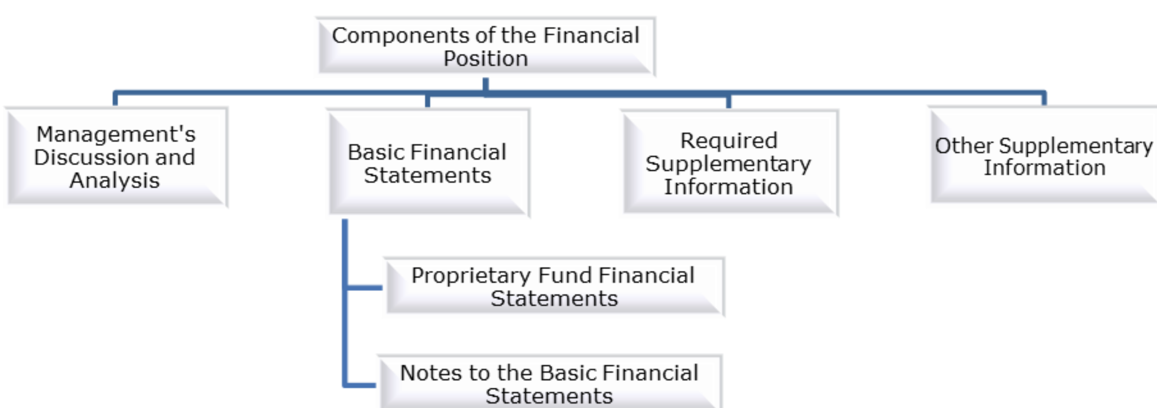
- During 2022, PRIDCO implemented Government Accounting Standards Board Statement No. 87, *Leases* (GASB No. 87). The adoption of GASB No. 87 resulted in PRIDCO recording its lease arrangements as financing agreements for the third party (lessee's) right to use PRIDCO's capital assets. This resulted in an increase in lease receivables and deferred inflows of resources of $441.9 million and $426.1 million, respectively. In addition, GASB No. 87 resulted in recognition of interest income from properties lease agreements amounting to approximately $20 million.

- Since FY2021, PRIDCO has entered into six forbearance agreements with creditors pertaining to those certain revenue bonds issued under the Trust Indenture, dated as of July 1, 1964, as amended (the "Trust Indenture"), between PRIDCO and U.S. Bank Trust National Association, as successor Trustee, with an outstanding principal balance of $150 million (the "Revenue Bonds" or the "Bonds"). During FY 2022, interest payments to creditors under these agreements amounted to approximately $8 million.

- Total revenues increased by $24.2 million because of GASB No. 87 implementation, and total operating expenses decreased by $12.1 million or 18%, when compared with fiscal year 2021. The change in net position increased $28.9 million with respect to the prior fiscal year.

Overview of the Basic Financial Statements

This discussion is intended to serve as an introduction to PRIDCO's basic financial statements. This report includes the MD&A, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, required supplementary information and other supplementary information.



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Proprietary Fund Financial Statements

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Proprietary Fund Statements of Net Position and Revenues, Expenses, and Changes in Net Position are presented using the economic resources measurement focus and the accrual basis of accounting.

The Proprietary Fund Financial Statements can be found on pages 14 through 18 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the proprietary financial statements. The Notes to the Basic Financial Statements can be found on pages 19 through 65 of this report.

Required Supplementary Information

The financial statements and notes are followed by the required supplementary information that includes the schedules related to pension plan as required by GASB No. 73 and GASB No. 75 and can be found on pages 67-69 of this report.

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Financial Analysis

The following is an analysis of the Statement of Net Position of PRIDCO's activities for fiscal year 2022:

Net Position

Condensed financial information from the Statement of Net Position as of June 30, 2022, and 2021 is as follows (expressed in thousands):

	June 30,		Change	
	2022	2021	In Dollars	Percent
Assets:				
Current Assets	$ 121,609	$ 88,557	$ 33,052	37%
Capital Assets, Net	522,199	539,173	(16,974)	-3%
Other Noncurrent Assets	407,973	7,458	400,515	5370%
Total Assets	**1,051,781**	**635,188**	**416,593**	**66%**
Deferred Outflows of Resources:				
Deferred Loss on Refundings	335	373	(38)	-10%
Other Post-Employment Benefits Related	462	438	24	5%
Pension Related	49,793	60,967	(11,174)	-18%
Total Deferred Outflows of Resources	**50,590**	**61,778**	**(11,188)**	**-18%**
Total Assets and Deferred Outflows of Resources	**$ 1,102,371**	**$ 696,966**	**$ 405,405**	**58%**
LIABILITIES:				
Current Liabilities	152,572	136,920	15,652	11%
Noncurrent Liabilities	526,755	561,456	(34,701)	-6%
TOTAL LIABILITIES	**679,327**	**698,376**	**(19,049)**	**-3%**
DEFERRED INFLOWS OF RESOURCES:				
Pension Related	16,685	15,790	895	6%
Leases Related	426,129	-	426,129	0%
TOTAL DEFERRED INFLOWS OF RESOURCES	**442,814**	**15,790**	**427,024**	**2704%**
NET POSITION (DEFICIT):				
Net Investment in Capital Assets	342,520	350,459	(7,939)	-2%
Restricted for Debt Service	3,463	3,641	(178)	-5%
Unrestricted (Deficit)	(365,753)	(371,300)	5,547	-1%
TOTAL NET POSITION (DEFICIT), As Restated	**(19,770)**	**(17,200)**	**(2,570)**	**15%**
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	**$ 1,102,371**	**$ 696,966**	**$ 405,405**	**58%**

Total assets and deferred outflows of resources increased during fiscal year 2022 when compared with fiscal year 2021, by $405.4 million. The increase is related primarily to the effect of the adoption of the GASB No. 87 amounting to $441.9 million, an increase in current assets amounting to $33 million, a decrease in capital assets amounting to $17 million and a decrease in total deferred outflows of resources amounting to $11.2 million.

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Current assets increased by $33.1 million as a net result of: (i) a decrease in cash amounting to $6.6 million, (ii) a decrease in net rent and accounts receivable amounting to $6.9 million, (iii) an increase in lease receivable amounting to $40.7 million, (iv) an increase in prepaid expenses amounting to $3.3 million and (v) an increase in due from Commonwealth of Puerto Rico of $2.6 million.

Capital assets decreased by $17 million primarily due to $4 million assets sold, current year depreciation amounting to $15.5 million, and a current year impairment adjustment amounting to $1.1 million offset by current year additions amounting to $3.6 million.

Other noncurrent assets increase by lease receivable increased by $401.2 million as a result of the adoption of GASB No. 87. Also a decrease of approximately $655 thousand primarily due to a decrease in other receivables of $477 thousand and a decrease in the Sinking Fund Reserve of $178 thousand.

Total deferred outflows of resources decreased by $11.2 million or 18% during fiscal year 2022 when compared to the prior fiscal year, related primarily to the increase in Pension related outflows of resources.

Current liabilities increased by $15.7 million primarily due to an increase in accrued interest of $9.3 million and an increase in the current portion of Bonds payables amounting to $13.1 million. This was partially offset by a decrease in the current portion of notes payables amounting to $6 million and a net decrease in other current liabilities of $700 thousand.

Non-current liabilities decreased by $34.7 million or 6% during fiscal year 2022 when compared to the prior fiscal year due to a decrease in Bonds payable amounting to $13.1 million, a decrease on loans and notes payable to commercial banks amounting to $2.8 million, an increase in due to Commonwealth amounting to $1.7 million, a decrease in pension liability of $12.5 million, a decrease in terminations benefits accrual of $1.1 million, a decrease in long term environmental liabilities of $15.3 million, an increase in amount due to EPA amounting to $10.3 million, a decrease in legal liabilities amounting to $675 thousand and a net decrease in other long term liabilities of $1.2 million.

Deferred inflows of resources increased by $427 million due to increase in the portion of lease receivable that will be recognized as revenue in future periods, over the lease term amounting to $426.1 million and increase in pension related deferred inflows amounting to $895 thousand.

As of June 30, 2022, the net position (deficit) of ($19.8) million is composed of $342.5 million of net investment in capital assets, $3.5 million Restricted for Debt Service, and a deficit of ($365.8) million. Total net position changed from $17.2 million (deficit) in fiscal year 2021, to ($19.8) million (deficit) in fiscal year 2022, an increase in deficit of approximately $2.6 million.

Restricted net position is mainly composed of an investment in certificate of deposits amounting to $1.8 million and amounts deposited in the sinking fund reserve for payments of Bonds payable and related interest amounting to $1.8 million. Restricted net position decreased approximately $178 thousand. There were no Bonds payments or issuance during the fiscal year ended June 30, 2022.

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Revenues, Expenses, and Changes in Net Position

Condensed financial information of the Statement of Revenues, Expenses and Changes in Net Position for the years ended on June 30, 2022 and 2021 is as follows (expressed in thousands):

	June 30,		Change	
	2022	2021	In Dollars	Percent
Revenues:				
Rental Income, Net	$ 68,486	$ 53,324	$ 15,162	28%
Total Non-Operating Revenues (Loss)	1,847	(7,199)	9,046	-126%
Total Revenues	**70,333**	**46,125**	**24,208**	**52%**
Operating Expenses:				
Salaries and Wages	3,245	5,407	(2,162)	-40%
Pension Expense	13,852	16,745	(2,893)	-17%
Other Post-Employment Benefits	22	720	(698)	-97%
Administrative, General and Other Expenses	19,593	23,031	(3,438)	-15%
Impairment Loss in Capital Assets	1,137	3,313	(2,176)	-66%
Custodial Credit Loss on Deposits with the Economic Development Bank	-	14	(14)	-100%
Depreciation and Amortization	15,460	16,165	(705)	-4%
Total Operating Expenses	**53,309**	**65,395**	**(12,086)**	**-18%**
Total Non-Operating Expenses	19,594	12,162	7,432	61%
Total Expenses	**72,903**	**77,557**	**(4,654)**	**-6%**
Change in Net Position	**(2,570)**	**(31,432)**	**28,862**	**-92%**
Net Position (Deficit), Beginning of Fiscal Year, As Restated	**(17,200)**	**14,232**	**(31,432)**	**-221%**
Net Position (Deficit), End of Fiscal Year	**$ (19,770)**	**$ (17,200)**	**$ (2,570)**	**15%**

PRIDCO reported a change in net position for fiscal year 2022 of approximately ($2.6) million (deficit), an increase amounting to $28.9 million when compared to fiscal year 2021's change in net position. This increase is due to an increase in total revenues amounting to $24.2 million, a decrease of total operating expenses amounting to $12.1 million or 18%, and an increase in non-operating expenses of $7.4 million or 61%, when compared with fiscal year 2021.

Total revenues increased during fiscal year 2022 by $24.2 million when compared to fiscal year 2021 primarily related to an increase in interest from properties lease agreements recognized under GASB 87 amounting to $20 million or 100%, and a decrease in rental income of $4.8 million and an increase in non-operating revenues amounting to $9.0 million. Rental income includes the amortization of deferred inflows of resources related to lease receivables recognized under GASB 87.

Operating expenses decreased by approximately $12.1 million or 18%, during fiscal year 2022 as compared to fiscal year 2021 due to a decrease in salaries and wages amounting to $2.2 million, a decrease in pension and other post-employment benefits expense of $3.6 million, decrease in impairment loss in capital assets amounting to $2.2 million, a decrease in depreciation expense amounting to $708 thousand, and a decrease in administrative and maintenance and repairs expenses amounting to $3.4 million.

Non-operating expenses increased by approximately $7.4 million or 61%, driven by an increase in Bonds interest expenses.

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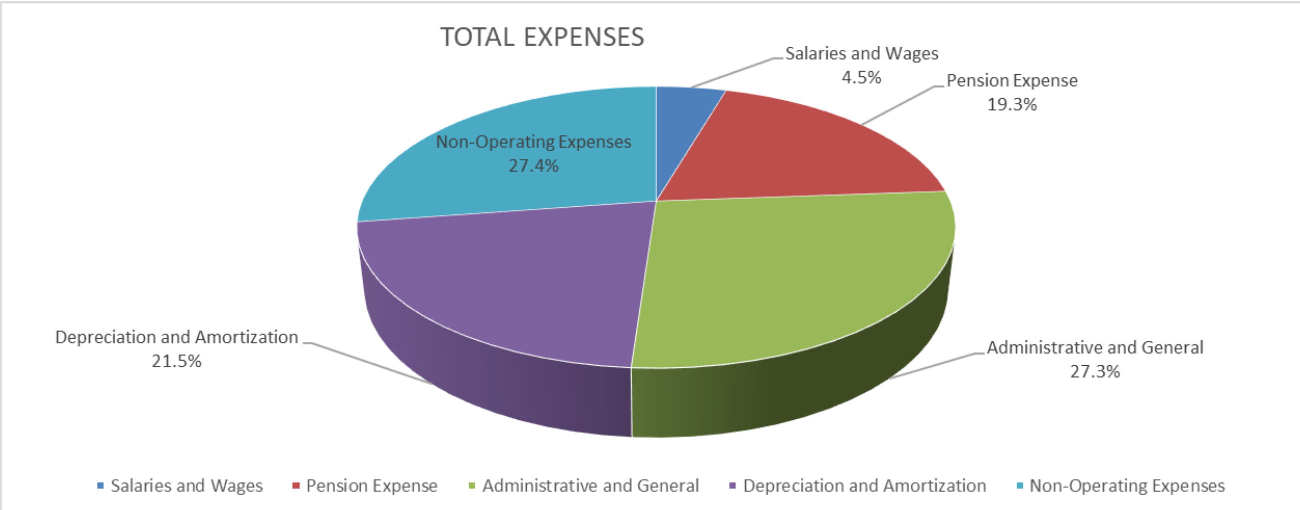
PRIDCO's expense distribution for the year ended on June 30, 2022 is as follows:



Capital Assets

At the end of the fiscal year, PRIDCO has invested $342.5 million, net of accumulated depreciation, in a broad range of capital assets, including land held for improvements, land on leased projects, building and improvements, machinery and equipment, among others.

Long-Term Debts

At the end of fiscal year 2022, PRIDCO reported $232.5 million in Revenue Bonds and loans and notes payable. This represented a reduction of $8.8 million, compared to the prior fiscal year.

PRIDCO failed to make payments of principal and interest on the Revenue Bonds when due starting August 1, 2016. Payments of principal and interest due were paid out of debt sinking reserve funds held by the Trustee until June 1, 2018.

Additional information on PRIDCO's capital assets and long-term liabilities, including (i) payments made on the Revenue Bonds under a Standstill Agreement (as defined below), and (ii) entry into the PRIDCO Restructuring Support Agreement, can be found in Notes 14 and 16 of the basic financial statements.

Current Known Facts

On June 13, 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), on behalf of PRIDCO, entered into a restructuring support agreement (the "2019 RSA") with GoldenTree Asset Management ("Golden Tree"), holder of over two-thirds of the outstanding Revenue Bonds. The RSA contemplated a financial restructuring of the Revenue Bonds through a Qualifying Modification under Title VI of PROMESA.

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On April 16, 2021, PRIDCO received a Notice of Termination of the RSA from Golden Tree, and the RSA is no longer effective. On May 6, 2021, Golden Tree commenced a legal action in United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO's purported failure to abide by its obligation to holders of the Revenue Bonds by, among other things, not paying principal and interest on the Bonds. On February 23, 2022, GoldenTree and PRIDCO entered a standstill agreement (the "Standstill Agreement") that resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agreed to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to paying to the Trustee monthly interest payments on the Bonds. The Standstill Agreement was extended multiple times and expired on October 31, 2022.

As of the date of the report, payments were made as established by the Standstill Agreement prior to its termination.

On January 19, 2023, GoldenTree recommenced the litigation in the United States District Court. The renewed complaint seeks, among other things, payment of all accrued and unpaid principal and interest on the Bonds, including all overdue Bond payments and future Bond payments as they come due.

In July 2023, after extensive negotiations, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board") and GoldenTree agreed on the terms of a Restructuring Support Agreement (the "2023 RSA" or the "Restructuring Support Agreement"), which contemplates a financial restructuring pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"), on the terms set forth in the term sheet attached as Exhibit A to the 2023 RSA (the "Settlement Summary").

The 2023 RSA (including the Settlement Summary) contemplate that the current Bonds will be exchanged for new bonds with the following characteristics (the "New Bonds"):

Accrued Claim	~$158.3 million (1) (net of $30MM paydown), projected as of October 31, 2023. Actual accrued claim will vary as interest will accrue until the effective date of the Title VI Qualifying Modification.
Recovery	100% of accrued claim
Interest Rate	Years 0-3: 7.00% taxable (~4.90% tax-exempt equivalent(2)) Years 4-30: 8.75% taxable (~6.13% tax-exempt equivalent(2))
Maturity	30 years
Amortization	Years 0-5: Interest only Years 6-30: P+I Level debt amortization
Call Provisions	Years 0-3: Callable at par Callable at 104%, declining by 0.5% per year until par call

(1) Projected through October 31, 2023 and subject to change pending final reconciliation.
(2) For illustrative purposes, assumes 30% investor tax rate.

On May 26, 2023, the Oversight Board also certified a new fiscal plan for PRIDCO (the "2023 CFP") that incorporated a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the 2023 RSA.

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The adjustments to previously certified fiscal plans include: (i) reduction to capital expenditure ("Capex") spending to account for cash already set aside in a demolition reserve ($15 million) and accounting for overlap related to funds available to PRIDCO from FEMA ($90-$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from $20.2 million to $10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

Under the 2023 CFP, PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of $474.8 million from FY2024 through FY2053. The average annual surplus for this period is $15.8 million. The projected debt service for the New Bonds, based on the terms of the 2023 RSA is approximately $455.6 million.

On July 17, 2023, the Oversight Board approved a settlement agreement between the EDB and various government entities over certain deposits at the EDB (the "Proposed Transaction"). Pursuant to the Proposed Transaction, EDB shall make a one-time cash payment of $9.7 million in full settlement and satisfaction of $110.4 million in unsecured deposit claims across 17 government entities, including PRIDCO. PRIDCO's unsecured deposits in EDB amounted to approximately $2.1 million on June 30, 2022.

Contacting PRIDCO's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of PRIDCO's finances and to demonstrate PRIDCO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

(In Thousands)

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	66,214
Rent, Loans and Accounts Receivable, Net		4,319
Lease Receivable		40,708
Due from the Commonwealth of Puerto Rico		5,898
Notes Receivable		735
Other Receivable		477
Prepaid Expenses and Other Assets		3,258
Total Current Assets		121,609
Noncurrent Assets:		
Sinking Fund Reserve Account, at Accreted Cost, Restricted		1,663
Investment in Certificate of Deposit, Restricted		1,800
Lease Receivable		401,170
Other Receivable		3,340
Capital Assets, Net		522,199
Total Noncurrent Assets		930,172
Total Assets		**1,051,781**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refundings		335
Other Postemployment Benefits Related		462
Pension Related		49,793
Total Deferred Outflows of Resources		**50,590**
Total Assets and Deferred Outflows of Resources	**$**	**1,102,371**

continue

(In Thousands)

LIABILITIES		
Current Liabilities:		
Accounts Payable and Other Accrued Liabilities	$	6,982
Bonds Payable		64,333
Loans and Notes Payable to Commercial Banks		2,809
Compensated Absences		173
Environmental Liabilities		195
Due to U.S. Environmental Protection Agency		743
Accrued Interest		61,382
Total Pension Liability		14,407
Total Other Postemployment Benefits Liability		440
Termination Benefits Accrual		1,108
Total Current Liabilities		152,572
Noncurrent Liabilities:		
Bonds Payable		85,543
Notes Payable to Debt Restructuring Authority		52,860
Loans and Notes Payable to Commercial Banks		26,994
Due to Southern Industrial Development Company		450
Due to the Commonwealth of Puerto Rico		28,639
Compensated Absences		265
Total Pension Liability		281,695
Total Other Postemployment Benefits Liability		4,895
Termination Benefits Accrual		3,914
Rent and Other Deposits		8,836
Legal Liabilities		175
Contract Retention		1,124
Environmental Liabilities		8,905
Due to U.S. Environmental Protection Agency		10,257
Unearned Rent Revenues		7,440
Unearned Revenues		3,817
Undistributed Proceeds from Sale		946
Total Noncurrent Liabilities		526,755
Total Liabilities		**679,327**
DEFERRED INFLOWS OF RESOURCES		
Pension Related		16,685
Leases Related		426,129
Total Deferred Inflows of Resources		**442,814**
NET POSITION (DEFICIT)		
Net Investment in Capital Assets		342,520
Restricted for Debt Service		3,463
Unrestricted (Deficit)		(365,753)
Total Net Position (Deficit)		**(19,770)**
Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	**$**	**1,102,371**

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(In Thousands)

OPERATING REVENUES:	
Rental Income, Substantially from Industrial Properties, Net	$ 48,501
Interest Income from Property Lease Agreements	19,985
Total Operating Revenues	68,486
OPERATING EXPENSES:	
Salaries and Wages (Including Voluntary Termination Benefits)	3,245
Pension Expenses	13,852
Other Postemployment Benefits	22
Administrative and General	14,830
Depreciation and Amortization	15,460
Impairment Loss in Capital Assets	1,137
Maintenance and Repairs, Net	4,763
Total Operating Expenses	53,309
Operating Income	15,177
NONOPERATING REVENUES (EXPENSES):	
Net Loss on Sales of Properties	(2,048)
Net Investment Income	40
Interest Income on Loans	161
Other Income	1,900
Grants and Contributions	1,794
Interest Expenses	(19,594)
Total Non-Operating Revenues (Expenses), Net	(17,747)
Changes in Net Position	**(2,570)**
NET POSITION (DEFICIT), BEGINNING OF FISCAL YEAR, AS RESTATED	(17,200)
NET POSITION (DEFICIT), END OF FISCAL YEAR	**$ (19,770)**

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

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(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Collected from Rental Income	$ 59,001
Cash Paid for Salaries and Benefits	(22,577)
Cash Paid for Suppliers and Services	(26,392)
Net Cash Provided by Operating Activities	10,032
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Sales of Capital Assets	2,014
Payment for Acquisition of Capital Assets	(3,685)
Payments of Notes and Loans Payable to Commercial Banks	(8,843)
Interest Paid	(10,226)
Net Cash Used in Capital and Related Financing Activities	(20,740)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributions from Federal Grants	1,794
Collections from Other Non-Operating Revenues	1,900
Net Cash Provided by Non-Capital and Related Financing Activities	3,694
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Change in Sinking Fund-Redemption, and Bond Service Accounts	201
Interest Collected on Investments and Loans	178
Net Cash Provided by Investing Activities	379
Net Change in Cash and Cash Equivalents	**(6,635)**
Cash and Cash Equivalents, Beginning of Fiscal Year	72,849
Cash and Cash Equivalents, End of Fiscal Year	**$ 66,214**

continue

(In Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	$ 15,177
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	15,460
Provision for Doubtfull Accounts	4,685
Impairment Loss in Capital Assets	1,137
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable and Deposits	2,245
Leases Receivable	(441,878)
Other Receivable	466
Prepaid Expenses and Other Assets	(3,257)
Due from Commonwealth of Puerto Rico	(2,641)
Pension Related Deferred Outflows of Resources	11,174
OPEB Related Deferred Outflows of Resources	(24)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(632)
Termination Benefits Accrual	(1,503)
Compensated Absences	(73)
Unearned Rent Revenues	(666)
Unearned Revenues	(466)
Contract Retention	25
Pension Liability	(12,243)
Other Postemployment Benefits Liability	(415)
Rent and Other Deposits	332
Undistributed Proceeds from Sale	174
Legal Liabilities	(675)
Environmental Liabilities	(16,135)
Due to U.S. Environmental Protection Agency	11,000
Due to Commonwealth of Puerto Rico	1,741
Pension Related Deferred Inflows of Resources	895
Leases Related Deferred Inflows of Resources	426,129
Total Adjustments	(5,145)
Net Cash Provided by Operating Activities	**$ 10,032**

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Amortization of Bond Discount	$ 20

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

1. REPORTING ENTITY

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

a. Component Units – The basic financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14 and No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*.

   Based on the above criteria the following component units are presented blended in the financial statements:

   i. Puerto Rico Industrial Investment Corp. (PRIICO), which owns a building in San Juan, where PRIDCO offices are located. These premises are leased to PRIDCO and other entities.

   ii. Puerto Rico Industrial Incentives Fund, Inc. (PRIIF), which was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of employment in the industrial and service sectors of the Puerto Rico economy. Since 2014 it has no operational activities and the amount presented corresponds to a receivable due in 2023. The information presented was not subject to audit.

The financial statements of PRIICO and PRIIF, even though they are legally separate component units, are reported as if they are part of PRIDCO because PRIDCO's governing body is in substance the same as the component units and PRIDCO's management has operational responsibility for both PRIICO and PRIIF.

Condensed financial information as of June 30, 2022, and for the fiscal year then ended of the component units is as follows:

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continue

1. REPORTING ENTITY – continuation

	PRIICO	(Unaudited) PRIIF
Statements of Net Position as of June 30, 2022 (In Thousands):		
Current Assets	$ 6,350	$ 172
Due from PRIDCO	103,711	-
Capital Assets, Net	8,745	-
Total Assets	118,806	172
Deferred Outflows of Resources	335	-
Total Assets and Deferred Outflows of Resources	**$ 119,141**	**$ 172**
Current Liabilities	$ 3,591	$ -
Due to PRIDCO	194,148	-
Noncurrent Liabilities	27,136	-
Total Liabilites	224,875	-
Net Position (Deficit):		
Net Investment in Capital Assets	8,745	-
Net Position (Deficit)	(114,479)	172
Total Net Position (Deficit)	(105,734)	172
Total Liabilities and Net Position (Deficit)	**$ 119,141**	**$ 172**
Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Year Ended June 30, 2022 (In Thousands):		
Operating Revenues	$ 2,110	$ -
Operating Expenses	(2,979)	-
Operating Loss	(869)	-
Non-Operating Expense:		
Interest Expense	(1,523)	-
Changes in Net Position	(2,392)	-
Net Position (Deficit), Beginning of Fiscal Year	(103,342)	172
Net Position (Deficit), End of Fiscal Year	**$ (105,734)**	**$ 172**
Statements of Cash Flows for the Fiscal Year Ended June 30, 2022 (In Thousands):		
Net Cash Provided (Used) in Operating Activities	$ (646)	$ -
Net Cash Used In Capital and Related Financing Activities	(10,385)	-
Net Cash Provided by Non-Capital and Related Financing Activities	10,841	-
Net Change in Cash	(190)	-
Cash, Beginning of Fiscal Year	4,850	172
Cash, End of Fiscal Year	**$ 4,660**	**$ 172**

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of PRIDCO conform to U.S. GAAP, as applicable to governmental entities. PRIDCO follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for rent and loan losses, custodial credit loss on deposits with Economic Development Bank for Puerto Rico (EDB), useful lives of fixed capital assets, capital assets and contingencies (environmental and legal).

a. Measurement Focus, Basis of Accounting and Financial Statement Presentation – The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid.

b. Concentration of Credit Risk – PRIDCO maintains cash on deposits with high rated financial institutions, the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth. The laws of the Commonwealth require commercial banks to fully collateralize all public funds deposited with them more than the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with EDB are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the banks, PRIDCO would not recover its deposits. (Refer to Note 6).

c. Cash Equivalents – PRIDCO considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

d. Investments – Governmental Accounting Standard Board Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and considering the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

e. Rent, Notes, and Accounts Receivable and Allowance for Doubtful Accounts – PRIDCO's lease receivable arises from the leasing of industrial facilities to its customers. The allowance for doubtful accounts is established through provisions recorded as an offset of rental income. Write-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously written-off are credited to the allowance. Notwithstanding, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions. Refer to Note 10 for additional information for Leases in accordance with GASB No. 87.

Notes and loans receivable are presented at the outstanding unpaid principal balance reduced by the allowances for losses. The allowance for doubtful accounts on notes receivable and loans receivable is established upon an evaluation of the risk's characteristics of those accounts, loss experience, economic conditions, and other pertinent factors. Notes and loans receivable are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement.

f. Assets Restricted for Payments of Bonds – Restricted assets for payment of Revenue Bonds as of June 30, 2022, consist of the following (in thousands):

Restricted Assets:	
Sinking Fund Required by Trustee	$ 18,150
Unfunded Balance	(16,487)
Sinking Fund Balance as of June 30, 2022	1,663
Liabilities Payable from Restricted Assets consists of the following:	
Bonds and Discount Payable within One Year	64,333
Interest Payable as of June 30, 2022	34,310
Total Liabilites Payable from Restricted Assets	98,643
Deficit	$ (96,980)

g. Capital Assets – Capital assets are stated at cost, net of accumulated depreciation and amortization. Cost of construction includes, among other things, interest costs, and indirect costs consisting of payroll taxes and other fringe benefits. Depreciation and amortization are computed on the straight-line method at rates considered adequate to allocate the cost of the various types of property over their estimated useful lives. Expenditures for maintenance and repair costs that do not improve or extend the life of the respective assets are charged to operations as incurred. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Estimated useful lives and capitalization thresholds are as follows:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

	Useful Life (Years)	Capitalization Threshold (In Thousands)
Buidings and Improvements	50	$1
Machinery and Equipment	15	$1
Furnitures and Vehicles	5-15	$1

An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of their carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

h. Operating Revenue and Expenses – PRIDCO distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

i. Revenue Recognition – Revenue from rental activities related to industrial properties under short term agreements, which are those with a maximum possible term of 12 months or less, is reported as revenue on the accrual basis over the term of the lease based on the monthly rental fees established by each lease agreement. Revenue from rental activities related to industrial properties under lease arrangements with a non-cancellable period longer than 12 months, include the amortization of the deferred inflows of resources recognized on a straight-line basis over the remaining term of the leases. Revenue from non-exchange transactions consists of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met.

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continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

k. Voluntary Termination Benefits – PRIDCO accounts for 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. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. Therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

l. *Accounting for Pension Costs* – As further disclosed in Note 18, effective July 1, 2017, a new "Pay-As-You-Go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the ERS were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits. Therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

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continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

As a result of the implementation of the PayGo system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 (*GASB Statement No. 68) to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, it was necessary to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements Nos. 67 and 68* (GASB Statement No. 73). GASB Statement No. 73 maintains the "accrual basis" model under Statement No. 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act No. 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, PRIDCO recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation not under PRIDCO's management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 22.

The Central Government and its component units are considered to be one employer, and are classified for financial reporting purposes as a single employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as PRIDCO, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. GASB Statement No. 73 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.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2022 (see Note 22).

m. Other Postemployment Benefits Obligation – PRIDCO accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017,* which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses.

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 23.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Because certain employers that are component units of the Commonwealth, such as PRIDCO, 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.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses 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 Commonwealth on behalf of PRIDCO subsequent to the measurement date, of approximately $444 thousand.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2020 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2022 (see Note 23).

GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

n. Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statement Nos. 67 and 68, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and *GASB 87, Leases*.

o. In FY2022, PRIDCO adopted GASB Statement No. 87, *Leases* (GASB No. 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This single model for lease accounting is based on the foundational principle that leases are financing for the right to use an underlying asset and eliminates the distinction between operating and capital leases. The effective date of financial reporting for leases under GASB No. 87, and Implementation Guide No. 2019-3, *Leases* was fiscal years beginning after December 15, 2019. However, it was superseded by GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, until the years beginning after June 15, 2021. GASB No. 87 instructs that leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or of the earliest period restated.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

As discussed in Note 1, PRIDCO engages in the lease of commercial and industrial properties to private parties. These lease arrangements consist of non-cancellable leases of land, buildings, building improvements, and parking. Management evaluated and concluded that many of these agreements are considered leases within the scope of GASB No. 87, and the adoption of the statement resulted in PRIDCO classifying lease arrangements as financing arrangements. Under GASB 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources. Receivables related to lease arrangements are measured at the present value of fixed lease payments expected to be received during the lease term. For leases that were in place at adoption (January 1, 2021), fixed lease payments were measured over the remaining lease term. The discount rates utilized in the valuation of lease arrangements subject to GASB 87 are based on PRIDCO's incremental cost of borrowing at the time of valuation. Deferred inflows of resources related to leases are amortized on a straight-line basis over the remaining lease term. PRIDCO continually monitors changes in the circumstances that would require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the value of the lease receivable, the lease receivable is remeasured and adjusted.

PRIDCO, as lessee, enters lease arrangements for office space and equipment. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset. Liabilities related to the office equipment are measured at the present value of fixed payments expected to be made during the lease term. These leases were in place at adoption (January 1, 2021), and fixed lease payments were measured over the remaining lease term. Leased assets are amortized into amortization on a straight-line basis over the lease term.

The lease arrangement for office space is for a maximum of 12 months and is cancelable by PRIDCO or PRIICO (as lessor) at any given moment (both parties do not have to agree), therefore not considered a lease within the scope of GASB 87. Rent expense is recognized based on the provisions of the lease arrangement.

Key estimates and judgments include how PRIDCO determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts:

- PRIDCO uses its incremental borrowing rate as the discount rate for leases, unless specifically identified in the lease.
- The lease term includes the non-cancelable periods of the lease arrangements, plus any additional periods covered by an option to extend for which is reasonably certain to be exercised. Periods in which both the lessee and PRIDCO have a unilateral option to terminate (or both parties must agree to extend) are excluded from the lease term.
- Lease receipts included in the measurement of the lease receivables are composed of fixed payments PRIDCO will receive over the lease term.

The adoption of this standard result in a recognition of a lease receivable and a deferred inflow of resources of $475 million and recognized an operating interest income of $20 million and an offsetting decrease in operating revenue of $9 million. For additional information on lease accounting see Note 10, Leases.

p. New Accounting Pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement. as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

  Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

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

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

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

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

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

  With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

  This Statement requires that 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

q. Reclassifications:

Certain reclassifications were made to the previous year's figures in order to conform with this year's presentation.

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territorial governments and their agencies and public corporations. More specifically, PROMESA did the following: (a) it established the Oversight Board) with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well. During the fiscal years subsequent to June 30, 2016, the Commonwealth and eight other governmental entities in Puerto Rico have initiated proceedings at the request of the Governor under either Title III or Title VI of PROMESA to restructure or adjust their existing debt. On March 15, 2022, the Commonwealth Plan of Adjustment became effective, thereby significantly reducing the Commonwealth's debt levels.

PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities 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 other instrumentalities 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 Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) *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 initial group of Oversight Board members, several of whom have been replaced with new members after their three-year terms expired.

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".

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

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".

(b) *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. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance. In addition, the United States Court of Appeals for the First Circuit has issued certain rulings regarding the interpretation of the Oversight Board's powers under PROMESA sections 204(a) and 108(a) that apply administrative law principles to statutes passed by the Commonwealth and certified as not significantly inconsistent with a Board-certified fiscal plan.

(c) *Title III – In-Court Restructuring Process*

Title III of PROMESA 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 Title III of PROMESA, 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 plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, COFINA, and HTA.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(d) *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-days extension by the Oversight Board or a one-time 60-days 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 several 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 May 9, 2018.

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 30, 2021, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) *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.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(f) *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 bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order 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.

The Title VI process was successfully implemented to restructure the debts of GDB, PRIDCO, and PRCCDA.

(g) *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".

PRIDCO Fiscal Plan

On May 30, 2023, the Oversight Board certified its most recent fiscal plan for PRIDCO*, i.e.,* the 2023 CFP. which seek to support cost reductions and improve property management resulting in a more efficient and effective government structure including the following:

(i) Payroll Measures
(ii) PayGo Measures
(iii) Delinquency Rate Improvement Measure
(iv) Expired Lease Measures
(v) Third-Party Manager Measures
(vi) Shared Services Measures on the MOU
(vii) Capital Expenditures Improvement Measures
(viii) Rent Escalation Measure
(ix) Occupancy Process Optimization
(x) Needs Assessment of Real Estate Information Systems
(xi) Divestment of non-rentable properties
(xii) Update Rental Rate Card
(xiii) Inter-Government Real Estate Representation
(xiv) Implementation of Fiscal Controls
(xv) Skills and Knowhow Transfer from Consultants to Public Sector Personnel

The adjustments to previously certified fiscal plans include: (i) reduction to Capex spending to account for cash already set aside in a demolition reserve ($15 million) and accounting for overlap related to funds available to PRIDCO from FEMA ($90-$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from $20.2 million to $10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

Standstill Agreement

On May 6, 2021, Golden Tree commenced a legal action United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO's purported failure to abide by its obligation to holders of the Revenue Bonds by, among other things, not paying principal and interest on the Bonds. GoldenTree and PRIDCO entered the Standstill Agreement in September 2021, which resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agreed to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to pay to the Trustee monthly interest payments on the Bonds, totaling $672,354.38 per month. The Standstill Agreement was extended on numerous occasions until it expired on October 31, 2022. Refer to Note 28 for additional information on the proposed restructuring of the Revenue Bonds under Title VI of PROMESA.

4. GOING CONCERN AND UNCERTAINTIES

The discussion in the following paragraphs regarding PRIDCO's financial and liquidity risks provide the necessary background and support for management's evaluation as to whether there is substantial doubt about PRIDCO's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows in prior years, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting obligations as they become due, are factors that are considered in this evaluation.

As of June 30, 2022, management believes there is substantial doubt about PRIDCO's ability to continue as a going concern because of the following factors:

- PRIDCO has experienced recurring losses from operations.
- PRIDCO has been unable to fund all its outstanding obligations. And, pursuant to Act No. 2 of 2017, AAFAF, on behalf of PRIDCO, is currently negotiating a restructuring of PRIDCO's obligations under mechanisms available under PROMESA.
- PRIDCO extended a forbearance agreement in September 2022, which expired on October 31, 2022. In July 2023, the Restructuring Support Agreement was entered, which contemplates a financial restructuring pursuant to Title VI of PROMESA, please refer to Note 28 for further information.

continue

4. GOING CONCERN AND UNCERTAINTIES – continuation

- The Oversight Board has approved three fiscal plans for PRIDCO. On May 26, 2023, the Oversight Board certified the currently operative fiscal plan, *i.e.*, the 2023 CFP. The 2023 CFP incorporates a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the Restructuring Support Agreement.

  There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

- In November 2022, PRIDCO announced that it is requesting proposals for the management of industrial and commercial properties currently owned and managed by PRIDCO.

PRIDCO's management is working with some of the initiatives included in the Oversight Board Fiscal Plan. This plan will include a series of initiatives for increasing revenues through the renewal of existing leases contracts and sale of properties, and reducing administrative costs, including payroll costs, by the transfer of employees to the Department of Economic Development and Commerce. Refer to the subsequent events Note 28 for further details.

5. RESTATEMENT OF NET POSITION AND CORRECTION OF AN ERROR

The following table disclosed the net change in the net position at the beginning of year as previously reported in the financial statements. The beginning balance has been restated or corrected as follows (in thousands):

Net Position (Deficit), as Previously Reported, At June 30, 2021	$	(17,935)
Unrecorded Accounts Receivables		735
Unrecorded Other Receivables		4,283
Unrecorded Unearned Revenues		(4,283)
Beginning Net Position (Deficit), as Restated, At July 1, 2021	$	(17,200)

The understatement of notes receivable amounting to $735 thousand is related to an intergovernmental agreement with the Land Authority of the Commonwealth of Puerto Rico related to purchases of agricultural machinery and equipment which was not accounted for by PRIDCO in prior years. Subsequently, during the fiscal year 2023, the note receivable balance was satisfied in exchange for a land lot with the same value, and as a result management restates the beginning net position.

The understatement of other receivable and unearned revenues is related to a contract agreement signed in prior years between PRIDCO and a tenant in which the tenant will pay PRIDCO for the investment in building improvements made and to be completed. Such transactions were not accounted for in the prior fiscal years and as a result management decided to correct such errors during the fiscal year 2022.

continue

6. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2022 consist of the following (in thousands):

	Book Balance	Accumulated Custodial Credit Risk Loss	Book Balance After Accumulated Custodial Credit Risk Loss	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash Deposit in Commercial Banks	$ 66,214	$ -	$ 66,214	$ 63,196	$ -
Cash Equivalents:					
Deposits Accounts With:					
Economic Development Bank	2,107	(2,107)	-	2,107	2,107
Total Cash and Cash Equivalent, Net	$ 68,321	$ (2,107)	$ 66,214	$ 65,303	$ 2,107

Custodial Credit Risk Loss on Deposits with Economic Development Bank for Puerto Rico

The Commonwealth's credit rating downgrade in 2014 led private entities to retire their businesses from EDB and prevented the Government Development Bank (GDB) from receiving capital. GDB crisis made many public agencies and corporations move their deposits from EDB to GDB, leading EDB to the point of liquidating its entire investment portfolio.

Even though EDB took several measures to control the decline in its operations, they were not enough. On October 23, 2018, the Oversight Board certified a fiscal plan for the Commonwealth, which included the closure of the EDB. However, that provision was not implemented and EDB continued its operations. Nevertheless, EDB faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligations as they become due in the ordinary course of its operations, without restructuring its debt or other initiative to restructure its obligations. See note 28 for information related to EDB settlement agreement.

7. SINKING FUND RESERVE ACCOUNT, AT ACCRETED COST, RESTRICTED

The Trust Indenture requires three separate accounts in the Sinking Fund designated "Bond Service Account", "Redemption Account", and "Reserve Account", respectively.

The Trust Indenture provides that funds deposited in such accounts shall be held in trust and applied as provided therein and shall be subject to a lien and charge in favor of the holders of the Bonds issued and outstanding under the Trust Indenture and for the further security of such holders until paid out or transferred, to the extent set forth in the Trust Indenture.

Due to the Moratorium Act, PRIDCO has no legal obligation to transfer, and has not transferred, funds into the Sinking Fund.

As of August 1, 2016, PRIDCO did not transfer payment of principal and interest on the Revenue Bonds to the Sinking Fund. As result, payments of principal and interest due were paid out of reserve funds held by the Trustee until June 2, 2018.

continue

7. SINKING FUND RESERVE ACCOUNT, AT ACCRETED COST, RESTRICTED – continuation

Due to the Moratorium Act, PRIDCO no longer makes deposits into the Sinking Fund in accordance with the Standstill Agreement, as discussed in the subsequent event note below.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For additional information regarding payment of Bonds, including the impact of the proposed Qualifying Modification, refer to the Subsequent Events disclosures in Note 28.

8. INVESTMENTS

As of June 30, 2022, PRIDCO holds a certificate of deposits in a private bank amounting to $1.8 million. This certificate bears monthly interest at 1.40% and renews automatically every three years since its opening in November 2014. The certificate principal balance is restricted for debt service purposes.

9. RENT AND ACCOUNTS RECEIVABLE

Rent related to short term agreements and other accounts receivable as of June 30, 2022 consist of the following (in thousands):

Rent Receivable	$ 31,466
Other	6,708
Total Receivables	38,174
Less: Allowance for Doubtful Accounts	(33,855)
Rent, Loans and Accounts Receivable, Net	$ 4,319

Changes in the allowance for doubtful accounts during the year ended June 30, 2022 are as follows (in thousands):

Allowance for Doubtful Accounts, Beginning of Fiscal Year	$ 32,151
Plus: Provision for Doubtful Accounts	4,685
Less: Accounts Written-Off	(2,981)
Allowance for Doubtful Accounts, End of Fiscal Year	$ 33,855

In September 2017, Puerto Rico was impacted by Hurricanes Irma and María, major category 4 hurricanes, causing a level of widespread destruction in many areas including infrastructure, housing, environment, public and private property, and disrupting the Commonwealth and Company's operations. Hurricanes Irma and María severely damaged 9% and 74% of PRIDCO's property, respectively. PRIDCO performed significant mitigation and recovery efforts financed by operating funds.

PRIDCO estimated that all damage suffered was about $187 million. At present, management has submitted claims to PRIDCO's and tenants' insurance companies, and evidence of recovery related costs to the Federal Emergency Management Agency (FEMA) for reimbursement through public assistance grants. Currently, PRIDCO continues negotiations with FEMA and the insurance company, but amounts to be collected from these entities cannot be determined at this time.

PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3), a division within the Puerto Rico Public Private Partnership Authority authorized to receive all disaster recovery grants of FEMA.

continue

10. LEASE RECEIVABLE

Under GASB No. 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for excluded leases. The lease receivable is measured at the present value of “fixed” lease payments, including escalations that are fixed in substance and expected to be received during the lease term. There were no variable payments, residual value guarantees, or termination penalties reported for the fiscal year. PRIDCO leases arrangements generally have an initial term of 5 to 10 years, and can contain automatic renewal options, generally of 5 to 10 years. Renewal options are included in the lease term if the option is reasonably certain of being exercised, and termination options are included if the option is reasonably certain of not being exercised. An amendment to the lease contract is considered a lease modification, unless the lessee’s right to use the underlying asset decreases, in which case it is considered a partial or full lease termination. Discount rates applied to expected fixed lease payments are based on PRIDCO’s incremental cost of borrowing at the commencement of the lease term. The discount rate applied to expected fixed lease payments valuations is 5%. Receipts from the lessees are recorded as a reduction in the receivable (principal) and interest income. PRIDCO also recognized a deferred inflow of resources at the amount the lease receivable, including any lease payments received at or before commencement of the lease term that related to future periods and less incentives, if any. The deferred inflows of resources are amortized on a straight-line basis over the lease term.

As of June 30, 2022, PRIDCO had minimum principal and interest lease receivable payments for its leasing activities, with a remaining term more than one year as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 40,708	$ 21,019	$ 61,727
2024	34,978	19,249	54,227
2025	34,106	17,531	51,637
2026	34,427	15,817	50,244
2027	32,669	14,132	46,801
2028-2032	122,467	49,754	172,221
2033-2037	79,046	25,358	104,404
2038-2042	48,049	9,037	57,086
2043-2047	14,377	1,501	15,878
2048-2052	940	115	1,055
2053-2055	111	8	119
Total	$ 441,878	$ 173,521	$ 615,399

11. OTHER RECEIVABLE

During June 2019, PRIDCO entered into an Economic Development Incentives Agreement with a tenant for the expansion and improvements of a building. The agreement states that in addition to the basic rent, tenants shall pay PRIDCO monthly payments amounting to $46,718 for ten years. Monthly payments include an administration fee of 2.32%. As of June 30, 2022, other receivable and unearned revenues balance amounted to $3.8M.

continue

11. OTHER RECEIVABLE – continuation

Principal future maturities are as follows:

Fiscal Year Ending June 30,		
2023	$	477
2024		488
2025		500
2026		512
2027		524
2028-2030		1,316
Total	$	3,817

12. RELATED PARTIES TRANSACTIONS

PRIDCO is a party to various transactions with other governmental entities and related parties.

Amounts due from (to) these entities as of June 30, 2022, consist of the following (in thousands):

Entity	Purpose	Due From		Due To	
Commonwealth of Puerto Rico	Rent	$	5,898	$	-
Southern Industrial Development Company	Cash Advances		-		450
Commonwealth of Puerto Rico	"Pay-Go" Charge		-		7,134
Commonwealth of Puerto Rico	Management and Others		-		21,505
		$	5,898	$	29,089

Due From the Commonwealth

The Due from the Commonwealth is mainly composed of rent charges amounting to $5.6 million owed by the Department of Economic Development and Commerce (DDEC) and $298 thousand owed by governmental agencies.

Due to Puerto Rico Southern Industrial Development Company (SIDCO)

SIDCO is a related organization engaged in promoting the development of the economy of Puerto Rico, with its sole facility in Guayama, Puerto Rico that is currently leased to a pharmaceutical company.

The rental agreement calls for the payment of annual rent equal to the amounts due and payable by SIDCO under various notes payable and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus $750,000.

Pursuant to the terms of the agreement, the pharmaceutical company exercised the right to extend the initial term of the lease for two successive renewal periods; the first renewal for a period of 20 year after the date of commencement of operations or the pharmaceutical company's tax-exemption grant, whichever date is later, and the second renewal for an additional period of 7 years commencing upon the expiration of the first renewal period. The first renewal period of the lease expired on October 31, 2018. The second renewal period was extended until October 31, 2025.

continue

12. RELATED PARTIES TRANSACTIONS – continuation

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land facility by entering into a promissory note in the amount of $1.6 million. Pursuant to the terms of the promissory note, the parties agreed upon the following:

- SIDCO shall not be obligated to pay the unpaid balance of principal thereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.

- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been blended within PRIDCO's financial statements.

Due to SIDCO amounts to $450,000.

Due to the Commonwealth

Due to the Commonwealth is composed of balance owed by PRIDCO to the DDEC and its programs and the Department of Treasury as of June 30, 2022. Balance due to DDEC includes administrative fees and debt collateral amounting to $21.5 million. The balance due to the Department of Treasury amounting to $7.1 is related to pension payments made on behalf of PRIDCO under the PayGo system.

Due From (To) Other Governmental Entities

In addition, as part of its regular operations, PRIDCO has transactions with other governmental entities for different types of services such as electric power, water and sewer. Most significant related party transactions for the year ended June 30, 2022, are described below.

Entity	Type of Service	Service Fee	Due From	Due To
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer	$ 162	$ 271	$ 53
Puerto Rico Electric Power Authority	Electric Power	1,023	17	240
Governmental Agencies	Rent	N/A	-	102
			$ 288	$ 395

The balances due as of June 30, 2022, from these related parties are included in rent, loans and accounts receivable balance, while the balance due to these related parties are included in accounts payable and other accrued liabilities.

13. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO to qualified exempt businesses for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. The notes agreements provide that the outstanding principal may be prepaid without penalty. Notes receivable as of June 30, 2022 consist of the following (in thousands):

continue

13. NOTES RECEIVABLE – continuation

Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 4.25% during the term of the loan. This note is due in monthly installments of $5 thousand commencing on March 1, 2010 to September 1, 2023 and a final payment of $4 thousand due on October 1, 2023 and is collateralized by a lien on machinery and equipment and isurance policies covering the replacement value of equipment and machinery.	$	439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 8% during the term of the loan. This note is due in monthly installments of $2 thousand commencing on December 1, 2004 over a 20-year period and is collateralized by a lien on machinery and equipment and isurance policies covering the replacement value of equipment and machinery.		452
Non-interest bearing integornmental note receivable with the Land Authority of the Commonwealth of Puerto Rico		735
Subtotal		1,626
Less: Allowance for Doubtful Accounts		(891)
Notes Receivable, Net	$	735

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continue

14. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 consists of the following (in thousands):

Governmental Activities	Balance at June 30, 2021	Additions	Reclassification	Retirements	Balance at June 30, 2022
Capital Assets, Not Being Depreciated:					
Land Held for Improvement	$ 138,265	$ -	$ -	$ (3,750)	$ 134,515
Land on Leased Projects	78,269	-	-	(39)	78,230
Construction in Progress	1,333	3,575	(2,781)	-	2,127
Total Capital Assets, Not Being Depreciated	**217,867**	**3,575**	**(2,781)**	**(3,789)**	**214,872**
Capital Assets, Being Depreciated:					
Buidings and Improvements	781,022	97	2,781	(1,471)	782,429
Machinery and Equipment	67,575	-	-	-	67,575
Furnitures and Vehicles	18,829	13	-	(546)	18,296
Total Capital Assets, Being Depreciated	**867,426**	**110**	**2,781**	**(2,017)**	**868,300**
Less: Accumulated Depreciation:					
Buidings and Improvements	(462,113)	(14,734)	-	143	(476,704)
Machinery and Equipment	(65,478)	(538)	-	-	(66,016)
Furnitures and Vehicles	(18,529)	(188)	-	464	(18,253)
Total Accumulated Depreciation	**(546,120)**	**(15,460)**	**-**	**607**	**(560,973)**
Total Capital Assets, Being Depreciated, Net	**321,306**	**(15,350)**	**2,781**	**(1,410)**	**307,327**
TOTAL CAPITAL ASSETS, NET	**$ 539,173**	**$ (11,775)**	**$ -**	**$ (5,199)**	**$ 522,199**

PRIDCO evaluated its capital assets for impairment and recorded a charge of $1.1million during the fiscal year ended June 30, 2022.

On December 5, 2014, the Puerto Rico Ports Authority (Ports), another component unit of the Commonwealth, entered into an $8 million financing agreement with GDB and used the proceeds for the development of certain repair, maintenance, and overhaul aerospace facilities, at Rafael Hernandez Airport, in Aguadilla, Puerto Rico, a property of Ports. In addition, the Special Development Economic Fund agreed to provide a $6.4 million incentive for the creation of new employment at that project, and the Special Incentives Fund, agreed to provide $40 million to supplement the construction of the facilities at the Airport. Both funds are funds of the Commonwealth.

To secure the $8 million financing provided by GDB to Ports, on that same date, PRIDCO entered into a voluntary mortgage agreement with GDB, and mortgaged certain non-bonded properties, with a carrying value of $4.2 million, as collateral for this financing, for an amount not to exceed $10 million. The agreement established that PRIDCO is not a debtor or co-debtor for the Ports financing, and does not have any other responsibility, other than to provide these properties as collateral in case of default or non-compliance by Ports, up to $10 million. The mortgage note is due and payable on December 5, 2044.

As part of the GDB Qualify Modification effective as of November 29, 2018, the financing agreement and mortgage agreement were transferred to the GDB Debt Recovery Authority (“DRA”).

continue

15. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2022 consist of the following (in thousands):

Accounts Payable	$	4,243
Accrued Payroll Related Expenses		245
Other Accrued Liabilities		2,494
	$	6,982

16. LONG-TERM DEBT ACTIVITY

Long-term debt activity for the fiscal year ended June 30, 2022, is as follows (in thousands):

Bonds Payable

As required by the Trust Indenture, PRIDCO has purported to pledge and assign to the Trustee the gross revenue from certain properties (known as the "Trusteed Properties") to the extent set forth in the Trust Indenture for the payment of the Revenue Refunding Bonds and General-Purpose Revenue Bonds, Series 1991 to 1997.

During fiscal year 1998, PRIDCO issued approximately $150 million in revenue refunding and general-purpose Revenue Bonds.

Revenue Refunding Bonds and General-Purpose Revenue Bonds outstanding as of June 30, 2022, are as follows (in thousands):

Series A 1997, Term Bonds, 6.70%, Due on July 1, 2021	$	15,190
Series 2003 General Purpose Revenue Bonds:		
Series Bonds, 5.15%, Due on July 1, 2018		1,225
Capital Appreciation Bonds, Implicit Annual Interest Rates of 5.15% to 5.20%, Due on July 1, 2017 and 2018		5,626
Term Bonds, 5.20%, Due on July 1, 2023		48,925
Term Bonds, 5.25%, Due on July 1, 2028		78,910
		149,876
Less: Current Maturities		(64,333)
Bonds Payable, Noncurrent	$	85,543

Series 2003 of the capital appreciation bonds will accrete to a maximum of $11.6 million, through their corresponding maturity dates.

Bonds payable activity for the fiscal year 2022 is as follows (in thousands):

	Balance at June 30, 2021	Addition	Accretions	Reductions	Balance at June 30, 2022	Current Portion	Long-Term Portion
Bonds Payable	$ 146,937	$ -	$ -	$ -	$ 146,937	$ 61,262	$ 85,675
Plus: Accreted Discount	3,091	-	-	-	3,091	3,091	-
Less: Bonds Discount	(172)	-	-	20	(152)	(20)	(132)
Bonds Payable, Net	$ 149,856	$ -	$ -	$ 20	$ 149,876	$ 64,333	$ 85,543

continue

16. LONG-TERM DEBT ACTIVITY – continuation

The annual debt service requirements to maturity, including principal and interest, for Revenue Bonds payable as of June 30, 2022 are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 64,333	$ 4,865	$ 69,198
2024	13,825	3,958	17,783
2025	14,570	3,203	17,773
2026	15,340	2,408	17,748
2027	16,155	1,571	17,726
2028-2029	25,805	689	26,494
	$ 150,028	$ 16,694	$ 166,722
Less: Unamortized Bond Discount	(152)		
Bonds Payable, Net	$ 149,876		

PRIDCO failed to make payments of principal and interest when due on the referenced Revenue Bonds starting August 1, 2016. Payments of principal and interest due were paid out of the Sinking Fund held by the Trustee until June 1, 2018. The current portion of Bonds payable amounting to approximately $64.3 million includes $51.2 million of principal due. In addition, interest payable amounting to approximately $61.4 million includes $34.3 million of accrued Bond interest that is due.

For further information on the proposed restructuring of the Revenue Bonds under Title VI of PROMESA refer to the Subsequent Events Disclosures Note 28.

Line of Credit Owed to Debt Recovery Authority (DRA)

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the "GDB Qualifying Modification"). Under the GDB Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the DRA, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered cash. In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including PRIDCO (each a "Non-Municipal Government Entity") and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-municipal Government Entity held by GDB as of such date. As a result, total deposits of PRIDCO at GDB were eliminated and the amount owed by PRIDCO to GDB related to line of credits were reduced and transferred to the DRA.

continue

16. LONG-TERM DEBT ACTIVITY – continuation

After the foregoing adjustments pursuant to the GDB Restructuring Act, the line of credit and notes payable to DRA as of June 30, 2022, are comprised as follows (in thousands):

Non-revolving line of credit up to $75 million (restructured as of November 24, 2014) to provide for the payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 90 days LIBOR plus 1.25%, with a floor of 5% and a ceiling of 12% due November 24, 2024. PRIDCO identified several non-trusted properties to be disposed of for the repayment of this debt and placed them as collateral.	$ 24,550
Lines of credit facilities that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. The lines are due on June 30, 2040, and bear interest at prime plus 1.25%, with a floor of 5% and a ceiling of 12% due on June 30, 2040.	28,310
Line of Credit, and Notes Payable to DRA	$ 52,860

Line of credit, and notes payable to DRA activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance
$ 52,860	$ -	$ -	$ 52,860

For the year ended June 30, 2022, PRIDCO did not receive appropriations from the Commonwealth for the payment of interest accrued under line of credit and did not receive appropriations for the payment of the note's principal. Accrued interest payable as of June 30, 2022, amounts to $27.1 million.

Loans and Notes Payable to Commercial Banks

Loans and Notes Payable to Commercial Banks consist of the following (in thousands):

Promissory note payable in 180 monthly payments of $229 thousands including interests, and due in December 2030. The note bears annual interest at 6.25%.	$ 18,052
Note payable in monthly installments of $139 thousand including interest, and due in December 2030. The note bears annual interest at 4.65%.	11,751
	29,803
Less Current Maturities	(2,809)
Loans and Notes Payable to Commercial Banks, Noncurrent Portion	$ 26,994

continue

16. LONG-TERM DEBT ACTIVITY – continuation

Loans and notes payable to commercial banks activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
$ 38,646	$ -	$ (8,843)	$ 29,803	$ 2,809	$ 26,994

Debt service requirements for the loans and notes payable to commercial banks are as follows (in thousands):

Fiscal Year	Due to Commercial Banks		
Ending June 30,	Prncipal	Interest	Total
2023	$ 2,809	$ 1,605	$ 4,414
2024	2,980	1,443	4,423
2025	3,151	1,272	4,423
2026	3,333	1,090	4,423
2027	3,525	897	4,422
2028-2031	14,005	1,460	15,465
Total	$ 29,803	$ 7,767	$ 37,570

PRIDCO is subject to compliance with certain covenants on its lines of credit, loans and notes payable with two commercial banks. Two term loans payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipality of Humacao, Puerto Rico.

The loans contain a provision that in an event of default the unpaid principal and accrued interest will become immediately due and payable at an interest rate of two hundred (200) basis points above the applicable rate, until such time as the event of default is cured or waived, and the bank may exercise any and all rights it has under the loans.

Two promissory notes payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipalities of Juana Díaz and Moca, Puerto Rico. The notes contain a provision that in the event of default the unpaid principal and accrued interest will become immediately due and payable, and the bank may exercise any and all rights it has under the notes.

17. DUE TO THE ENVIRONMENTAL PROTECTION AGENCY

On January 17, 2023, the United States District Court for the District of Puerto Rico ordered PRIDCO to settle an environmental claim with the Environmental Protection Agency (EPA) and make payments to resolve its alleged civil liability. PRIDCO shall pay $11 million in 28 quarterly installments of approximately $445,000each, plus interest at 3.5%. The first payment is due on March 1, 2023 and shall include an additional amount of interest accrued on $11 million at 3.5% from May 3, 2022 to December 31, 2022.

Due to the EPA activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
$ -	$ 11,000	$ -	$ 11,000	$ 743	$ 10,257

continue

17. DUE TO THE ENVIRONMENTAL PROTECTION AGENCY – continuation

Debt service requirements for the claim payable to the EPA are as follows (in thousands):

Fiscal Year Ending June 30,	Due to EPA Prncipal	Interest	Total
2023	743	372	1,115
2024	1,438	340	1,778
2025	1,489	289	1,778
2026	1,542	236	1,778
2027	1,597	182	1,779
2028-2031	4,191	253	4,444
Total	$ 11,000	$ 1,672	$ 12,672

18. UNEARNED REVENUES

During June 2019, a tenant made an upfront payment amounting to $10 million which is being amortized over the rental contract terms. As of June 30, 2022 $7.4 million are presented as unearned revenues.

19. COMPENSATED ABSENCES

Compensated absences as of June 30, 2022 are as follows:

	Balance at June 30, 2021	Addition	Reductions	Balance at June 30, 2022	Current Portion	Long-Term Portion
Vacation Accrual	$ 511	$ -	$ (73)	$ 438	$ 173	$ 265

20. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

This amount is the deferred loss on refunding reported in the Statement of Net Position, deferred amounts related to pension and OPEB, and deferred amounts related to GASB No. 87, *Leases*. The deferred loss on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price.

21. VOLUNTARY TERMINATION BENEFITS

The Legislature of the Commonwealth of Puerto Rico approved two retirement incentive plans for all regular employees of the central government agencies and certain public corporations under Act No. 70 of July 2, 2010, and Act No. 211 of December 8, 2015, as amended by Act No. 170 of August 9, 2016.

Act No. 70 included early retirement incentives for employees not eligible for retirement and retirement incentives for employees who are eligible. Under this plan, employees could select one of three options as follows:

Article 4(a) provides economic incentives based on the following parameters:

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 Year	1 Month of Salary
From 1 Year and 1 Day Up to 3 Years	3 Months of Salary
From 3 Years and 1 Day and Up	6 Months of Salary

continue

21. VOLUNTARY TERMINATION BENEFITS – continuation

Article 4(b) provides early retirement, for employees meeting certain number of years of service criteria (between 15 and 29 years) and will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but lower than what they would have been entitled to under full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of Salary)
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20 to 29	50.00%

PRIDCO will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or 4(b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first. Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive awarded on article 4(a) but not entitled to the incentives awarded on article 4(b).

Employees who have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. On June 30, 2022, voluntary termination benefits granted under Act No. 70 were discounted at present value.

Act No. 211, as amended, and commonly known as Voluntary Pre-Retirement Program, aims to provide incentives for employees of the Commonwealth of Puerto Rico, who have begun to quote for the Puerto Rico Retirement System before April 1, 1990 or who having begun to quote after that date have paid services accrued prior to April 1, 1990 without having received a refund of their contributions and have a minimum of twenty years of service quoted under the structure of benefits of the Act No. 447, supra.

Incentives under Act No. 211, as amended, include employee's compensation equivalent to sixty percent of their average remuneration as of December 31, 2015, while participating in the program; the settlement of payment of licenses of vacation and sick leave, exempt of contributions and limited to a maximum established by Law. It also provides for the payment of the employer contribution to Social Security and Medicare, to either maintain the coverage of the health plan or to keep on receiving the employer contribution to health plans under same terms and conditions as if employed for up to a term of two years. Even more, PRIDCO should continue making both employee and employer contributions to the Retirement System, which will ensure an increase in employee's future retirement annuity to at least fifty percent of its average remuneration on June 30, 2015.

continue

21. VOLUNTARY TERMINATION BENEFITS – continuation

Voluntary termination benefits, as detailed below, are discounted at a rate of 1.09%, which is the average of the prevailing annual interest rate over outstanding certificates of deposits as of June 30, 2022:

	Beginning Balance	Net Change	Ending Balance	Current Portion	Long-Term Portion
Act No. 70	$ 2,787	$ (410)	$ 2,377	$ 765	$ 1,612
Act No. 211	3,738	(1,093)	2,645	343	2,302
Total	$ 6,525	$ (1,503)	$ 5,022	$ 1,108	$ 3,914

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO

(1) Description of the Plan and Basis of Presentation

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including ERS.

This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. 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 participating employers.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program.

Benefit provisions vary depending on a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the PRIDCO) were covered by ERS, including PRIDCO.

Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including PRIDCO). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including PRIDCO) were required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that were being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

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

(2) Pension Benefits

The benefits provided to members of ERS were established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017. In addition, all accrued pension benefits under ERS's pension plans for active and retired public employees were preserved under the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022, and became effective on March 15, 2022.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013, as described below:

- Members of Act No. 447-1951 were generally those members hired before April 1, 1990.

- Members of Act No. 1 were generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).

- Members of Act No. 305 (or System 2000) were generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 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, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by a private third party.

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment for the Commonwealth, ERS, and PBA. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS. Under the Commonwealth Plan of Adjustment certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated from and after the Effective Date (i.e., on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo.

(a) Service Retirement Eligibility Requirements

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor.

   In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013, are eligible to retire at any time.

   Act No. 447-1951 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of Credited Service by December 31, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

   In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

   Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

3) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60 otherwise. System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957, or later	55 or less	65
July 1, 1956, to June 30, 1957	56	64
July 1, 1955, to June 30, 1956	57	63
July 1, 1954, to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

4) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

1) *Accrued Benefit as of June 30, 2013, for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a mayor is determined as of June 30, 2013.

   If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. The maximum benefit is 75% of the average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years.

Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013, for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013, shall be determine based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013.

For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

1) Minimum Benefits

– *Past Ad hoc Increases:* The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.

– *Minimum Benefit for Members who Retired before July 1, 2013*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007, and $300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013).

– *Coordination Plan Minimum Benefit:* A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

2) Cost-of-Living Adjustments (COLA) to Pension Benefits

Under the Commonwealth Plan of Adjustment, all COLAs have been eliminated from and after the Effective Date (i.e., on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo.

3) Special "Bonus" Benefits

– *Christmas Bonus:* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. *(Act No. 144-2005, as Amended by Act No. 3-2013)*

– *Medication Bonus:* An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013.

Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act No. 155-2003, as Amended by Act No. 3-2013)

(e) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Department of the Treasury of the Commonwealth in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS.

(3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

(4) Total Pension Liabilities and Actuarial Information

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB Statement No. 73 is now implemented in substitution of GASB Statement No. 68. PRIDCO's Total Pension Liability was measured as of June 30, 2022 based on the audited financial information of January 27, 2023 and actuarial valuation as January 17, 2023.

1. Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

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

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Mortality

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

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational table, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

– *Post-retirement 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 the Plan' 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, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the 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 generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2021

Actuarial Cost Method	Entry age normal
Inflation Rate	Not Applicable
Salaries Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

2. Total Pension Liability

Effective July 1, 2014, PRIDCO implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the PRIDCO's accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. PRIDCO's Total Pension Liability was measured as of June 30, 2022. The measurement Date is June 30, 2021, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2021, through June 30, 2022.

As June 30, 2022, PRIDCO's proportional share of the Total Pension Liability used was as follows:

The corresponding PRIDCO's proportion of the Total Pension Liability		1.08924%
The corresponding PRIDCO's Proportionate Share of the Total Pension Liability	$	296,102

(a) Pension Expense

For the fiscal year ended June 30, 2022, PRIDCO recognized a pension expense of $13,852 million of total pension payments to the PayGo system.

(b) Deferred Outflows/Inflow of Resources

As of June 30, 2022, PRIDCO 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	$ 473	$ 8,822
Changes in assumptions	30,311	3,498
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	4,984	4,365
Employer pension payments made subsequent to the measurement date	14,025	-
Total	$ 49,793	$ 16,685

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 as follows:

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Year Ended June. 30,	Amount
2023	$ 6,361
2024	6,361
2025	6,361
Total	$ 19,083

Discount Rate

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

The discount rate on June 30, 2022, was as follow:

	June 30, 2022
Discount Rate	2.16%
20 Year Tax-Exempt Municipal Bond Yield	2.16%

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

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

	1% Decrease	Current Discount Rate	1% Increase
	1.16%	2.16%	3.16%
Total Pension Liability	$ 338,309	$ 296,102	$ 261,901

ERS provides additional information about the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 18, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

(1) Plan Description

PRIDCO is a participating employer in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the OPEB Plan).

The OPEB Plan is an unfunded, cost sharing multi-employer defined benefit other postemployment healthcare benefit plan sponsored by the Commonwealth. The Plan is administered on a PayGo basis as required by Article 2.1 of Act No. 106 of 2017. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other than Pensions* (GASB Statement No. 75).

GASB Statement No. 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Total OPEB Liability will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS 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 Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers, like PRIDCO.

Benefits Provided

The OPEB Plan provides a payment of up to $100 per month to the eligible medical insurance plan selected by retired participants of the employees' retirement system–provided that the participants retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

These actual benefits payments are made by the Puerto Rico Department of Treasury to retirees and beneficiaries through RHUM Payroll Processing System on behalf of all covered entities. The "PayGo Charge" requirement in the future years will increase in accordance with Act No. 106-2017, as liquid retirement funds become depleted.

The funding of the OPEB Plan is provided through legislative appropriations each July 1 by the Commonwealth's General Fund for primary government and certain public corporations without their own treasuries' employees, and by certain public corporations with their own treasuries and municipalities. The legislative appropriations are considered estimates of the payments to be made for–healthcare benefits throughout the year. However, the Commonwealth claims reimbursement from each employer, on a monthly basis, for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

Employees Covered

Commonwealth's employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. Act No. 3 of 2013 eliminated this healthcare benefit to Commonwealth's employees that retired after June 30, 2013.

On July 1, 2020, the Commonwealth's OPEB Plan members covered by the benefit terms consisted of 68,885 retired members of which 390 were from PRIDCO.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Contributions

The contribution requirement of the OPEB Plan is established by Act No. 95 approved on June 29, 1963.

There is no contribution requirement from the plan members during their active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(2) Allocation Methodology

GASB Statement No. 75 requires that the primary government and the component units that provide OPEB benefits through the same defined benefits OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

(3) Total OPEB Liabilities and Actuarial Information

On June 30, 2022, PRIDCO reported a liability of $5.3 million for its proportionate share of total collective OPEB liability. Total OPEB liability was measured as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021.

Total OPEB Liability	June 30, 2021	
	Total	Proportionate Share (0.66838%)
Total OPEB Liability	$ 798,118	$ 5,335

PRIDCO's proportion of total OPEB liability was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date, which is consistent with the manner in which the amounts that are paid as benefits come due are determined. The discount rate to measure total OPEB liability as of June 30, 2022, was 2.16%.

PRIDCO's annual OPEB expense for the year ended June 30, 2022 amounted to approximately $22 thousand.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate on June 30, 2022 was as follows:

	June 30, 2022
Discount Rate	2.16%
20 Year Tax-Exempt Municipal Bond Yield	2.16%

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Mortality

– *Pre-retirement Mortality*

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

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

– *Post-retirement Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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.

– *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan' 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, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the 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 generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of PRIDCO's Proportionate Share of Total OPEB Liability to changes in the Discount Rate

The following presents PRIDCO's proportionate share of total OPEB liability as well as what PRIDCO's proportionate share of total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current discount rate (in thousands).

	1% decrease 1.16%	Current Discount Rate 2.16%	1% Increase 3.16%
Total OPEB Liability	$ 5,856	$ 5,335	$ 489

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for retired participants of the Puerto Rico Government Employees Retirement System provides additional information of the Medical Insurance Plan Contribution Benefit. They issue a publicly available financial report that includes a Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

24. COMMITMENTS

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez, Puerto Rico. Under this agreement, PRIDCO constructed a modern building with state-of-the-art facilities for rental to pharmaceutical and high-end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC.

PRIDCO maintains a joint interagency agreement with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide $1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. In prior years, PRIDCO received $1 million from PRTC, and total expenditures amounted to $672,000.

25. CONTINGENCIES

A. Federal Awards

PRIDCO is a grantee in Federal financial assistance programs. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, PRIDCO is required to comply with the audit requirements established by the Uniform Guidance.

B. Litigation

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2022, amounted to $175 thousand separately disclosed as legal liabilities.

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26. POLLUTION REMEDIATION OBLIGATIONS

The nature of PRIDCO tenants' manufacturing operations is highly susceptible to the incurrence of pollution obligations. PRIDCO, as owner, has the financial responsibility for cleanup costs and pollution remediation process in case of tenants' default.

Pollution remediation obligations are obligations incurred to address the current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. On June 30, 2022, PRIDCO's liability for pollution remediation amounted to $9.1 million.

Pollution remediation is a process that can last several years and involves different stages. PRIDCO has called upon former or current tenants to make them accountable for cleanup or pollution remediation costs; otherwise PRIDCO has assumed the responsibility. Notwithstanding, PRIDCO has been considered a responsible party in a lawsuit, at the initial stage, and in several claims, at the regulating agencies level, related to pollution remediation obligations. The Federal Environmental Protection Agency (EPA), the Puerto Rico Department of Environment and Natural Resources (DENR) and the Puerto Rico Environmental Quality Board (EQB) have the oversight and the enforcement responsibility in cases of pollution.

Federal claims are covered pursuant the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), which provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment, and the Resource Conservation Recovery Act (RCRA) of 1976, which provides for proper disposal of solid waste and hazardous waste.

Agencies are authorized by law to identify parties responsible for the pollution of sites and compel the parties to remediate it.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A definite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a series of events and activities that help to frame and define a liability.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites, and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, such costs could be material to the results of operations in a future year.

27. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible for assuring that PRIDCO's property is properly insured. Annually, the Treasury Department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, such information is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

continue

28. SUBSEQUENT EVENTS

Management believes that the following subsequent events should be disclosed:

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

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the United Sates Government a request of a declaration of major disaster and the activation of funds from the Public Assistance program of Federal Emergency Management Agency.

On September 18, 2022, Puerto Rico was declared a major disaster area under the Stafford Act. Consistent with this declaration and the complications created by Hurricane Fiona, OMB has granted a six-month extension for all single audits that cover recipients in Puerto Rico with due dates between September 18, 2022, and December 31, 2022. This extension covers this single audit.

On January 19, 2023, GoldenTree recommenced the litigation in the United States District Court. The complaint seeks several forms of relief against PRIDCO, including a relief requiring PRIDCO to pay all accrued and unpaid principal and interest on the Revenue Bonds, including all overdue Bond payments and future Bond payments as they come due, among others.

In July 2023, after several rounds of negotiations, the Oversight Board and GoldenTree agreed on the terms of the 2023 RSA, which contemplates a financial restructuring of the Revenue Bonds pursuant to Title VI of PROMESA, on the terms set forth in the term sheet attached as Exhibit A to the 2023 RSA (the "Settlement Summary").

The 2023 RSA (including the Settlement Summary) contemplate that the current Bonds will be exchanged for new bonds with the following characteristics (the "New Bonds"):

Accrued Claim	~$158.3 million [(1)] (net of $30MM paydown), projected as of October 31, 2023. Actual accrued claim will vary as interest will accrue until the effective date of the Title VI Qualifying Modification.
Recovery	100% of accrued claim
Interest Rate	Years 0-3: 7.00% taxable (~4.90% tax-exempt equivalent[(2)]) Years 4-30: 8.75% taxable (~6.13% tax-exempt equivalent[(2)])
Maturity	30 years
Amortization	Years 0-5: Interest only Years 6-30: P+I Level debt amortization
Call Provisions	Years 0-3: Callable at par Callable at 104%, declining by 0.5% per year until par call

(1) Projected through October 31, 2023 and subject to change pending final reconciliation.
(2) For illustrative purposes, assumes 30% investor tax rate.

On May 26, 2023, the Oversight Board also certified a new fiscal plan for PRIDCO (the "2023 CFP") that incorporated a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the 2023 RSA.

continue

28. SUBSEQUENT EVENTS – continuation

The adjustments to previously certified fiscal plans include: (i) reduction to Capex spending to account for cash already set aside in a demolition reserve ($15 million) and accounting for overlap related to funds available to PRIDCO from FEMA ($90-$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from $20.2 million to $10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

Under the 2023 CFP, PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of $474.8 million from FY2024 through FY2053. The average annual surplus for this period is $15.8 million. The projected debt service for the New Bonds, based on the terms of the 2023 RSA is approximately $455.6 million.

Consummation of the Title VI restructuring of the Revenue Bonds remains subject to creditor approval and court confirmation and there is no guarantee that such contingencies will be satisfied and the deal will be implemented. The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

On July 17, 2023, the Fiscal Oversight Management Board approved a settlement agreement between the EDB and various government entities over certain deposits at the EDB (the “Proposed Transaction”). Pursuant to the Proposed Debt Transaction, EDB shall make a one-time cash payment of $9.7 million in full settlement and satisfaction of $110.4 million in unsecured deposit claims across 17 government entities, including PRIDCO. PRIDCO’s unsecured deposits in EDB amounted to approximately $2.1 million on June 30, 2022. The transaction must be approved by all entities in order to be executed.

PRIDCO has evaluated subsequent events through September 29 2023, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

END OF NOTES

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Required Supplementary Information

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SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	2022	2021	2020	2019
Proportion of the Total Pension Liability *	1.08924%	1.09849%	1.11127%	1.11733%
Proportionate Share of the Collective Total Pension Liability	$ 296,102	$ 308,345	$ 276,154	$ 273,629
Covered - Employee Payroll	N/A	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.
* There are no assets accumulated in a trust that meets the criteria in GASBS No. 73, paragraph 4, to pay related benefits.

Note: Fiscal year 2019 was the first year that PRIDCO transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL OTHER POSTEMPLOYMENT BENEFITS LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	2022	2021	2020	2019	2018
Proportion of Total Other Post-Employment Benefit Liability *	$ 5,335	$ 5,750	$ 5,474	$ 5,526	$ 5,729
Proportionate Share of Total Other Post-Employment Benefit	N/A	N/A	N/A	N/A	N/A
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

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

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

* There are no assets accumulated in a trust that meet the criteria in GASBS No. 75 paragraph 4, to pay related benefits.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented by PRIDCO. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to PRIDCO and not the Employee's Retirement System of the Government of the Government of Puerto Rico as a whole.

2. The data provided in the schedule is based as of the measurement date of the total pension liability and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

3. On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "*pay as you go*" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the PayGo Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

END OF NOTES

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PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Asisting Listing Number*	*Pass-Through Entity Identifying Number*	*Passed-Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Housing and Urban Development Program:				
Puerto Rico Department of Housing – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii – Disaster Recovery	14.228	PRDOH-2022-DR0129	$ -	$ 96,244
Total U.S. Department of Housing and Urban Development Program			-	96,244
U.S. Department of Treasury Program:				
Puerto Rico Treasury Department – Coronavirus State and Local Fiscal Recovery Funds	21.027	OE-2021-034	$ -	$ 15,188
Total U.S. Department of Treasury Program			-	15,188
U.S. Department of Homeland Security Program:				
Puerto Rico Central Recovery and Reconstruction Office: Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	N/A	$ -	$ 881,110
Total U.S. Department of Homeland Security Program			-	881,110
Total Expenditures of Federal Awards			**$ -**	**$ 992,542**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the Federal grant activities of the Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO) for the year ended June 30, 2022. The information in this 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).

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. PRIDCO reporting entity is defined in Note (1) (A) to the financial statements. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized when the liability is incurred, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for the public assistance disaster grant program are recognized in the period when: (1) the Federal Emergency Management Agency (FEMA) has approved the Project Worksheet (PW), and (2) eligible expenditures are incurred. It is drawn primarily from the PRIDCO's internal accounting records, which are the basis for the PRIDCO's Statement of Revenues, Expenses, and Changes in Net Position (the "Statement").

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available and applicable.

D. PRIDCO has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to Federal granting agencies.

4. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

After a presidentially declared disaster, FEMA provides Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) to reimburse eligible costs associated with repair, replacement or restoration of disaster-damaged facilities. The Federal government makes reimbursements in the form of cost-shared grants that commonly require state matching funds. PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3). COR3 is a division of the Puerto Rico Public Private Authority created through Executive Order 2017-65 to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María.

continue

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS – continuation

In addition, during the incident period of 12/28/2019 through 7/3/2020, Puerto Rico M6.5 Earthquake created an immediate threat to the health and safety of the general public requiring emergency response and protective measures. PRIDCO was granted, through COR3, different disaster recovery grants of FEMA related to these events of earthquakes.

COR3 was authorized by the Governor to receive all disaster recovery grants of FEMA. In Fiscal Year (FY) 2022, FEMA approved $679 thousand for eligible expenditures that were incurred during the fiscal year 2022.

During the month of October 2022, COR3 issued a first Request for Information (RFI) that required PRIDCO to submit some clarification regarding descriptions included under PW1035. The PW requests funding for Direct Administrative Costs (DAC) that PRIDCO incurred performing damages assessment from 2017 to 2019. On March 8, 2023, COR3 issued a second RFI on which they notified that the amount of the claim was adjusted for $159,649.84 because PRIDCO management decided not to resubmit the RFR. In addition, the claim was reduced by $33,470.88 considering the adjustment for the state cost share.

6. LATE ISSUANCE OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2022, could not be submitted in a timely manner.

END OF NOTES

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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, 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 *(Government Auditing Standards)*, the financial statements of the **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)** as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise **PRIDCO**'s basic financial statements, and have issued our report thereon dated September 29, 2023.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statements, that raised substantial doubt about **PRIDCO**'s ability to continue as a going concern.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **PRIDCO**'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **PRIDCO**'s internal control. Accordingly, we do not express an opinion on the effectiveness of **PRIDCO**'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiency.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **PRIDCO**'s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether **PRIDCO**'s financial statements are free of 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 determination of financial statement amounts. 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*.

PRIDCO's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the **PRIDCO**'s response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The **PRIDCO**'s response was not subject 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 **PRIDCO**'s internal control or on compliance. This report is an integral part of an audit reformed 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.

CPA DM, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539389 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

CPA DIAZ-MARTINEZ, CSP
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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)**'s 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 **PRIDCO**'s major Federal programs for the fiscal year ended June 30, 2022. **PRIDCO**'s major Federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

In our opinion, except for the noncompliance described in the *"Basis for Qualified Opinion* section of our report, **PRIDCO** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program for the fiscal year ended June 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 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 **PRIDCO** 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 qualified and unmodified opinions on compliance for each major Federal program. Our audit does not provide a legal determination of **PRIDCO**'s compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

As described in the accompanying Schedule of Findings and Questioned Costs, **PRIDCO** did not comply with requirement regarding Assistance Listing No. 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster) as described in Finding Number 2022-003 for Reporting.

Compliance with such requirement is necessary, in our opinion, for **PRIDCO** to comply with the requirements applicable to this program.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statements, that raised substantial doubt about **PRIDCO**'s ability to continue as a going concern.

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, status, regulations, rules, and provisions of contracts or grant agreements applicable to the **PRIDCO**'s Federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **PRIDCO**'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 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 **PRIDCO**'s compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether do 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 **PRIDCO**'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 **PRIDCO**'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 **PRIDCO**'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 internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on **PRIDCO**'s response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO**'s response was not subject 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. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or 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.

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 **PRIDCO**'s response to the internal control over compliance finding identified in our compliance audit are described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO**'s response was not subjected to the 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.

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539390 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

PART III

FINDINGS AND QUESTIONED COSTS

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Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with special reporting	[X]	Unmodified Opinion		
		Modified:	[ ]	Qualify Opinion
			[ ]	Adverse Opinion
			[ ]	Disclaimer Opinion
Internal control over financial reporting:				
• Significant deficiency (ies) identified?	[X]	Yes	[ ]	No
• Material weakness (es) identified?	[X]	Yes	[ ]	No
Noncompliance material to financial statements noted?	[ ]	Yes	[X]	No

Federal Awards

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?	[X]	Yes	[ ]	No
Type of auditor's report issued on compliance for each Major Federal Programs:	[ ]	Unmodified Opinion		
	[X]	Qualify Opinion • Disaster Grants – Public Assistance (Presidentially Declared Disasters)		
	[ ]	Adverse Opinion	[ ]	Disclaimer Opinion
Internal control over Major Federal Programs::		**Questioned Costs**		
• Significant deficiency (ies) identified?	[ ]	Yes	[X]	No
• Material weakness (es) identified?	[X]	Yes	[ ]	No
• Known Questioned Costs Greater than $25,000 for a Compliance Requirement on a Major Program?	[ ]	Yes $ -	[X]	None Reported
• Known Questioned Costs Greater than $25,000 on an Nonmajor Program?	[ ]	Yes $ -	[X]	None Reported
• Known or Likely Fraud Affecting a Federal Award?	[ ]	Yes $ -	[X]	None Reported

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B Programs:	$ 750,000			
Auditee qualified as low-risk auditee?	[ ]	Yes	[X]	No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2022-001**

TYPE OF FINDING **MATERIAL WEAKNESS IN PREPARED BANK RECONCILIATIONS**

CRITERIA

Financial policy NO-FIN-001, establishes the standard and process for the preparation of bank reconciliations for PRIDCO and its subsidiaries. Section II states the standards for the preparation of bank reconciliations, establishing that payments issued over six (6) months need to be reviewed and moved to unclaimed payments accounts and will be eliminated from the list of outstanding items. Section III states the responsibilities for the preparer and for the reviewer, establishing that outstanding items over two (2) months need to be raised as part of the reviewer process.

CONDITION

During fiscal year 2022 PRIDCO presented bank reconciliations with unreconciled differences of approximately $2,659,595. Bank reconciliations do not present unreconciled balances in the face of the reconciliations.

In addition, aged items dated from fiscal years 2016 to 2021 were still outstanding and not recorded in books.

EFFECT

PRIDCO's cash accounting records did not provide updated and complete financial information that presents the correct cash balance in their accounts at the time of the authorization of payments and for financial reporting.

CAUSE

PRIDCO did not maintain effective internal control over the transactions recorded in its accounting records and the preparation of bank reconciliations.

IDENTIFICATION AS A REPEAT FINDING

Not previously reported.

RECOMMENDATION

We recommend that PRIDCO improve its established internal control and procedures to maintain an accounting system that contains information pertaining to bank reconciliations. Bank reconciliations should be performed monthly, signed by preparer and reviewer and aged items should be considered and adjusted during the review process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Management is responsible for designing and maintaining internal controls over treasury (bank) accounts that are sufficient to provide reasonable assurance that cash balances are fairly stated in the financial statements and in conformity with US GAAP. Management will improve its treasury and cash financial reporting process policies and procedures to implement the following:

- The finance department will investigate reconciling items and discuss and resolve with the treasury department and/or the bank; and proceed to record the items in the general ledger.
- Confirm with vendors for checks that have long being outstanding, the checks written to vendors who do not respond will be reclassified to unclaimed property.

IMPLEMENTATION DATE

November 30, 2023

RESPONSIBLE PERSON

Jamille Muriente, CFO, Julio López, Finance Director, Angel Acevedo, Accounting Manager, Nelson Barragán, Treasurer

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2022-002**

TYPE OF FINDING **SIGNIFICANT DEFICIENCY**

CRITERIA

Codification of Governmental Accounting and Financial Reporting Standards, Section 1100, Accounting and Reporting Capabilities, in Section .101, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

CONDITION

As part of our audit procedures for financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Restatements to prior period balances in the amount of $4.2M were made to record receivables and deferred revenues not recorded at the beginning of the fiscal year under audit. Also, restatement to prior period in the amount of $735 thousand was made to record accounts receivable not recorded at the beginning of the fiscal audit year. In addition, uncollectible accounts receivables amounting to $1.9M were identified after the initial trial balances.

EFFECT

Failure to properly present and accounts receivables and other transactions may affect Management decision making and incorrect assumptions of the users of the financial statements.

CAUSE

Internal controls of **PRIDCO**, failed to assure that accounting records reconciled with the related schedules on a timely basis.

IDENTIFICATION AS A REPEAT FINDING

This is a repeat finding (Finding Reference Number 2021-001).

RECOMMENDATION

We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Management is responsible for designing and maintaining internal controls over financial reporting that are sufficient to provide reasonable assurance that management can prepare financial statements in conformity with US GAAP. Management will improve accounting and financial reporting policies and procedures to implement the following:

- Prepare a detailed schedule of tasks with deadlines that includes specific procedures in the year end closing to ensure the general ledger is substantially final before the preparation and completion of the financial statements. Schedule tasks will include the completion of specific year-end journal entries, such as those related to open transactions listed in bank reconciliations, capital assets purchases and capitalizations, accounts payable accruals.

- To meet the required deadlines, all parties involved will review and agree to the proposed deadlines. The financial reporting team will do the oversight and maintain the schedule to ensure deadlines are met.

- Review current cutoff procedures and the methods to uncover unrecorded liabilities and capital assets at the end of the fiscal period.

IMPLEMENTATION DATE

November 30, 2023

RESPONSIBLE PERSON

Jamille Muriente, CFO, Julio López, Finance Director, Angel Acevedo, Accounting Manager

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2022-003**
FEDERAL PROGRAM	**ALL FEDERAL PROGRAMS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
AWARD NUMBER	**ALL AWARDS**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR § 200.512 Report Submission, (a) (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
CONDITION	**PRIDCO** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period.
QUESTIONED COSTS	None
CONTEXT	**PRIDCO** was unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
EFFECT	**PRIDCO** did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years **PRIDCO** cannot be considered by the auditor as a low risk auditee.
CAUSE	**PRIDCO** did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend **PRIDCO** maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRIDCO** needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2022-003– continuation**

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Management is responsible for designing and maintaining internal controls over financial reporting that is sufficient to provide reasonable assurance that management can prepare the financial statement and the Uniform Guidance Audit Report in conformity with US GAAP and federal regulations. Management will improve accounting and financial reporting policies and procedures to include the timely issuance of the financial statement and the uniform guidance report.

IMPLEMENTATION DATE March 31, 2024

RESPONSIBLE PERSON Jamille Muriente, CFO, Marjuli David Mateo, Contract Coordinator Officer

END OF SCHEDULE

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(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:

NONE

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:

FISCAL YEAR 2021

Findings Related to the Financial Statements:

Finding Reference Number	**2021-001**	**Significant Deficiencies in Prepared Financial Statements**
Statement of Condition		As part of our audit procedures for financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Restatements to prior period balances in the amount of $2.3 million were made to correct misstated amounts at the beginning of the fiscal year under audit.
Recommendation		We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.
Current Status		Pending of final action of **PRIDCO**'s Management.
Finding Reference Number	**2021-002**	**Material Weakness and Noncompliance – Reporting (See Finding Reference Number 2021-003)**
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by **PRIDCO** we identified material misstatements related to the program and expenditures reported in the Schedule. The Federal program expenditures were not correctly stated. Adjustments were proposed and posted by **PRIDCO** in order to reconcile the correct amounts included in the SEFA with the audited financial statements.

Findings Related to the Federal Programs:

Finding Reference Number	**2021-003**	**Material Weakness and Noncompliance – Reporting (See Finding Reference Number 2021-002)**
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by **PRIDCO** we identified material misstatements related to the program and expenditures reported in the Schedule. The Federal program expenditures were not correctly stated. Adjustments were proposed and posted by **PRIDCO** in order to reconcile the correct amounts included in the SEFA with the audited financial statements.
Questioned Cost		None

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendation		We recommend **PRIDCO** to maintain adequate records related to the Federal programs in order to properly identify the Federal programs/transactions when the SEFA is prepared. In addition, **PRIDCO** must perform a regular fiscal monitoring over the Federal programs transactions in order to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA.
Current Status		No final determination has been received from the Federal Awarding Agency.

FISCAL YEAR 2020

Findings Related to the Federal Programs:

Finding Reference Number	**2020-001**	**Material Weakness and Noncompliance – Reporting**
Assistance Listing Number	All Awards	
Statement of Condition		**PRIDCO** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period.
Questioned Cost		None
Recommendation		We recommend **PRIDCO** to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRIDCO** need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.
Current Status		No final determination has been received from the Federal Awarding Agency.

FISCAL YEAR 2019

Findings Related to the Financial Statements:

Finding Reference Number	**2019-001**	**Significant Deficiencies in Prepared Financial Statements**
Statement of Condition		As part of our audit procedures over financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Adjustments were needed in order to reconcile the financial statements amounts to the supporting documentation, such as capital assets schedule detail, long-term debts and related transactions with other entities of the Commonwealth. In addition, restatements to prior period balances in the amount of $43.7 million were made to correct misstated amounts at the beginning of the fiscal year under audit.
Recommendation		We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Current Status		Pending of final action of **PRIDCO**'s Management.
Finding Reference Number	**2019-002**	**Significant Deficiencies – Reporting (See Finding Reference Number 2019-003)**
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by **PRIDCO** we identified material misstatements related to the programs and expenditures reported in the Schedule. One Federal program was not included in the SEFA, and another program's expenditures were not correctly stated. Adjustments were proposed and posted by **PRIDCO** in order to reconcile the correct amounts included in the SEFA for both programs with the audited financial statements.

Findings Related to the Federal Programs:

Finding Reference Number	**2019-003**	**Significant Deficiencies – Reporting (See Finding Reference Number 2019-002)**
Assistance Listing Number	All Awards	
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by **PRIDCO** we identified material misstatements related to the programs and expenditures reported in the Schedule. One Federal program was not included in the SEFA, and another program's expenditures were not correctly stated. Adjustments were proposed and posted by **PRIDCO** in order to reconcile the correct amounts included in the SEFA for both programs with the audited financial statements.
Questioned Cost		None
Recommendation		We recommend **PRIDCO** to maintain adequate records related to the Federal programs in order to properly identify the Federal programs/transactions when the SEFA is prepared. In addition, **PRIDCO** must perform a regular fiscal monitoring over the Federal programs transactions in order to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA.
Current Status		No final determination has been received from the Federal Awarding Agency.
Finding Reference Number	**2019-004**	**Reporting**
Assistance Listing Number	All Awards	
Statement of Condition		**PRIDCO** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2019 during the required period.
Questioned Cost		None

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendation

We recommend **PRIDCO** to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRIDCO** needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.

Current Status

No final determination has been received from the Federal Awarding Agency.

(3) CORRECTIVE ACTION TAKEN IS SIGNIFICANTLY DIFFERENT FROM CORRECTIVE ACTION PREVIOUSLY REPORTED:

NONE

(4) AUDIT FINDINGS IS NO LONGER VALID:

NONE

END OF SCHEDULE

GOVERNMENT OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

FINDING NUMBER	COMPLIANCE SECTION	AUDITOR'S DESCRIPTION	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	DELIVERABLE	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
2022-001		**Condition:** During fiscal year 2022 PRIDCO presented bank reconciliations with unreconciled differences of approximately $2,659,595. Bank reconciliations do not present unreconciled balances in the face of the reconciliations. In addition, aged items dated from fiscal years 2016 to 2021 were still outstanding and not recorded in books. **Effect:** PRIDCO's cash accounting records did not provide updated and complete financial information that presents the correct cash balance in their accounts at the time of the authorization of payments and for financial reporting. **Cause:** PRIDCO did not maintain effective internal control over the transactions recorded in its accounting records and the preparation of bank reconciliations.	We recommend that PRIDCO improve its established internal control and procedures to maintain an accounting system that contains information pertaining to bank reconciliations. Bank reconciliations should be performed monthly, signed by preparer and reviewer and aged items should be considered and adjusted during the review process.	Management is responsible for designing and maintaining internal controls over treasury (bank) accounts that are sufficient to provide reasonable assurance that cash balances are fairly stated in the financial statements and in conformity with US GAAP. Management will improve its treasury and cash financial reporting process policies and procedures to implement the following: •The finance department will investigate reconciling items and discuss and resolve with the treasury department and/or the bank; and proceed to record the items in the general ledger. •Confirm with vendors for checks that have long being outstanding, the checks written to vendors who do not respond will be reclassified to unclaimed property.	**Jamille Muriente, CFO** **Julio Lopez, Finance Director** **Angel Acevedo, Accounting Manager** **Nelson Barragan, Treasurer**	N/A	NO	November 30, 2023
2022-002		**Condition:** As part of our audit procedures for financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Restatements to prior period balances in the amount of $4.2M were made to record receivables and deferred revenues not recorded at the beginning of the fiscal year under audit. Also, restatement to prior period in the amount of $735 thousand was made to record accounts receivable not recorded at the beginning of the fiscal audit year. In addition, uncollectible accounts receivables amounting to $1.9M were identified after the initial trial balances. **Effect:** Failure to properly present and accounts receivables and other transactions may affect Management decision making and incorrect assumptions of the users of the financial statements. **Cause:** Internal controls of PRIDCO, failed to assure that accounting records reconciled with the related schedules on a timely basis.	We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.	Management is responsible for designing and maintaining internal controls over financial reporting that are sufficient to provide reasonable assurance that management can prepare financial statements in conformity with US GAAP. Management will improve accounting and financial reporting policies and procedures to implement the following: Prepare a detailed schedule of tasks with deadlines that includes specific procedures in the year end closing to ensure the general ledger is substantially final before the preparation and completion of the financial statements. Schedule tasks will include the completion of specific year-end journal entries, such as those related to open transactions listed in bank reconciliations, capital assets purchases and capitalizations, accounts payable accruals. • To meet the required deadlines, all parties involved will review and agree to the proposed deadlines. The financial reporting team will do the oversight and maintain the schedule to ensure deadlines are met. • Review current cutoff procedures and the methods to uncover unrecorded liabilities and capital assets at the end of the fiscal period.	**Jamille Muriente, CFO** **Julio Lopez, Finance Director** **Angel Acevedo, Accounting Manager**	N/A	NO	November 30, 2023
2022-003	2 CFR § 200.512	**Condition:** PRIDCO did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period. **Effect:** PRIDCO did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years PRIDCO cannot be considered by the auditor as a low risk auditee. **Cause:** PRIDCO did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.	We recommend PRIDCO maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, PRIDCO needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.	Management is responsible for designing and maintaining internal controls over financial reporting that is sufficient to provide reasonable assurance that management can prepare the financial statement and the Uniform Guidance Audit Report in conformity with US GAAP and federal regulations. Management will improve accounting and financial reporting policies and procedures to include the timely issuance of the financial statement and the uniform guidance report.	**Jamille Muriente, CFO** **Marjuli David Mateo, Contract Coordinator Officer**	N/A	NO	March 31, 2024

Approved by: Julio C. Lopez Iglesias
Acting Chief Financial Officer

Date: 9/15/2023