

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, 2024

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

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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, 2024, 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, 2024, 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.

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.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
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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 due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **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 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 5-10, employees' retirement systems information and employees' other postemployment benefits information, on pages 68 to 70 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 consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
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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 72-74, 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 April 16, 2025 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
April 16, 2025



DPSC12-42
Puerto Rico Industrial Development Company



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This Management's Discussion and Analysis (MD&A) section 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, 2024. The MD&A intends to serve as 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 basic financial statements, and notes to the financial statements should be reviewed in their entirety.

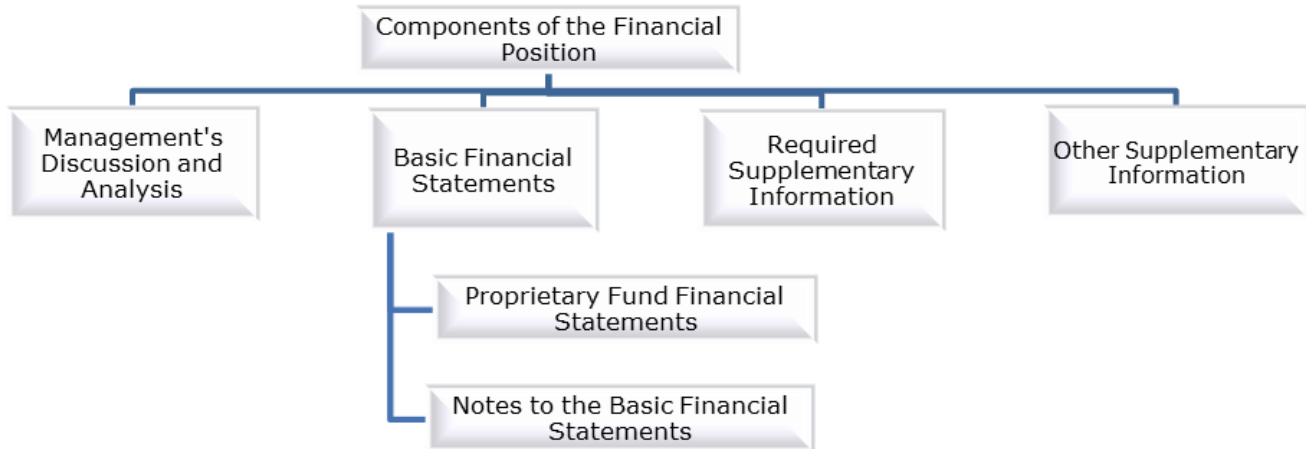
Financial Highlights

- PRIDCO has approximately \$290 million in Federal Emergency Management Agency (FEMA) project worksheets, of which \$260 million has been obligated by FEMA and the remaining is expected to be reimbursed through a combination of Community Development Block Grants – Disaster Recovery (CDBG-DR) and state funds. Access to FEMA funding is forecasted for future Capex projects. Advances from FEMA funding of approximately \$848,000 were received during the year. Related unearned revenues from funds received in advance amounts to \$36.7 million as of June 30, 2024.
- New lease agreements and the re-signing of expired leases resulted in an increase in total operating revenues of \$1.8 million and non-operating revenues increased by \$9.1 million. Total operating and non-operating expenses increased by \$9.9 million and \$184,000, respectively. There was also an extraordinary loss of \$3.4 million related to the execution of the Qualifying Modification under Title IV of PROMESA (the PRIDCO Qualifying Modification).
- PRIDCO, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), and the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") worked collaboratively throughout FY2023 to restructure PRIDCO's existing bond debt. On December 28, 2023, the PRIDCO Qualifying Modification went into effect. Pursuant to the PRIDCO Qualifying Modification, and Resolution 2023-115 adopted by the Board of Directors of FAFAA, PRIDCO's existing revenue bonds (the Revenue Bonds) were canceled and discharged in exchange for (i) \$30 million in cash and (ii) the issuance of new bonds issued in the face amount of approximately \$159.6 million, designated "Revenue Bonds, Series 2023" (the 2023 Revenue Bonds). The 2023 Revenue Bonds bear interest of 7% until January 1, 2027, and 8.75% thereafter until outstanding principal and interest is paid in full on maturity. The transactions resulted in an extraordinary loss amounting to \$3.4 million.

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 11 through 15 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 16 through 66 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 Statement No. 73 and GASB Statement No. 75 and can be found on pages 68-70 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 2024:

Net Position

Condensed financial information from the Statement of Net Position as of June 30, 2024, and 2023 is as follows (expressed in thousands):

	June 30,		Change	
	2024	2023	In Dollars	Percent
ASSETS:				
Current Assets	\$ 156,084	\$ 179,128	\$ (23,044)	-13%
Capital Assets, Net	487,504	499,430	(11,926)	-2%
Other Noncurrent Assets	399,208	400,803	(1,595)	0%
Total Assets	1,042,796	1,079,361	(36,565)	-3%
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Loss on Refundings	261	298	(37)	-12%
Other Post-Employment Benefits Related	409	453	(44)	-10%
Pension Related	20,385	33,870	(13,485)	-40%
Total Deferred Outflows of Resources	21,055	34,621	(13,566)	-39%
Total Assets and Deferred Outflows of Resources	\$ 1,063,851	\$ 1,113,982	\$ (50,131)	-5%
LIABILITIES:				
Current Liabilities	70,871	167,365	(96,494)	-58%
Noncurrent Liabilities	493,530	435,669	57,861	13%
Total Liabilities	564,401	603,034	(38,633)	-6%
DEFERRED INFLOWS OF RESOURCES:				
Pension Related	2,298	51,373	(49,075)	-96%
Leases Related	382,693	405,693	(23,000)	-6%
Total Deferred Inflows of Resources	384,991	457,066	(72,075)	-16%
NET POSITION (DEFICIT):				
Net Investment in Capital Assets	303,975	322,573	(18,598)	-6%
Restricted for Debt Service	14,114	3,389	10,725	316%
Unrestricted (Deficit)	(203,630)	(277,213)	73,583	-27%
Total Net Position (Deficit), As Restated	114,459	48,749	65,710	135%
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	\$ 1,063,851	\$ 1,108,849	\$ (44,998)	-4%

Total assets and deferred outflows of resources decreased by \$50.1 million during fiscal year 2024 when compared with fiscal year 2023. The decrease is primarily due to a decrease in current assets amounting to approximately \$23 million, a decrease in net capital assets amounting to approximately \$11.9 million, and a decrease in the deferred outflow of resources amounting to approximately \$13.6 million.

Current assets decreased by \$23 million primarily due to a \$25.2 million decrease in cash related primarily to a lump sum payment of \$30 million as a result of the execution of the PRIDCO Qualifying Modification.

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Net capital assets decreased by \$11.9 million primarily due to \$2 million net assets sold, the current year depreciation amounting to \$14.8 million, offset by current year additions of approximately \$5.9 million and impairment loss in capital assets of \$989,000.

Other noncurrent assets decreased by \$1.6 million, primarily due to an increase in the sinking fund reserve of approximately \$10.7 million, a decrease of approximately \$11.8 million in the noncurrent portion of lease receivables, and a decrease of approximately \$500,000 in other noncurrent receivables

Total deferred outflow of resources decreased by \$13.6 million during fiscal year 2024 when compared to the prior year fiscal year because of changes in assumptions in the actuarial report of the total pension liability calculation.

Current liabilities decreased by \$96.5 million during fiscal year 2024 when compared to prior fiscal year primarily due to a decrease in the current portion of bonds payable of \$78.2 million and a decrease of \$26.2 million in accrued interest payable related to the discharge of the Revenue Bonds and the issuance of the 2023 Revenue Bonds on December 28, 2023. Accounts payable increased by \$2.9 million, the current portion of the pension liability decreased by \$140,000, other post-employment benefits decreased by \$35,000, environmental liabilities decreased by \$154,000, loans and notes payable increased by \$176,000 and \$505,000 in a non-revolving line of credit.

Noncurrent liabilities increased by \$57.9 million primarily due to an increase in Bonds payable of approximately \$87.8 million related to the discharge of the Revenue Bonds and the issuance of the 2023 Revenue Bonds on December 28, 2023. Loans and notes payable, due to Commonwealth, total pension liability, due to the environmental protection agency, and unearned grants and contributions revenues decreased by \$3.3 million, \$3.5 million, \$17.7 million, \$1.5 million and \$2.8 million, respectively.

Deferred inflows of resources decreased by \$72.1 million due to the net effect of a decrease in the portion of lease receivable that will be recognized as revenue in future periods over the lease term amounting to \$23 million and decrease in pension related deferred inflows amounting to \$49.1 million.

As of June 30, 2024, the net position of \$114.5 million is composed of approximately \$304 million of net investment in capital assets, \$14.1 million restricted for debt service, and unrestricted deficit of \$203.6 million. Total net position changed from \$48.7 million in fiscal year 2023 to \$114.5 million in fiscal year 2024, for an increase of approximately \$65.7 million.

Restricted net position is composed primarily of an investment in certificates of deposits amounting to \$1.8 million, and amounts deposited in the sinking fund for payments of Bonds payable totaling \$12.3 million. Restricted net position increased approximately \$10.7 million.

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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, 2024, and 2023 is as follows (expressed in thousands):

	June 30,		Change	
	2024	2023	In Dollars	Percent
REVENUES:				
Rental Income, Net	\$ 51,196	\$ 49,378	\$ 1,818	4%
Total Non-Operating Revenues	<u>35,004</u>	<u>25,820</u>	<u>9,184</u>	36%
Total Revenues	<u>86,200</u>	<u>75,198</u>	<u>11,002</u>	15%
OPERATING EXPENSES:				
Salaries and Wages	3,199	3,331	(132)	-4%
Pension Expense	(39,564)	(44,724)	5,160	-12%
Other Post-Employment Benefits	136	(332)	468	-141%
Administrative, General and Other Expenses	25,182	21,501	3,681	17%
Custodial Credit Loss Recovery	(185)	-	(185)	0%
Loss on Lease Terminations	611	-	611	0%
Impairment Loss in Capital Assets	990	-	990	0%
Depreciation and Amortization	<u>14,813</u>	<u>15,154</u>	<u>(341)</u>	-2%
Total Operating Expenses	<u>5,182</u>	<u>(5,070)</u>	<u>10,252</u>	-202%
Total Non-Operating Expenses	<u>11,933</u>	<u>11,749</u>	<u>184</u>	2%
Total Expenses	<u>17,115</u>	<u>6,679</u>	<u>10,436</u>	156%
Extraordinary Item	<u>(3,375)</u>	<u>-</u>	<u>(3,375)</u>	0%
Change in Net Position	65,710	68,519	(2,809)	-4%
Net Position (Deficit), Beginning of Fiscal Year, As Restated	<u>48,749</u>	<u>(19,770)</u>	<u>68,519</u>	-347%
Net Position (Deficit), End of Fiscal Year	<u>\$ 114,459</u>	<u>\$ 48,749</u>	<u>\$ 65,710</u>	135%

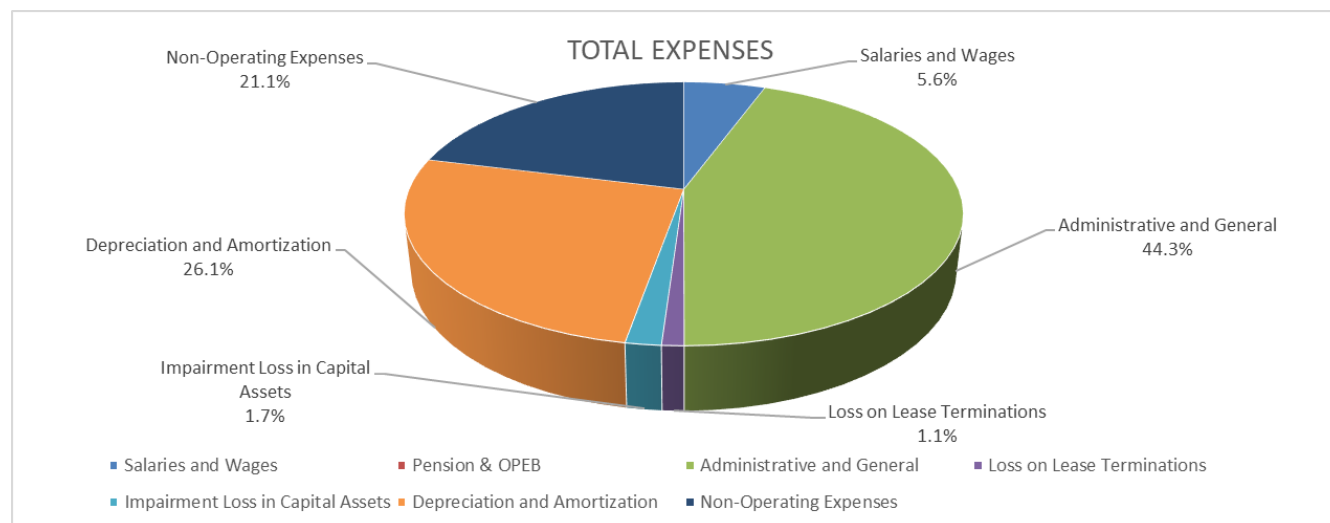
PRIDCO reported a change in net position for fiscal year 2024 of approximately \$65.7 million, decreasing by approximately \$2.8 million when compared to fiscal year 2023. This decrease is the result of an increase in total revenues amounting to \$11 million, a net increase in total expenses amounting to approximately \$10.4 million, and an extraordinary loss of \$3.4 million relating to the implementation of the PRIDCO Qualifying Modification.

Total revenues increased during fiscal year 2024 by \$11 million when compared to fiscal year 2023. The increase is due to an increase in rental income of \$1.8 million, an increase in net investment income of approximately \$1.5 million, an increase in grant contributions of \$2.8 million, and a net gain from the sale of properties of \$4.7 million. Rental income includes the amortization of deferred inflows of resources related to lease receivables recognized under GASB Statement No. 87-Leases.

Total operating expenses increased by \$10.4 million when compared to fiscal year 2023. Pension and other post-employment expenses increased by approximately \$5.6 million, impairment loss in capital assets increased by approximately \$990,000, administrative, maintenance, repairs and other expenses increased by approximately \$3.7 million when compared with fiscal year 2023. There was also a loss on lease termination amounting to \$611,000 and \$185,000 from the custodial credit risk loss recovery relating to the EDB deposits.

continue

PRIDCO's expense distribution, excluding pension and other postretirement benefits, for the year ended on June 30, 2024, is as follows:



Capital Assets

At the end of the fiscal year, PRIDCO has invested \$487.5 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

During fiscal year 2024 and pursuant to the PRIDCO Qualifying Modification, the Revenue Bonds have been discharged, and the 2023 Revenue Bonds have been issued. At the end of fiscal year 2024, PRIDCO reported \$159.6 million relating to the 2023 Revenue Bonds issued, and \$24 million loans and notes payable.

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.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET POSITION
JUNE 30, 2024

(In Thousands)

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 104,127
Rent, Loans and Accounts Receivable, Net	7,409
Lease Receivable	36,749
Due from the Commonwealth of Puerto Rico	2,264
Other Receivable	500
Prepaid Expenses and Other Assets	<u>5,035</u>
Total Current Assets	<u>156,084</u>

Noncurrent Assets:

Sinking Fund Reserve Account, at Accreted Cost, Restricted	12,314
Investment in Certificate of Deposit, Restricted	1,800
Lease Receivable	382,743
Other Receivable	2,351
Capital Assets, Net	<u>487,504</u>
Total Noncurrent Assets	<u>886,712</u>
Total Assets	<u>1,042,796</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding's	261
Other Postemployment Benefits Related	409
Pension Related	<u>20,385</u>
Total Deferred Outflows of Resources	<u>21,055</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,063,851</u>

continue

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET POSITION
JUNE 30, 2024

(In Thousands)

LIABILITIES

Current Liabilities:

Accounts Payable and Other Accrued Liabilities	\$ 8,764
Loans and Notes Payable to Commercial Banks	3,156
Compensated Absences	174
Due to U.S. Environmental Protection Agency	1,489
Accrued Interest	42,248
Total Pension Liability	13,817
Total Other Postemployment Benefits Liability	409
Termination Benefits Accrual	814
Total Current Liabilities	70,871

Noncurrent Liabilities:

Bonds Payable	159,573
Notes Payable to Debt Restructuring Authority	52,860
Loans and Notes Payable to Commercial Banks	20,800
Non-Revolving Line of Credit	505
Due to Southern Industrial Development Company	450
Due to the Commonwealth of Puerto Rico	24,620
Compensated Absences	198
Total Pension Liability	155,109
Total Other Postemployment Benefits Liability	3,842
Termination Benefits Accrual	2,399
Rent and Other Deposits	8,546
Contract Retention	1,339
Environmental Liabilities	9,000
Due to U.S. Environmental Protection Agency	7,332
Unearned Rent Revenues	6,107
Unearned Grants and Contributions Revenue	36,726
Unearned Revenues	2,851
Undistributed Proceeds from Sale	1,273
Total Noncurrent Liabilities	493,530
Total Liabilities	564,401

DEFERRED INFLOWS OF RESOURCES

Pension Related	2,298
Leases Related	382,693
Total Deferred Inflows of Resources	384,991

NET POSITION

Net Investment in Capital Assets	303,975
Restricted for Debt Service	14,114
Unrestricted (Deficit)	(203,630)
Total Net Position	114,459
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 1,063,851

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

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

(In Thousands)

OPERATING REVENUES:

Rental Income, Net	\$ 51,196
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OPERATING EXPENSES:

Salaries and Wages (Including Voluntary Termination Benefits)	3,199
Pension Expenses	(39,564)
Other Postemployment Benefits	136
Administrative and General	18,631
Depreciation and Amortization	14,813
Custodial Credit Loss on Deposits with the Economic Development Bank	(185)
Loss on Lease Terminations	611
Impairment Loss in Capital Assets	990
Maintenance and Repairs, Net	6,551
Total Operating Expenses	5,182
Operating Income	46,014

NONOPERATING REVENUES (EXPENSES):

Net Loss on Sales of Properties	4,306
Interest Income from Property Lease Agreements	22,081
Interest Income on Loans	198
Net investment income	2,466
Other Income	1,683
Grants and Contributions	4,270
Interest Expenses	(11,933)
Total Non-Operating Revenues (Expenses), Net	23,071

EXTRAORDINARY ITEMS:

Loss on the Execution of Qualifying Modification under Title VI of PROMESA	(3,375)
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Changes in Net Position	65,710
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NET POSITION, BEGINNING OF FISCAL YEAR, AS PREVIOUSLY REPORTED	53,882
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Prior Period Adjustment	(5,133)
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Net Position – Beginning Year, As Restated	48,749
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NET POSITION, END OF FISCAL YEAR	\$ 114,459
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The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Collected from Rental Income	\$ 36,646
Cash Paid for Salaries and Benefits	(5,142)
Cash Paid for Suppliers and Services	<u>(40,406)</u>
Net Cash Used in Operating Activities	<u>(8,717)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Sales of Capital Assets	6,280
Payment for Acquisition of Capital Assets	(5,198)
Cash Paid for Title VI Transaction	(30,000)
Interest Proceeds from Lease Financings	22,081
Payments of Notes and Loans Payable to Commercial Banks	(3,004)
Interest Paid	<u>(1,776)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(11,617)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributions from Federal Grants	1,465
Collections from Other Non-Operating Revenues	<u>1,683</u>
Net Cash Provided by Non-Capital and Related Financing Activities	<u>3,148</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net Change in Sinking Fund-Redemption, and Bond Service Accounts	(10,725)
Interest Collected on Investments and Loans	<u>2,664</u>
Net Cash Used in Investing Activities	<u>(8,061)</u>

Net Change in Cash and Cash Equivalents

(25,247)

Cash and Cash Equivalents, Beginning of Fiscal Year

129,374

Cash and Cash Equivalents, End of Fiscal Year

\$ 104,127

continue

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

(In Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:

Operating Income	\$ 46,014
Adjustment to Reconcile Operating Income to Net Cash Used in Operating Activities:	
Depreciation and Amortization Expense	14,813
Provision for Doubtful Accounts	(1,022)
Impairment Loss in Capital Assets	990
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable and Deposits	(106)
Leases Receivable	10,856
Other Receivable	488
Prepaid Expenses and Other Assets	(394)
Due from Commonwealth of Puerto Rico	295
Pension Related Deferred Outflows of Resources	13,485
OPEB Related Deferred Outflows of Resources	44
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	2,740
Termination Benefits Accrual	(769)
Compensated Absences	(102)
Unearned Rent Revenues	(666)
Unearned Revenues	(489)
Contract Retention	227
Pension Liability	(17,885)
Other Postemployment Benefits Liability	(290)
Rent and Other Deposits	(401)
Undistributed Proceeds from Sale	348
Legal Liabilities	(175)
Environmental Liabilities	96
Due to U.S. Environmental Protection Agency	(1,438)
Due to Commonwealth of Puerto Rico	(3,301)
Pension Related Deferred Inflows of Resources	(49,075)
Leases Related Deferred Inflows of Resources	(23,000)
Total Adjustments	(54,731)
Net Cash Used in Operating Activities	\$ (8,717)

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

Non-Cash Capital Additions	\$ 653
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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 Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statements 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 2024. 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 were part of PRIDCO. This is because PRIDCO's governing body is, in substance, the same as that of the component units, and PRIDCO's management has operational responsibility for both PRIICO and PRIIF.

Condensed financial information as of June 30, 2024, and for the fiscal year then ended of the component units is as follows:

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

1. REPORTING ENTITY – continuation

	PRIICO	(Unaudited) PRIIF
Statements of Net Position as of June 30, 2024 (In Thousands):		
Current Assets	\$ 7,748	\$ 172
Due from PRIDCO	103,711	-
Capital Assets, Net	8,328	-
Total Assets	119,787	172
Deferred Outflows of Resources	261	-
Total Assets and Deferred Outflows of Resources	\$ 120,048	\$ 172
Current Liabilities	\$ 3,625	\$ -
Due to PRIDCO	204,471	-
Noncurrent Liabilities	21,452	-
Total Liabilities	229,548	-
Net Position (Deficit):		
Net Investment in Capital Assets	8,328	-
Net Position (Deficit)	(117,828)	172
Total Net Position (Deficit)	(109,500)	172
Total Liabilities and Net Position (Deficit)	\$ 120,048	\$ 172
Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Year Ended June 30, 2024 (In Thousands):		
Operating Revenues	\$ 3,557	\$ -
Operating Expenses	(3,944)	-
Operating Loss	(387)	-
Non-Operating Expense:		
Interest Expense	(1,472)	-
Changes in Net Position	(1,859)	-
Net Position (Deficit), Beginning of Fiscal Year	(107,641)	172
Net Position (Deficit), End of Fiscal Year	\$ (109,500)	\$ 172
Statements of Cash Flows for the Fiscal Year Ended June 30, 2024 (In Thousands):		
Net Cash Provided (Used) in Operating Activities	\$ 194	\$ -
Net Cash Used In Capital and Related Financing Activities	(4,446)	-
Net Cash Provided by Non-Capital and Related Financing Activities	4,930	-
Net Change in Cash	678	-
Cash, Beginning of Fiscal Year	6,768	172
Cash, End of Fiscal Year	\$ 7,446	\$ 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 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 (Refer to Note 5).
- 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. Input is 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.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

- e. Notes, and Accounts Receivable and Allowance for Doubtful Accounts – PRIDCO's accounts receivable represent due invoices arising 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 9 for additional information for Leases in accordance with GASB Statement 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, 2024, consist of the following (in thousands):

Restricted Assets:

Sinking Fund Required by Trustee	\$ 15,923
Unfunded Balance	<u>(3,609)</u>
Sinking Fund Balance as of June 30, 2024	<u>12,314</u>

Liabilities Payable from Restricted Assets consists of the following:

Interest Payable as of June 30, 2024	<u>5,679</u>
Total Liabilities Payable from Restricted Assets	<u>5,679</u>
	<u>\$ 6,635</u>

- 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:

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, primarily from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met. Funds received in advance are recognized and unearned revenues. These are recorded as revenue as soon as all eligibility requirements are met.
- 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).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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 22, 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.

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 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2024 (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.

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 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 \$409,000.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2024 (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 Statement No. 87, Leases*.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- o. In FY2022, PRIDCO adopted GASB Statement No. 87, *Leases* (GASB Statement 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 Statement 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. GASB Statement 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.

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 Statement No. 87, and the adoption of the statement resulted in PRIDCO classifying lease arrangements as financing arrangements. Under GASB Statement No. 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) or were effective after adoption, fixed lease payments were measured over the remaining lease term. The discount rates utilized in the valuation of lease arrangements subject to GASB Statement No. 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 a lessee, enters lease arrangements for office space and equipment. Under GASB Statement 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. 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 Statement No. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

p. New Accounting Pronouncements:

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

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

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

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

- GASB Statement No. 102, *Certain Risk Disclosures* – State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

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

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The disclosure should include descriptions of the following:

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

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

Management's Discussion and Analysis – This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions.

Unusual or Infrequent Items – This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position – This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

Major Component Unit Information – This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements is reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information – This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- GASB Statement No. 104, *Disclosures of Certain Capital Assets* – The State and local governments are required to provide detailed information about capital assets in notes to financial statements. GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this Statement are effective for fiscal years beginning after June 15, 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 other governmental entities such as COFINA, PRHTA, ERS, PREPA, PBA, GDB, PRIFA, PRCCDA, PFC, PRIDCO, and TDF initiated proceedings at the request of the Governor under either Title III or Title VI of PROMESA to restructure or adjust their existing debt. All of these Title III and Title VI proceedings have concluded other than PREPA. Importantly, on March 15, 2022, the Commonwealth Plan of Adjustment (as defined below) became effective, thereby significantly reducing the Commonwealth’s debt levels.

continue

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

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."

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.

continue

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

(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.

(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 required 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.

continue

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

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.

(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.

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 certain debts of PRIFA, GDB, PRIDCO, PFC, TDF, 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 June 5, 2024, the Oversight Board certified its most recent fiscal plan for PRIDCO, *i.e.*, the 2024 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 and Healthcare Measures
- (ii) PayGo Pension 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

continue

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

- (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 (estimated at \$100.7 million); (ii) a Capex reserve of \$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 Puerto Rico Department of Economic Development and Commerce (DDEC) Management Fee.

The 2024 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 2024 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

PRIDCO Title VI Qualifying Modification

On December 7, 2023, the United States District Court for the District of Puerto Rico approved the PRIDCO Qualifying Modification, which provided for a comprehensive restructuring of the Revenue Bonds. Under the PRIDCO Qualifying Modification, the Revenue Bonds and all rights in respect thereof were discharged and the holders of the Revenue Bonds received their pro rata share of (i) \$30 million cash, and (ii) the 2023 Revenue Bonds, issued in the face amount of \$159,628,000.

On December 28, 2023, pursuant to the PRIDCO Qualifying Modification and Resolution 2023-115 adopted by the Board of Directors of the FAFAA, PRIDCO issued the 2023 Revenue Bonds in the face amount of \$159,573,000. The 2023 Revenue Bonds bear interest of 7% until but not including January 1, 2027, and thereafter 8.75% until outstanding principal and interest of the bonds has been paid at maturity.

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

As a result of the execution of the PRIDCO Qualify Modification, the Revenue Bonds were discharged and are no longer outstanding. Details of the recorded extraordinary loss is as follows:

	Title VI Transaction Amounts
Total Cash Paid	\$ 30,000
Liabilities Released:	
Series A 1997 Term Bonds	(15,190)
Series 2003 General Purpose Revenue Bonds	(1,225)
Capital Appreciation Bonds	(2,687)
Term Bonds Due on July 1, 2023	(52,016)
Term Bonds Due on July 1, 2028	(78,910)
Bonds Interest Payable	(36,291)
Bond Issued Discount	121
New Bonds Issued	159,573
Total Liabilities Released:	(26,625)
Extraordinary Loss	<u>\$ 3,375</u>

4. RESTATEMENT OF NET POSITION

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

Net Position, as Previously Reported, At June 30, 2023	\$ 53,882
Understatement of accrued interest	(5,133)
Beginning Net Position, as Restated, At July 1, 2023	<u>\$ 48,749</u>

The correction of the error in the beginning net position includes an adjustment of approximately \$5.1 million to the accrued interest relating to the Note Payable to the Debt Recovery Authority.

5. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2024 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	<u>\$ 104,127</u>	<u>\$ -</u>	<u>\$ 104,127</u>	<u>\$ 104,907</u>	<u>\$ -</u>

continue

5. CASH AND CASH EQUIVALENTS – continuation

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.

On July 17, 2023, the Oversight Board approved a settlement agreement between EDB and various government entities over certain deposits at the EDB (the "Proposed Debt Transaction"). Pursuant to the Proposed Debt Transaction, EDB shall make a one-time payment of \$9.7 million in full settlement and satisfaction of \$110.4 million in unsecured deposit claims across 17 government entities, including PRIDCO. On August 15, 2023, the FAFAA communicated to PRIDCO the approval of the settlement agreement in which EDB will make a one-time payment representing 8.75% of approximately \$15.3 million owed to PRIDCO or approximately \$1.3 million.

On January 24, 2024, PRIDCO received the one-time payment of approximately \$1.3 million from EDB of which approximately \$1.2 million were transferred to the DDEC and approximately \$185,000 were recorded as a custodial credit loss recovery by PRIDCO.

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

The 2023 Revenue Bonds were issued pursuant to the Amended and Restated Trust Indenture dated December 28, 2023, between PRIDCO and U.S. Bank Trust Company, National Association, as trustee (the Trust Indenture). The Trust Indenture requires three separate accounts in the Sinking Fund designated "Bond Service Account", "Redemption Account", and "Reserve Account".

The Trust Indenture provided that \$15.9 million should be deposited in such accounts to 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 2023 Revenue Bonds. The Trust Indenture requires the replenishment of the Reserve Account through annual payments due on first of January each natural year beginning on January 1, 2024 and ending on January 1, 2029, in the amounts set forth below:

<u>Transfer Date</u>	<u>Amount</u>
January 1, 2024	\$ 5,586,630
January 1, 2025	2,793,315
January 1, 2026	2,793,315
January 1, 2027	1,583,122
January 1, 2028	1,583,122
January 1, 2029	1,583,122
	<u>\$15,922,626</u>

continue

7. INVESTMENTS

As of June 30, 2024, PRIDCO holds a certificate of deposits in a private bank amounting to \$1.8 million. This certificate bears monthly interest at 1.75% and is renewed automatically every three years since its opening in November 2014. The certificate principal balance is restricted for debt service purposes.

8. ACCOUNTS RECEIVABLE

Accounts Receivable relate to short-term lease agreements and other related items. As of June 30, 2024, Accounts Receivable consist of the following (in thousands):

Rent Receivable	\$ 25,240
Other	<u>5,816</u>
Total Receivables	31,056
Less: Allowance for Doubtful Accounts	<u>(23,647)</u>
Rent, Loans and Accounts Receivable, Net	<u>\$ 7,409</u>

Changes in the allowance for doubtful accounts during the year ended June 30, 2024, are as follows (in thousands):

Allowance for Doubtful Accounts, Beginning of Fiscal Year	\$ 27,613
Plus: Provision for Doubtful Accounts	(1,022)
Less: Accounts Written-Off	<u>(2,944)</u>
Allowance for Doubtful Accounts, End of Fiscal Year	<u>\$ 23,647</u>

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 receives FEMA advance funding and 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.

9. LEASE RECEIVABLE

Under GASB Statement 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 lease 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.

continue

9. LEASE RECEIVABLE – continuation

Discount rates applied to expected fixed lease payments are based on PRIDCO's incremental cost of borrowing at the commencement of the lease term. As of July 1, 2021, the implementation date of GASB Statement No. 87, a 5% the discount rate was applied to expected fixed lease payments valuations. Currently PRIDCO has negotiated a term loan with a private bank that is pending approval from the Oversight Board with an interest rate of 7.25%, which has been applied to new leases during the fiscal year. 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, 2024, PRIDCO had minimum principal and interest lease receivable payments for its leasing activities, with a remaining term of more than one year as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 36,749	\$ 22,081	\$ 58,830
2026	38,633	21,071	59,704
2027	37,477	19,119	56,596
2028	35,523	17,128	52,651
2029	34,016	13,358	47,374
2030-2034	127,127	43,353	170,480
2035-2039	68,788	18,940	87,728
2040-2044	32,977	5,746	38,723
2045-2049	7,053	939	7,992
2050-2054	1,123	98	1,221
2055-2057	26	-	26
Total	\$ 419,492	\$ 161,833	\$ 581,325

10. 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, 2024, other receivable and unearned revenues balance amounted to \$2.8 million.

Principal future maturities are as follows:

Fiscal Year Ending June 30,	
2025	\$ 500
2026	512
2027	524
2028	536
2029-2030	779
Total	\$ 2,851

continue

11. 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, 2024, consist of the following (in thousands):

Entity	Purpose	Due From	Due To
Commonwealth of Puerto Rico	Rent	\$ 1,933	\$ -
Southern Industrial Development Company	Cash Advances	-	450
Commonwealth of Puerto Rico	"Pay-Go" Charge	-	4,427
Commonwealth of Puerto Rico	Management and Others	331	20,193
		<u>\$ 2,264</u>	<u>\$ 25,070</u>

Due From the Commonwealth

Due from the Commonwealth, it is composed primarily of rent charges amounting to \$1.9 million owed by the DDEC and \$331,000 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 an 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.

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 as follows:

- SIDCO shall not be obligated to pay the unpaid balance of principal hereunder, 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 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.

continue

11. RELATED PARTIES TRANSACTIONS – continuation

Due to SIDCO amounting to \$450,000 on June 30, 2024.

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, 2024. Balance due to DDEC includes administrative fees and debt collateral amounting to approximately \$20.2 million. Balance due to the Department of Treasury amounting to \$4.4 million 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, 2024, are described below.

<u>Entity</u>	<u>Type of Service</u>	<u>Service Fee</u>	<u>Due From</u>	<u>Due To</u>
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer	\$ 185	\$ -	\$ 158
Puerto Rico Electric Power Authority	Electric Power	1,147	-	306
Governmental Agencies	Rent	N/A	368	-
			<u>\$ 368</u>	<u>\$ 464</u>

The balances due as of June 30, 2024, from these related parties are included in due from Commonwealth balance, while the balance due to these related parties are included in accounts payable and other accrued liabilities.

12. NOTES RECEIVABLE

Notes receivable represents 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 to be prepaid without penalty. Notes receivable as of June 30, 2024, consist of the following (in thousands):

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 insurance 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 insurance policies covering the replacement value of equipment and machinery.	452
Subtotal	891
Less: Allowance for Doubtful Accounts	(891)
Notes Receivable, Net	<u>\$ -</u>

continue

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2024 consists of the following (in thousands):

Governmental Activities	Balance at June 30, 2023	Increase	Adjustments	Decrease	Balance at June 30, 2024
Capital Assets, Not Being Depreciated:					
Land Held for Improvement	\$ 125,891	\$ 512	\$ -	\$ (996)	\$ 125,407
Land on Leased Projects	77,707	-	-	(452)	77,255
Construction in Progress	2,507	1,280	(212)	-	3,575
Total Capital Assets, Not Being Depreciated	206,105	1,792	(212)	(1,448)	206,237
Capital Assets, Being Depreciated:					
Buidings and Improvements	781,660	4,009	-	(3,318)	782,351
Machinery and Equipment	67,269	-	212	(14)	67,467
Furnitures and Vehicles	18,304	50	-	-	18,354
Total Capital Assets, Being Depreciated	867,233	4,059	212	(3,332)	868,172
Less: Accumulated Depreciation:					
Buidings and Improvements	(489,129)	(14,473)	-	1,802	(501,800)
Machinery and Equipment	(66,469)	(290)	-	14	(66,745)
Furnitures and Vehicles	(18,310)	(50)	-	-	(18,360)
Total Accumulated Depreciation	(573,908)	(14,813)	-	1,816	(586,905)
Total Capital Assets, Being Depreciated, Net	293,325	(10,754)	212	(1,516)	281,267
TOTAL CAPITAL ASSETS, NET	\$ 499,430	\$ (8,962)	\$ -	\$ (2,964)	\$ 487,504

PRIDCO evaluated its capital assets for impairment and recorded a charge of \$990,000 during the fiscal year ended June 30, 2024.

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, which went effective as of November 29, 2018, the financing agreement and mortgage agreement were transferred to the GDB Debt Recovery Authority ("DRA").

continue

13. CAPITAL ASSETS – continuation

On January 23, 2024, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), Ports and the DRA entered into a settlement agreement in which Ports shall make a cash payment amounting to \$320 million or a combination of a cash payment and investments instruments (with a maximum amount in investment instruments amounting to \$40 million). On February 6, 2024, the DRA confirm that the payment under the settlement agreement was fully satisfied. As a result the mortgage agreement made by PRIDCO with GDB was cancelled.

14. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2024, consist of the following (in thousands):

Accounts Payable	\$	6,619
Accrued Payroll Related Expenses		264
Other Accrued Liabilities		1,881
		<hr/>
	\$	8,764
		<hr/>

15. NON-REVOLVING LINE OF CREDIT

On June 4, 2024, PRIICO, PRIDCO and CooperVision Manufacturing Puerto Rico LLC (CooperVision) signed a Non-Revolver Line of Credit (Line of Credit) with First Bank in the aggregate principal up to \$52 million to finance the expansion of an additional 196,000 square feet to the manufacturing facility (the Project) that PRIDCO leases CooperVision in Juana Díaz. Under the Line of Credit, PRIDCO grants a mortgage on the existing manufacturing facility and the Project to FirstBank (as Administrative Agent) as collateral of PRIICO Line of Credit.

PRIDCO established PRIICO to serve as a conduit to borrow funds to construct highly customized facilities that require significant capital investment to attract high-caliber tenants to Puerto Rico. As such, PRIDCO is the owner and landlord of the manufacturing facility occupied by CooperVision that will serve as collateral. . CooperVision's parent company, The Cooper Companies, Inc., will guarantee CooperVision's obligations to PRIDCO under CooperVision's lease with PRIDCO.

The Line of Credit will be converted into a permanent loan (the Permanent Loan) for an aggregate amount up to \$52 million on the earlier of (i) the date when the construction of the expansion is finalized, (ii) the date when the temporary certificate of occupancy is issued or (iii) June 31, 2025 (such date, the "Conversion Date).

The Line of Credit and the Permanent Loan provides for a fixed interest rate equal to the 10-year SOFR Swap Rate plus 4.10%.

The Permanent Loan will be amortized using a fifteen (15) year schedule with one hundred seventy-nine (179) equal monthly payments of interest and principal and a last payment on the one hundred and eightieth (180) month for the balance outstanding plus accrued interest, and any other fees, charges or amounts due.

The principal amount and interest of the permanent loan will be repaid from monthly rent payments under the 15-year lease agreement by and between PRIDCO and CooperVision. Rental income received from CooperVision under the lease agreement must be sufficient to cover debt service of the permanent loan, with a debt service coverage ratio of 1:1. The monthly rental payments will be deposited in a designated blocked and pledged account to be maintained by FirstBank. As of June 30, 2024 PRIICO owes \$505,000 related to this line of credit.

continue

16. LONG-TERM DEBT ACTIVITY

Long-term debt activity for the fiscal year ended June 30, 2024, is as follows (in thousands):

Bonds Payable

As discussed in Note 6, the 2023 Revenue Bonds were issued under the Trust Indenture. Under the Trust Indenture, PRIDCO has pledged and assigned to the Trustee the gross revenue from certain properties (known as trustee properties) to the extent set forth in the Trust Indenture for the payment of 2023 Revenue Bonds.

During fiscal year 2024, PRIDCO issued approximately \$160 million in revenue refunding and general-purpose 2023 Revenue Bonds.

The 2023 Revenue Bonds outstanding as of June 30, 2024, are as follows (in thousands):

Series 2023 General Purpose Revenue Bonds, 7% until January 1, 2027 and 8.75% until maturity, Due on January 1, 2054	\$ 159,573
	159,573
Less: Current Maturities	-
Bonds Payable, Noncurrent	<u>\$ 159,573</u>

Bonds payable activity for the fiscal year 2024 is as follows (in thousands):

	Balance at June 30, 2023	Addition	Accretions	Reductions	Balance at June 30, 2024	Current Portion	Long-Term Portion
Bonds Payable	\$ 146,937	\$ 159,573	\$ -	\$ (146,937)	\$ 159,573	\$ -	\$ 159,573
Plus: Accreted Discount	3,091	-	-	(3,091)	-	-	-
Less: Bonds Discount	(131)	-	-	131	-	-	-
Bonds Payable, Net	<u>\$ 149,897</u>	<u>\$ 159,573</u>	<u>\$ -</u>	<u>\$ (149,897)</u>	<u>\$ 159,573</u>	<u>\$ -</u>	<u>\$ 159,573</u>

The annual debt service requirements to maturity, including principal and interest, for the 2023 Revenue Bonds payable as of June 30, 2024, are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ -	\$ 11,263	\$ 11,263
2026	-	11,170	11,170
2027	-	11,170	11,170
2028	-	13,963	13,963
2029	-	13,963	13,963
2030-2054	159,573	238,369	397,942
	<u>\$ 159,573</u>	<u>\$ 299,898</u>	<u>\$ 459,471</u>

continue

16. LONG-TERM DEBT ACTIVITY – continuation

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.

After the foregoing adjustments pursuant to the GDB Restructuring Act, the line of credit and notes payable to DRA as of June 30, 2024, 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	<u>\$ 52,860</u>

Line of credit, and notes payable to DRA for the fiscal year 2024 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance
<u>\$ 52,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,860</u>

For the year ended June 30, 2024, 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, 2024, amounts to \$36.6 million.

continue

16. LONG-TERM DEBT ACTIVITY – continuation

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%.	\$ 14,582
Note payable in monthly installments of \$139 thousand including interest, and due in December 2030. The note bears annual interest at 4.65%.	9,374
	23,956
Less Current Maturities	(3,156)
Loans and Notes Payable to Commercial Banks, Noncurrent Portion	<u>\$ 20,800</u>

Loans and notes payable to commercial banks activity for the fiscal year 2024 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
<u>\$ 26,960</u>	<u>\$ -</u>	<u>\$ (3,004)</u>	<u>\$ 23,956</u>	<u>\$ 3,156</u>	<u>\$ 20,800</u>

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

Fiscal Year Ending June 30,	Due to Commercial Banks		
	Principal	Interest	Total
2025	3,156	1,272	4,428
2026	3,333	1,090	4,423
2027	3,525	897	4,422
2028	3,728	694	4,422
2029-2031	10,214	766	10,980
Total	<u>\$ 23,956</u>	<u>\$ 4,719</u>	<u>\$ 28,675</u>

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.

continue

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 is required to pay \$11 million in 28 quarterly installments of approximately \$445,000 each, plus interest at 3.5% from June 1, 2023, to December 31, 2029.

Due to the EPA activity for the fiscal year 2024 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
<u>\$ 10,259</u>	<u>\$ -</u>	<u>\$ (1,438)</u>	<u>\$ 8,821</u>	<u>\$ 1,489</u>	<u>\$ 7,332</u>

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

Fiscal Year Ending June 30,	Due to EPA		
	Principal	Interest	Total
2025	1,489	289	1,778
2026	1,542	236	1,778
2027	1,597	182	1,779
2028	1,653	125	1,778
2029	1,712	66	1,778
2030	<u>828</u>	<u>62</u>	<u>890</u>
Total	<u>\$ 8,821</u>	<u>\$ 960</u>	<u>\$ 9,781</u>

18. UNEARNED REVENUES AND ADVANCES

During the year ended June 30, 2024, PRIDCO have approximately \$36.7 million in advances from FEMA, which are recorded as unearned grants and contributions revenues as of June 30, 2024. PRIDCO has approximately \$290 million in FEMA project worksheets mainly related to Hazard and Mitigation as a result of Hurricane Maria declared disaster, of which \$260 million has been obligated by FEMA. In addition, PRIDCO entered into a Subrecipient Agreement with the Puerto Rico Department of Housing (PRDOH). PRDOH will dedicate \$9 million to meet the non-federal cost share obligation for activities associated with the FEMA PW's.

In 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, 2024, \$6.1 million is presented as unearned rent revenues.

19. COMPENSATED ABSENCES

Compensated absences as of June 30, 2024 are as follows:

	Balance at June 30, 2023	Addition	Reductions	Balance at June 30, 2024	Current Portion	Long-Term Portion
Vacation Accrual	<u>\$ 474</u>	<u>\$ -</u>	<u>\$ (102)</u>	<u>\$ 372</u>	<u>\$ 174</u>	<u>\$ 198</u>

continue

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 Statement 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

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 ERS, 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).

continue

21. VOLUNTARY TERMINATION BENEFITS – continuation

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, 2023, 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.

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, 2024:

	Beginning Balance	Net Change	Ending Balance	Current Portion	Long-Term Portion
Act No. 70	\$ 2,065	\$ (267)	\$ 1,798	\$ 343	\$ 1,455
Act No. 211	1,917	(502)	1,415	471	944
Total	<u>\$ 3,982</u>	<u>\$ (769)</u>	<u>\$ 3,213</u>	<u>\$ 814</u>	<u>\$ 2,399</u>

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

Structure of Retirement System and Accounting for Pension Costs

The 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 and municipalities. Before the enactment of Act No. 106-2017 on August 23, 2017, ERS administered different benefit structures under Act No. 447, as amended, including a cost-sharing, multiple-employer, defined benefit program, a defined contribution program and a contributory hybrid program. Act No. 106-2017 approved a substantial pension reform for all of the Commonwealth's retirement systems, including the ERS. This reform modified most of the ERS's activities, eliminated the employer contributions, created the legal framework to implement a PayGo system, and required the ERS to liquidate substantially all of its 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 payments to the pensioners and then is reimbursed for those payments by the participating employer, including the Authority. Future benefits will not be paid by the ERS.

continue

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

Under Act No. 106-2017, the ERS's board of trustees was eliminated, and a new Retirement Board was created. Act No. 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement System (TRS).

Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Act No. 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017, have been enrolled into this new Defined Contributions Plan program. The accumulated balance on the accounts of the prior program was transferred to the member accounts in the new Defined Contributions Plan, effective as of June 22, 2020.

SIGNIFICANT CHANGES

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (as confirmed, the Commonwealth Plan of Adjustment) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions (\$0.7 billion), eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits (\$0.1 billion), and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 (\$1.2 billion).

These changes reduced the Total Pension Liability as of June 30, 2022 by \$2.0 billion. The reduction is recognized immediately as a plan change. Following is presented the Summary of Plan Provisions as of June 30, 2023, and a comparison of major changes in participant data.

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

<i>Participant Data</i>			
	July 1, 2021 Census Data Collection	July 1, 2022 Census Data Collection	Total Changes
<u>Active Members</u>			
Number	37,439	34,380	-3,059
Average Salary	\$ 35,636	\$ 35,406	\$ (230)
Total Annual Salary	\$ 1,334,172,033	\$ 1,217,252,004	\$ (116,920,029)
<u>Terminated Vested Members*</u>			
Number	0	12,451	12,451
Average Monthly Basis System Benefit	\$ -	\$ 585	\$ 585
<u>Retirees</u>			
Number	94,723	95,127	404
Average Monthly Basis System Benefit	\$ 1,109	\$ 1,105	\$ (4)
Average Monthly System Administered Benefit	\$ 71	\$ 69	\$ (2)
<u>Disabled Members</u>			
Number	12,259	11,661	-598
Average Monthly Basis System Benefit	\$ 414	\$ 419	\$ 5
Average Monthly System Administered Benefit	\$ 209	\$ 207	\$ (2)
<u>Beneficiaries</u>			
Number	15,271	15,884	613
Average Monthly Basis System Benefit	\$ 392	\$ 417	\$ 25
Average Monthly System Administered Benefit	\$ 25	\$ 24	\$ (1)

*Effective with the July 1, 2022 census data collection, valuation quality data on terminated vested members was provided by PRGERS.

Basis System Benefit and System Administered Benefit amounts shown above are for pension benefits, including minimum benefits, COLAs, and future benefits to Act No. 211 retirees, and excludes benefits payable at a later date to Law No. 70 Section 4B retirees. Special Law "bonus" benefits are not reflected.

Change in Assumptions since Prior Valuation

In accordance with GASB Statement No. 73, the discount rate is based on a bond market index. PRGERS has selected the Bond Buyer General Obligations 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate increase from 3.54% as of June 30, 2022 to 3.65% as of June 30, 2023.

The load on the GASB Statement No.73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants has increased from 2.5% to 5%. The increase is based on the available information on deferred vested participants.

continue

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

The Total Pension Liability as of June 30, 2023 decreased by (1) \$0.27 billion due to the increase in the discount rate and (2) \$0.53 billion due to the change in the assumed form of payment for certain current post-Act 3 retirees and (3) \$0.04 billion due to the reflecting valuation data for individual terminated vested members in lieu of loading the actuarial accrued liability.

(1) Summary of Plan Provisions

Act No. 106-2017 closed participation in the Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of the Commonwealth of Puerto Rico (PRGERS) to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. This summary details the provisions under Act No. 3 of April 4, 2013 (Act No. 3-2013), which was effective July 1, 2013 and under which the benefits to be paid to PRGERS members are determined. Certain provisions are different for the three groups of members who entered PRGERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program or System 2000).

Act No. 106-2017 eliminate the prior statutory employer contributions and changed the funding of PRGERS benefits to Pay-As-You-Go by the Commonwealth, public corporation or municipality. Prior to July 1, 2017, most benefits were paid from system assets while some benefits were paid by the General Fund, public corporation or municipality.

Subsequent to Act No. 106-2017, the Commonwealth Plan of Adjustment eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As directed by the System, the June 30, 2019 through June 30, 2021 valuations included the Act No. 127-1958 death and disability benefits for Act No. 106-2017 employees (e.g. those hired July 1, 2017 and later) in high-risk positions. These benefits are described in items 8b and 9b.

1. Type of Plan

The System is a contributory, hybrid defined benefit plan.

2. Effective Date

The System was established in 1951 by Act No. 447 of May 15, 1951 to be effective January 1, 1952. The plan was last amended under the Commonwealth Plan of Adjustment.

continue

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

3. Eligibility for Membership

Members of the Employees Retirement System of the Government of Puerto Rico and its instrumentalities include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and were hired before July 1, 2017 (Act No. 106-2017). Employees include those in the following categories:

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective Officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employees.

Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Controller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to PRGERS benefits based on the provisions of the Commonwealth Plan of Adjustment.

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.
- c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).
- e. Municipality: The Municipality of San Juan (Article 1-104).
- f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).
- g. Employee: Any officer or employee of the Employer is regularly employed on a full-time basis (Article 1-104).
- h. Creditable Service for Act No. 447-1951 members: The years and months of plan participation, during which contributions have been made, beginning on the later date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

continue

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

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	$\frac{1}{2}$ year
5 months and 15 days to 8 months and 14 days	$\frac{3}{4}$ year
8 months and 15 days to 12 months	1 year

Months in which less than 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

- i. Creditable Service for Act No. 1-1990 members: The years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Articles 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	$\frac{1}{2}$ year
6 to 8 months	$\frac{3}{4}$ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

- j. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).
- k. Average Compensation for Act No. 447-1951 members: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).
- l. Average Compensation for Act No 1-1990 members: the average of the last 5 years of compensation that the participant has received for Creditable Service. If annual compensation in the average period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)
- m. Contributions: The amount deducted from the compensation of a Member and the employer (Section 781).

continue

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

- n. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). Prior to July 1, 2017, the rate was 2.50%. Due to Act No. 106-2017, regular interest ceased July 1, 2017.
- o. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (Article 1-104).
- p. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the System's experience and in accordance with the recommendations of the actuary.

For purposes of converting the Define Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employees Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

- q. Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.
- r. Social Security Retirement Age (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below:

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

- s. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Account (Article 3-107).
- t. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

continue

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

- u. Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.
 - i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
 - ii. System's investment portfolio – the yield is equal to 90% (75% prior to July 1, 2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
 - iii. Other alternatives are adopted by the Board of the System.
 - v. Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Saving Account as of June 30, 2013.
 - w. Credit to Defined Contribution Hybrid Contribution Account: The credits to the retirement savings account include (1) the Retirement Savings Account as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to PRGERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to PayGo funding under Act No. 106-2017, no credits are applied after June 30, 2017.
5. Coordination with Social Security for Act No. 447 Members: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System retroactive to the later of July 1, 1968 or to the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementary Plan.
6. Retirement Benefits
- 1) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would 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, and (4), for Mayors, 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 would be 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 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table with 10 years of Credited Service.

continue

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

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

- 2) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013 would 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, and (3) 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.

- 3) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table.

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

System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the Commonwealth Plan of Adjustment.

- 4) Eligibility for Members Hired after June 30, 2013: Attainment of age 67.

Act No.3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the Commonwealth Plan of Adjustment.

- 5) Eligibility for Public Officers in High-Risk Positions: Public Officers in High-Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-year extensions (delaying retirement until age 62) 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. Public Officers in High-Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.

continue

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

- 6) Benefit: An annuity payable for the lifetime of the members equal to the annuitized value of the balance in the Defined Contribution 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 Defined Contribution Account is \$10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.
- 7) 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 for Act No. 447-1951 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the Highest Compensation 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 Plan, the benefit is re-calculated at the SSRA 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.

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 Defined Contribution 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 if 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 in excess of 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 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-Mayoral Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

continue

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

- 8) Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, 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 Commonwealth Police or Firefighter 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 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.

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, plus 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. The maximum benefit is 90% of the Highest Compensation as a Mayor.

7. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Define Contribution Hybrid Contribution Account is \$10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to 5 or more years of service (10 years of Credited Service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contribution and the Define Contribution Hybrid Contribution Account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the Defined Contribution 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.

8. Death Benefits

a. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

continue

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

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447-1951 and Act No. 1-1990 members.

b. High-Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the Commonwealth Plan of Adjustment.

Spouse's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity until death or remarriage (Act No. 127-1958 as amended).

Children's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act No. 127-1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 60% of the participant's Compensation at date of death, payable as an annuity for life. (Act No. 127-1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

c. Post-retirement Death Benefit for Members who retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105-1969 as amended by Act No. 4-1985).

- (i) For those married or with dependent children at the time of death, the annual income to a widow, or widower of dependent children is equal to 60% (50% if the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit.
- (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than \$1,000. (Article 2-113 and Act No. 524-2004)

d. Post-retirement Death Benefit for Members who retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

continue

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

Spouse's Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contribution for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

- e. *Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.*

9. Disability Benefits

a. Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

b. High Risk Disability under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the Commonwealth Plan of Adjustment.

Benefit: 80% (100% for Act No. 447 members) of Compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

- c. Members who qualify for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

10. Minimum Benefits

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

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

- b. 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)
 - c. 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.
11. Cost-of-Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007). Future COLAs were eliminated effective March 15, 2022. (Various Acts)
12. Medical Insurance Plan Contribution: A payment of up to \$100 per month to the eligible medical insurance plan selected by the retiree or disabled member provided the member retired prior to July 1, 2013. (Act No. 483-2004 as amended by Act No. 3-2013)
13. Special "Bonus" Benefits:
- a. 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)
 - b. 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. (Act No. 155-2003, as Amended by Act No. 3-2013)

(2) 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 ratio 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.

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

(3) Total Pension Liabilities and Actuarial Information

The Total Pension Liability of the System was approximately \$23.3 billion as of June 30, 2023 and was determined by an actuarial valuation as of July 1, 2022 which was rolled forward to June 30, 2023 (measurement date as of June 30, 2023).

(a) 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, 2023, was 3.65%. 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.

Mortality

The mortality tables used in the June 30, 2024; 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*

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*

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.

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

– *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.

(b) Total Pension Liability

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, 2023, the date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2023 through June 30, 2024.

As of June 30, 2024, PRIDCO's proportion share of the Total Pension Liability used was as follows (last available information):

Proportion - June 30, 2023	<u>0.84330%</u>
Proportion - June 30, 2024	<u>0.81329%</u>
Change - Increase (Decrease)	<u>-0.03001%</u>

As June 30, 2024, PRIDCO reported \$168.9 million as Total Pension Liability for its proportionate share of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2024	
	Total	Proportion Share (0.81329%)
Total Pension Liability – Central Government	\$ 20,770,773	\$ 168,926

(b) Pension Expense

For the fiscal year ended June 30, 2024, PRIDCO recognized pension expense of \$14,292,492 of total pension payments of the Pay-Go system.

(c) Deferred Outflows/Inflow of Resources

As of June 30, 2024, PRIDCO reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 118	\$ 1,054
Changes in assumptions	6,450	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	1,244
Employer pension payments made subsequent to the measurement date	13,817	-
Total	<u>\$ 20,385</u>	<u>\$ 2,298</u>

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:

Year Ended	
June 30,	Amount
2025	<u>\$ 4,270</u>
Total	<u>\$ 4,270</u>

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, see Note 2 I. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2023 and 2024, was as follows:

	June 30, 2023	June 30, 2024
Discount Rate	3.54%	3.65%
20 Year Tax-Exempt Municipal Bond Yield	3.54%	3.65%

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

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

continue

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

	1% Decrease or	Current Discount Rate	1% Increase or
	2.65%	3.65%	4.65%
Total Pension Liability	\$ 188,345	\$ 168,926	\$ 152,711

Fiscal Plan for Puerto Rico

The latest Fiscal Plan for the Commonwealth was approved by the Oversight Board of PROMESA on April 3, 2023. The Government operates three public employee retirement systems in Puerto Rico: The ERS, the TRS, and the JRS. As of March 15, 2022, these pensions systems were reformed by the Commonwealth Plan of Adjustment through a series of pension initiatives. As a result of these initiatives, the Commonwealth has strengthened its ability to pay for its future commitment to pensions.

The ERS provides additional information of 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)

As mentioned in Note 22, 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.

Structure and Accounting for OPEB

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).

OPEB Benefits

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.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

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.

As of June 30, 2024, PRIDCO's proportion share of the Total OPEB Liability used was as follows (last available information):

Proportion - June 30, 2023	<u>0.65271%</u>
Proportion - June 30, 2024	<u>0.65741%</u>
Change - Increase (Decrease)	<u>0.00470%</u>

Total OPEB Liability	June 30, 2024	
	Total	Proportion Share (0.65741%)
Total OPEB Liability	\$ 646,564	\$ 4,251

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its 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). Effective with the June 30, 2023 measurement date, the proportionate share as of each measurement date is based on the ratio of the total OPEB liability determined directly for each agency based on each agency's members to the total OPEB liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date 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.

Total OPEB Liability and Actuarial Information

PRIDCO's proportion share of the total OPEB liability was approximately \$4.3 million as of June 30, 2023. The total OPEB liability as of June 30, 2023 (the measurement date used for financial reporting for fiscal year 2024) was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

(a) *Actuarial Methods and Assumptions*

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period:

Discount Rate

The discount rate for June 30, 2024, was 3.65%. 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.

Mortality

The mortality tables used in the actuarial valuations were as follows:

— *Pre-retirement Mortality*

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

100% of deaths while in active service were assumed to be occupational for members covered under Act 127-1958.

— *Post-retirement Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates were adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflected 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's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflected mortality improvements both before and after the measurement date.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

— *Post-retirement Beneficiary Mortality*

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

Other Assumptions as of June 30, 2022

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2022 as a result of Act No. 03-2017, four-year extension of Act No. 66-2014, and the current general economy

(b) *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability calculated using the discount rate of 3.65%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.65%) or 1-percentage-point higher (4.65%) than the current rate:

	1%	Current	1%
	Decrease or	Discount Rate	Increase or
	2.54%	3.65%	4.54%
Total OPEB Liability	\$ 4,616	\$ 4,251	\$ 3,937

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for retired participants of the ERS 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. BDTC is currently inactive and PRIDCO is looking for the cancelation of the joint agreement.

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.

continue

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.

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 exclude 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, 2024, PRIDCO's liability for pollution remediation amounted to \$9 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.

continue

26. POLLUTION REMEDIATION OBLIGATIONS – continuation

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.

28. SUBSEQUENT EVENTS

PRIDCO has evaluated subsequent events through April 16, 2025, the date on 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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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF PROPORTIONATE SHARE OF THE
TOTAL PENSION LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	2024	2023	2022	2021	2020	2019
Proportion of the Total Pension Liability *	0.81329%	0.84330%	1.08924%	1.09849%	1.11127%	1.11733%
Proportionate Share of the Collective Total Pension Liability	\$ 168,926	\$ 186,811	\$ 296,102	\$ 308,345	\$ 276,154	\$ 273,629
Covered – Employee Payroll	N/A	N/A	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	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 Statement No. 73, paragraph 4, to pay related benefits.

** The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022. These changes reduced the Total Pension Liability as of June 30, 2022 by \$2.0 billion. The reduction is recognized by PRIDCO as a plan change and included in the FY2023 financial statements as stated by GASB Statement No. 73.

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.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**SCHEDULE OF PROPORTIONATE SHARE OF THE
TOTAL OTHER POSTEMPLOYMENT
BENEFITS LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

	2023	2023	2022	2021	2020
Proportion of Total Other Post-Employment Benefit Liability *	\$ 4,251	\$ 4,541	\$ 5,334	\$ 5,751	\$ 5,474
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 Statement 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.

Unaudited

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION – SCHEDULES OF PROPORTIONATE
SHARE OF TOTAL PENSION LIABILITY AND TOTAL
OTHER POSTEMPLOYMENT BENEFITS LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

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 ERS 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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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Asisting Listing Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed-Through to Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAM:				
Puerto Rico Housing Department – Community Development Block Grant/States Program and Non Entitlements Grants in Hawaii	14.228	N/AV	\$ -	\$ 313,413
<i>Total U.S. Department of Housing and Urban Development Program</i>			-	313,413
U.S. DEPARTMENT OF TREASURY PROGRAM:				
Puerto Rico Treasury Department – Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	21,101
<i>Total U.S. Department of Treasury Program</i>			-	21,101
U.S. DEPARTMENT OF HOMELAND SECURITY PROGRAM:				
Puerto Rico Central Recovery and Reconstruction Office: Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	N/AV	-	6,579,141
<i>Total U.S. Department of Homeland Security Program</i>			-	6,579,141
<i>Total Expenditures of Federal Awards</i>			\$ -	\$ 6,913,655

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, 2024. 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.

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.

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, 2024, and the related notes to the financial statements, which collectively comprise **PRIDCO's** basic financial statements, and have issued our report thereon dated April 16, 2025.

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.

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 the **PRIDCO's** financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2024-001 and 2024-002 that we consider to be significant deficiencies.

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)

Page 2

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 financial statement. 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*.

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 performed in accordance with *Government Auditing Standards* in considering **PRIDCO's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2025

Caguas, Puerto Rico

April 16, 2025



DPSC12-43

Puerto Rico Industrial Development Company





"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, 2024. **PRIDCO**'s major Federal program 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, 2024.

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 opinion 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.

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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 2024-003 for Reporting.

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

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.

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

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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 require 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.

PRIDCO is responsible for preparing a Corrective Action Plan to address each audit finding included in our auditor's report. **PRIDCO's** Corrective Action Plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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. 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2024-003 to be material weakness.

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 require 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.

**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)**

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PRIDCO is responsible for preparing a Corrective Action Plan to address each audit finding included in our auditor's report. **PRIDCO's** Corrective Action Plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Caguas, Puerto Rico
April 16, 2025



DPSC12-44
Puerto Rico Industrial Development Company



PART III
FINDINGS AND QUESTIONED COSTS

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with US GAAP:

- ☒ Unmodified Opinion
Modified: ☐ Qualify Opinion
☐ Adverse Opinion
☐ Disclaimer Opinion

Internal control over financial reporting:

- Significant deficiency (ies) identified? ☒ Yes ☐ No
- Material weakness (es) identified? ☐ Yes ☒ No
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?

- ☒ Yes ☐ No

Type of auditor's report issued on compliance for each Major Federal Programs:

- ☐ Unmodified Opinion
☒ Qualify Opinion
Disaster Grants – Public Assistance (Presidentially Declared Disasters)
☐ Adverse Opinion ☐ Disclaimer Opinion

Internal control over Major Federal Programs::

- Significant deficiency (ies) identified? ☐ Yes ☒ No
- Material weakness (es) identified? ☒ Yes ☐ No
- Known Questioned Costs Greater than \$25,000 for a Compliance Requirement on a Major Program? ☐ Yes \$ - ☒ None Reported
- Known Questioned Costs Greater than \$25,000 on an Nonmajor Program? ☐ Yes \$ - ☒ None Reported
- Known or Likely Fraud Affecting a Federal Award? ☐ Yes \$ - ☒ 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 ☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2024-001
TYPE OF FINDING	SIGNIFICANT DEFICIENCY 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	<p>During fiscal year 2024 PRIDCO presented bank reconciliations with unreconciled differences of approximately \$424,538. Bank reconciliations do not present unreconciled balances in the face of the reconciliations.</p> <p>In addition, aged items dated from fiscal years 2018 to 2023 were still outstanding and not recorded in books.</p>
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 financial reporting that is sufficient to provide reasonable assurance that management can prepare the financial statements 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 correction of identified difference in bank account reconciliation prepared in a monthly basis.
IMPLEMENTATION DATE	March 31, 2026
RESPONSIBLE PERSON	Paola Rosario CPA, CFO

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2024-002
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	Restatements to prior period balances in the amount of \$5.1 million were made to record accrued interest not recorded at the beginning of the fiscal year under audit.
EFFECT	Failure to properly present and accrued interest 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	Not previously reported.
RECOMMENDATION	We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, to identify and correct any material misstatement timely.
VIEWS OF RESPONSIBLE 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 statements 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 monthly reconciliation on long term debt (Notes and Bond Payable)..
IMPLEMENTATION DATE	March 31, 2026
RESPONSIBLE PERSON	Paola Rosario CPA, CFO

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2024-003
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	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.
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, 2024, during the required period.
QUESTIONED COSTS	None
PERSPECTIVE INFORMATION	PRIDCO was unable to provide timely to the Audit Committee of the Board of Directors in accordance with Article VII of the Operational Regulations of the Audit Committee (MA-AUD-003), which required the evaluation of the Draft of the Financial Statements Audit and Single Audit before the issuance of the Management Representation Letter.
STATEMENT OF CAUSE	The audit work on the Financial Statements and the Single Audit was completed on March 10, 2025, date of the issuance of the Draft of the Auditors' Reports thereon. In accordance with PRIDCO's Operational Regulations of the Audit Committee, the Draft of the Auditors' Reports was submitted to the Audit Committee of the Board of Directors for review. As of March 31, 2025, the Audit Committee had not met to consider the Draft and authorize the issuance of the Management Representation Letter. Accordingly, the Reporting Package was not available to be submitted within the required period established to comply with the Federal regulations.
POSSIBLE ASSERTED 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.
IDENTIFICATION OF REPEAT FINDING	This is a repeat finding (Finding Reference Number 2023-001).
RECOMMENDATIONS	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. This provides more time for the Audit Committee of the Board of Directors for evaluation of the Draft and authorizes the issuance of the Management Representation Letter permitting the auditors to issuance their reports and then submit the Reporting Package to the Federal Audit Clearinghouse during the required period.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2024-003 – 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, 2026

RESPONSIBLE PERSON Paola Rosario CPA, CFO

END OF SCHEDULE

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(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:

Findings Related to the Financial Statements:

NONE

Findings Related to the Federal Programs:

Finding Reference Number	2023-001	Material Weakness and Noncompliance – Reporting
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
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, 2023 during the required period.	
Questioned Cost	None	
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.	
Current Status	PRIDCO's Management took corrective actions to this finding.	
Finding Reference Number	2022-003	Material Weakness and Noncompliance – Reporting
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
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, 2022 during the required period.	
Questioned Cost	None	
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.	
Current Status	PRIDCO's Management took corrective actions to this finding.	

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:

NONE

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

NONE

continue

(4) AUDIT FINDINGS IS NO LONGER VALID:

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 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 assure that the supporting documentation is available on a timely manner.

Current Status More than two years have passed without final determination of the Cognizant Agency.

END OF SCHEDULE