

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements
and Required Supplementary Information

June 30, 2022

(With Independent Auditors' Report Thereon)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2022



Commonwealth of Puerto Rico

***Honorable Pedro Pierluisi Urrutia
Governor***

Prepared by:

Puerto Rico Department of the Treasury

***Nelson J. Pérez Méndez, Esq.
Acting Secretary of the Treasury***

COMMONWEALTH OF PUERTO RICO

Table of Contents

	Page(s)
Independent Auditors' Report	1–6
Management's Discussion and Analysis (Unaudited)	7–21
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	22–23
Statement of Activities	24–25
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	26
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	27
Statement of Revenue, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Proprietary Funds:	
Statement of Net Position	30
Statement of Revenues, Expenses, and Changes in Fund Net Position	31
Statement of Cash Flows	32
Fiduciary Funds:	
Statement of Fiduciary Net Position	33
Statement of Changes in Fiduciary Net Position	34
Discretely Presented Component Units:	
Combining Statement of Net Position	35–36

COMMONWEALTH OF PUERTO RICO

Table of Contents

	Page(s)
Combining Statement of Activities	37
Notes to Basic Financial Statements	38–187
Required Supplementary Information (Unaudited):	
Schedule of Changes in Total Pension Liability for Single Employer Pension Plans – TRS	188
Schedule of Changes in Total Pension Liability for Single Employer Pension Plans – JRS	189
Schedule of Changes in Total Pension Liability for a Single Employer Pension Plan – ERS	190
Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single Employer Pension Plans - TRS	191
Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single Employer Pension Plans - JRS	192
Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single Employer Pension Plans - ERS	193
Schedule of Revenue and Expenditures – Budget and Actual – Budgetary Basis – General Fund	194
Notes to Required Supplementary Information	195–198
Combining and Individual Fund Financial Statements and Schedules	
General Fund:	
General Fund	199
Schedule of Expenditures by Agency – Budget and Actual – Budgetary Basis – General Fund	200–202
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds	203–205
Combining Balance Sheet	206–207
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	208–209

COMMONWEALTH OF PUERTO RICO

Table of Contents

	Page(s)
Nonmajor Proprietary Funds:	
Nonmajor Proprietary Funds	210
Combining Statement of Net Position	211
Combining Statement of Revenue, Expenses, and Changes in Fund Net Position	212
Combining Statement of Cash Flows	213
Nonmajor Discretely Presented Component Units:	
Nonmajor Discretely Presented Component Units	214
Combining Statement of Net Position	215–221
Combining Statement of Activities	222



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico:
San Juan, Puerto Rico

Unmodified and Disclaimer of Opinions

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, the debt service fund, the ERS special revenue fund, the COFINA special revenue fund, the COFINA debt service fund, the Puerto Rico Health Insurance Administration fund, the Puerto Rico Medical Services Administration fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2022, and the related notes to the financial statements. We were also engaged to audit the accompanying financial statements of the business-type activities and the unemployment insurance fund of the Commonwealth as of and for the year ended June 30, 2022, and the related notes to the basic financial statements. The financial statements described in this paragraph collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion unit	Type of opinion
Governmental activities	Unmodified
Business-type activities	Disclaimer
Aggregate discretely presented component units	Unmodified
General fund	Unmodified
Debt service fund	Unmodified
ERS special revenue fund	Unmodified
COFINA special revenue fund	Unmodified
COFINA debt service fund	Unmodified
Unemployment Insurance fund	Disclaimer
Puerto Rico Health Insurance Administration fund	Unmodified
Puerto Rico Medical Service Administration fund	Unmodified
Aggregate remaining fund information	Unmodified



Disclaimer of Opinions on the Business-type Activities and Unemployment Insurance Fund

We do not express an opinion on the accompanying financial statements of the business-type activities and the unemployment insurance fund of the Commonwealth. Because of the significance of the matter described in the Basis for Disclaimer of Opinions on the Business-Type Activities and Unemployment Insurance Fund section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the business-type activities and unemployment insurance fund.

Unmodified Opinions on Governmental Activities, Aggregate Discretely Presented Component Units, the General Fund, the Debt Service Fund, the ERS Special Revenue Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, the Puerto Rico Health Insurance Administration Fund, the Puerto Rico Medical Services Administration Fund, and Aggregate Remaining Fund Information

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, aggregate discretely presented component units, the general fund, the debt service fund, the ERS special revenue fund, the COFINA special revenue fund, the COFINA debt service fund, the Puerto Rico Health Insurance Administration fund, the Puerto Rico Medical Services Administration fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the following entities and funds:

- **Governmental Activities**
 - Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico, Office of Legislative Services, Superintendence of the Capitol Building, Puerto Rico House of Representatives, Puerto Rico Senate, Puerto Rico Public Housing Administration, Puerto Rico Housing Finance Department – Sales and Acquisition Fund, Puerto Rico Department of Economic Development and Commerce, and Puerto Rico Energy Bureau, which collectively represent 5.82% and 1.81% of the total assets and revenues, respectively, of the general fund.
 - Puerto Rico Maritime Shipping Authority, Special Communities Perpetual Trust special revenue and debt service funds, Public Buildings Authority, University of Puerto Rico Comprehensive Cancer Center, Puerto Rico Infrastructure Financing Authority, The Children’s Trust, Puerto Rico Fiscal Agency and Financial Advisory Authority, Retirement System for the Judiciary of the Commonwealth of Puerto Rico, and Ponce Authority, which are non-major governmental funds that represent 25.48% and 8.91% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 28.55% and 2.27% of the total assets and revenues, respectively, of the governmental activities.

- **Business-Type Activities**
 - Unemployment insurance fund, which is a major enterprise fund.
 - Puerto Rico Health Insurance Administration fund, which is a major enterprise fund.
 - Puerto Rico Medical Services Administration fund, which is a major enterprise fund.
 - The Additional Lottery System, the Puerto Rico Water Pollution Control Revolving Fund, Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Governing Board of 9-1-1 Services, Disability Insurance Fund, Drivers’ Insurance Fund, and Ponce Ports Authority, which are non-major enterprise



funds that collectively represent 42.97% and 33.16% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 97.10% and 94.78% of the total assets and revenues, respectively, of the business-type activities.

- **Aggregate Discretely Presented Component Units**

The discretely presented component units listed in note 1(c) to the basic financial statements. These entities collectively represent 69.74% and 59.30% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the entities and funds indicated above, are based solely on the reports of the other auditors.

Basis for Disclaimer of Opinions on the Business-Type Activities and Unemployment Insurance Fund

The financial statements of the Unemployment Insurance fund as of and for the year ended June 30, 2022 were audited by other auditors, whose report thereon, dated October 20, 2023, included a Basis for Disclaimer of Opinion section stating that the unemployment insurance fund was unable to provide complete and accurate information associated with their determination of potential non-fraud and fraudulent overpayments within the CARES Act Unemployment Insurance Program. The unemployment insurance fund's records did not permit the auditors, nor was it practical to extend other auditing procedures, to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the unemployment insurance fund were free of material misstatement. As a result of this matter, the other auditors were unable to determine whether any audit adjustments may have been necessary.

Basis for Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, the debt service fund, the ERS special revenue fund, the COFINA special revenue fund, the COFINA debt service fund, the Puerto Rico Health Insurance Administration fund, the Puerto Rico Medical Services Administration fund, and the aggregate remaining fund information in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commonwealth, 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 unmodified audit opinions.

Emphasis of Matters

Approval of the Plan of Adjustment – Primary Government

As discussed in notes 2 and 3 to the basic financial statements, on May 13, 2017, the Financial Oversight and Management Board created by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) filed a petition for relief under Title III of PROMESA similar to bankruptcy. On January 18, 2022, the Title III Court entered an order confirming the Commonwealth's Eight Amended Plan of Adjustment (the Plan). The Plan became effective in accordance with its terms on March 15, 2022, and the Commonwealth emerged from Title III of PROMESA. Our opinions are not modified with respect to this matter.



Uncertainty about Ability to Continue as a Going Concern – Major Discretely Presented Component Units

The accompanying basic financial statements have been prepared assuming that the major discretely presented component units of the Commonwealth will continue as a going concern. As discussed in note 2(b) to the basic financial statements, the Commonwealth has stated that substantial doubt exists for the following major discretely presented component units to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are described in note 2(b) to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions on the basic financial statements are not modified with respect to these matters.

- *Government Development Bank for Puerto Rico (GDB)*

The financial statements of GDB as of June 30, 2022 and for the year then ended were audited by other auditors, whose report thereon, dated October 13, 2023, included an emphasis of matter paragraph related to GDB's ability to continue as a going concern. As stated in GDB's independent auditors' report, GDB continues the process of efficiently winding down its operations and on November 29, 2018 (the Closing Date), executed the Qualifying Modification which resulted in a comprehensive financial restructuring and legal discharge of substantially all of its debts and the ensuing transfer of almost all its revenue earning assets to two newly created separate entities. With the execution of this transaction, the GDB Operating Fund will not emerge as a going concern.

- *Puerto Rico Electric Power Authority (PREPA)*

PREPA has an accumulated deficit of approximately \$10.1 billion as of June 30, 2022, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on the payment of various debt obligations. Also, on July 2, 2017, the Oversight Board, at the request of the Governor, filed a petition on behalf of PREPA for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

- *University of Puerto Rico (UPR)*

The financial statements of UPR as of June 30, 2022, and for the year then ended were audited by other auditors, whose report thereon, dated March 27, 2023, included an emphasis of matter paragraph related to UPR's ability to continue as a going concern. As stated in UPR's independent auditors' report, UPR is highly dependent on the Commonwealth's appropriations to finance its operations.

Adoption of New Accounting Standard

As discussed in Note 1(z) to the basic financial statements, the Commonwealth adopted Government Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, 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 Commonwealth's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Auditors' Responsibilities for the Audit of the Business-Type Activities and Unemployment Insurance Fund

Our responsibility is to conduct an audit of the Commonwealth's financial statements in accordance with GAAS and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinions on the Business-Type Activities and Unemployment Insurance Fund section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the business-type activities and unemployment insurance fund.

We are required to be independent of the Commonwealth and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditors' Responsibilities for the Audit of the Governmental Activities, the Aggregate Discretely Presented Component Units, the General Fund, the Debt Service Fund, the ERS Special Revenue Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, the Puerto Rico Health Insurance Administration Fund, the Puerto Rico Medical Services Administration Fund, and the Aggregate Remaining Fund Information

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

In performing an audit in accordance with GAAS, we:

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

U.S. generally accepted accounting principles require that the management's discussion and analysis; the schedules of changes in the total pension liability and related ratios for single-employer pension plans; the schedule of changes in total other postemployment benefits liability and related ratios for single-employer pension plans; and the schedule of revenue and expenditures – budget and actual–budgetary basis – general



fund, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We were unable to apply certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America because of the matters described in the Basis for Disclaimer of Opinions on the Business-Type Activities and Unemployment Insurance Fund section. We do not express an opinion or provide any assurance on the information.

We and the other auditors have applied certain limited procedures to the schedules of changes in the net pension liability and related ratios for single-employer pension plans, the schedules of changes in total other postemployment benefits liability and related ratios for single-employer pension plans and the schedule of revenue and expenditures – budget and actual – budgetary basis – general fund 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 opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

San Juan, Puerto Rico
April 5, 2024

Stamp No. E556035 of the Puerto Rico
Society of Certified Public Accountants was
affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth) for the fiscal year ended June 30, 2022. The MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Commonwealth's financial activities, (c) present an overview of results for the General Fund on a budgetary basis, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Commonwealth's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-type Activities, reported, in the government-wide financial statements, a net deficit of approximately \$51.1 billion as of June 30, 2022, which was comprised of approximately \$27.6 billion in total assets and approximately \$6.8 billion in deferred outflows of resources, less approximately \$84.3 billion in total liabilities and approximately \$1.2 billion in deferred inflows of resources.
- The net deficit of the Commonwealth's Primary Government decreased by approximately \$8.2 billion during fiscal year 2022. The net deficit for Governmental Activities decreased by approximately \$8.1 billion and the net position for Business-type Activities increased by approximately \$89.7 million during the fiscal year 2022.
- The Commonwealth's Governmental Activities had total revenue of approximately \$29.1 billion for fiscal year 2022, which was greater than total expenses of approximately \$26.6 billion. The Commonwealth's Business-type Activities had total revenue of approximately \$5.7 billion for fiscal year 2022, which represented a decrease of approximately \$4.7 billion when compared to fiscal year 2021 (as restated).
- The Commonwealth's Primary Government had total expenses of approximately \$32.5 billion in fiscal year 2022, which included expenses of approximately \$5.9 billion incurred by Business-type Activities, which represented a decrease of approximately \$4.4 billion when compared to total expenses incurred during fiscal year 2021 (as restated).
- For fiscal year 2022, the total excess of expenditures over revenue in the General Fund (budgetary basis) was approximately \$10.3 billion, resulting from a one-time payment of \$10.1 billion related to the implementation of the Commonwealth Plan of Adjustment¹. It consisted of the difference between total actual revenue of approximately \$12.8 billion (including other financing sources), less total actual expenditures of approximately \$12.8 billion, and less the approximately \$10.1 billion of non-recurring expenditures related to implementation of the Commonwealth Plan of Adjustment. The funding for the implementation of the Commonwealth Plan of Adjust was fiscal year 2022 revenues and prior year's revenues (accumulated surplus and incoming cash transfers from other Commonwealth entities). The variance between the U.S. generally accepted accounting principles (U.S. GAAP) and budgetary basis deficits results from differences of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements.

¹ On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order confirming the *Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al.* [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Notwithstanding the circumstances existing on June 30, 2022, based on subsequent events that remediated the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern as of the date of these basic financial statements. For additional information regarding going concern, uncertainties, and liquidity risk, refer to Note 2 and Note 3.

Reporting the Commonwealth as a Whole

The Commonwealth consists of all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. As noted above, the Commonwealth's basic financial statements consist of three components: (i) government-wide financial statements, which includes the Commonwealth's discretely presented component units, (ii) fund financial statements, and (iii) notes to the basic financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this MD&A. The notes to the basic financial statements provide explanations and/or additional detail for all of the above types of financial statements and are considered an integral part of the basic financial statements.

Government-wide Financial Statements

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

The government-wide financial statements include two statements:

- **Statement of Net Position** – This statement presents all the Commonwealth government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as an indicator of whether the financial position of the Commonwealth is improving or deteriorating.
- **Statement of Activities** – This statement presents information showing how the Primary Government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commonwealth.

The Commonwealth's net position is one way to measure whether the Commonwealth's financial health is improving or deteriorating, but other nonfinancial factors, such as changes in the Commonwealth's tax structure, population, employment, debt levels, fiscal conditions, economic factors, access to external markets and the condition of its roads, bridges, and buildings, must also be considered in order to assess the overall health of the Commonwealth.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2022

In the statement of net position and the statement of activities, the operations of the Commonwealth are divided into the following activities:

- **Governmental Activities** – Most of the Commonwealth's basic services are reported here, including education, health, public housing and welfare, public safety, economic development, general government, and interest on long-term debt. Federal grants (intergovernmental), personal and corporate income taxes, consumption and use taxes, business and other taxes, transfers from lottery revenues, and bond or loan proceeds finance most of these activities. Also included in Governmental Activities are fifteen blended component units, which are entities that, while legally separate from the Commonwealth, meet the blending criteria under GASB to be reported as part of the Primary Government.
- **Business-type Activities** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These Business-type Activities of the Commonwealth include the operations of the following major funds: the Unemployment Insurance Trust Fund, the Puerto Rico Health Insurance Administration (PRHIA), and the Puerto Rico Medical Services Administration (PRMeSA).
- **Discretely Presented Component Units** – Although legally separate from the Commonwealth, these discretely presented component units are important to the Commonwealth because the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. Discretely presented component units, presented in a separate column in these basic financial statements, are discretely presented principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because such discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. The Commonwealth classifies 40 separate legal entities as discretely presented component units, as disclosed in Note 1 to the basic financial statements.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Commonwealth's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Commonwealth's government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare each one of these is different. The Commonwealth's governmental and proprietary fund types use different perspectives and accounting basis. The funds presented in the fund financial statements are categorized as either major or nonmajor funds as required by U.S. GAAP. All the funds of the Commonwealth can be divided into the following categories:

- **Governmental Funds** – Most of the basic services provided by the Commonwealth are financed through governmental funds, which are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Commonwealth's finances and assist in determining whether there will be adequate financial

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

resources available to meet the current needs of the Commonwealth. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By doing the aforementioned, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures, and changes in fund balances. The Commonwealth's five major governmental funds are:

- General Fund ¹
- Debt Service Fund
- ERS Special Revenue Fund
- COFINA Special Revenue Fund
- COFINA Debt Service Fund

The remaining nonmajor governmental funds, which consist of the Ponce Authority (PA), Public Buildings Authority (PBA), Puerto Rico Infrastructure Financing Authority (PRIFA), Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), Puerto Rico Maritime Shipping Authority (PRMSA), Puerto Rico System of Annuities and Pensions for Teachers (TRS), Retirement System of the Judiciary of the Commonwealth of Puerto Rico (JRS), Special Communities Perpetual Trust (SCPT), the Children's Trust, the University of Puerto Rico Comprehensive Cancer Center (UPRCCC), and the Commonwealth's capital project funds, which are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- **Proprietary Funds** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are also known as enterprise funds. Proprietary funds provide the same type of information as the Business-type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for Business-type Activities and the proprietary funds financial statements.

The Commonwealth has three major proprietary funds:

- Unemployment Insurance Fund
- Puerto Rico Health Insurance Administration (PRHIA)
- Puerto Rico Medical Service Administration (PRMeSA)

¹ The General Fund is the primary operating fund of the Commonwealth. The financial resources received and used in the General Fund mostly includes: the General Fund budgeted resources, as approved by the Legislature of Puerto Rico (the Legislature) and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, resources that otherwise would be accounted for in special revenue funds, and agencies with independent treasuries.

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Other nonmajor proprietary funds consist of the Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System, Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), Ponce Ports Authority (PPA), and the Bureau of Emergency Services 9-1-1 which are grouped and presented in a separate column in the proprietary funds' financial statements. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major discretely presented component units' combining financial statements.

Required Supplementary Information/Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of total other postemployments benefits liability schedules, total pension liability schedules, schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, combining schedules for nonmajor governmental funds, nonmajor proprietary funds, and nonmajor discretely presented component units.

Overall Financial Position and Results of Operations (Government-wide financial statements)

The following is an analysis of the financial position and changes in the financial position of the Commonwealth's Governmental Activities and Business-type Activities for fiscal year 2022.

Net Position

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

	Governmental Activities		Business-type Activities		Primary Government	
	2022	2021 (As restated)	2022	2021 (As restated)	2022	2021 (As restated)
Assets:						
Non-capital assets:						
Cash and investments	\$ 12,764,534	19,084,680	1,383,865	1,294,955	14,148,399	20,379,635
Receivables, net	3,538,378	3,023,090	1,751,651	1,581,789	5,290,029	4,604,879
Other	356,481	97,740	17,340	19,259	373,821	116,999
Total non-capital assets	16,659,393	22,205,510	3,152,856	2,896,003	19,812,249	25,101,513
Capital Assets	7,676,232	7,658,089	112,328	97,907	7,788,560	7,755,996
Total assets	<u>24,335,625</u>	<u>29,863,599</u>	<u>3,265,184</u>	<u>2,993,910</u>	<u>27,600,809</u>	<u>32,857,509</u>
Deferred outflows of resources	<u>6,725,432</u>	<u>8,223,404</u>	<u>102,310</u>	<u>111,908</u>	<u>6,827,742</u>	<u>8,335,312</u>
Liabilities:						
Long-term liabilities	76,267,994	83,898,457	1,672,594	1,798,056	77,940,588	85,696,513
Other liabilities	5,580,758	12,991,659	820,000	521,211	6,400,758	13,512,870
Total liabilities	<u>81,848,752</u>	<u>96,890,116</u>	<u>2,492,594</u>	<u>2,319,267</u>	<u>84,341,346</u>	<u>99,209,383</u>
Deferred inflows of resources	<u>1,126,476</u>	<u>1,190,765</u>	<u>30,473</u>	<u>31,784</u>	<u>1,156,949</u>	<u>1,222,549</u>
Net Position:						
Net investment in capital assets	6,745,980	2,273,331	82,890	73,461	6,828,870	2,346,792
Restricted	738,824	509,961	1,244,986	1,162,893	1,983,810	1,672,854
Unrestricted (deficit)	(59,398,975)	(62,777,170)	(483,449)	(481,587)	(59,882,424)	(63,258,757)
Total net position (deficit) \$	<u>(51,914,171)</u>	<u>(59,993,878)</u>	<u>844,427</u>	<u>754,767</u>	<u>(51,069,744)</u>	<u>(59,239,111)</u>

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Governmental entities are required by U.S. GAAP to report on their net position. The statement of net position presents the value of all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position (deficit) may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the Primary Government as of June 30, 2022, amounted to approximately \$34.4 billion and \$85.5 billion, respectively, for a net deficit of approximately \$51.1 billion as of June 30, 2022, compared to a net deficit of approximately \$59.2 billion as of June 30, 2021 (as restated).

Net position (deficit) for Governmental Activities decreased by approximately \$8.1 billion for fiscal year 2022, decreasing to a deficit of approximately \$51.9 billion as of June 30, 2022, from a deficit of approximately \$60 billion as of June 30, 2021 (as restated). The unrestricted deficit for Governmental Activities – that part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation, or other legal requirements – had a deficit of approximately \$59.4 billion as of June 30, 2022. The unrestricted deficit in Governmental Activities, which decreased by approximately \$3.4 billion, exists primarily because of cumulative excessive operating expenses in disparity with actual revenues. This deficit can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The statement of net position in Governmental Activities reflects outstanding bonds and notes amounting to approximately \$31.8 billion and total pension liability amounting to approximately \$41.2 billion as of June 30, 2022, as compared to outstanding bonds and notes amounting to approximately \$37.8 billion and net pension liability amounting to approximately \$41.6 billion as of June 30, 2021 (as restated).

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending, and except for Business-type assets, do not generate direct revenue for the Commonwealth. They do represent, however, an obligation on the part of the Commonwealth to maintain these assets in the future. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since most of the capital assets themselves cannot be used to liquidate these liabilities.

The net position in Business-type Activities increased by approximately \$89.7 million in fiscal year 2022 when compared to fiscal year 2021 (as restated), from approximately a \$754.8 million net position as of June 30, 2021 (as restated), to approximately a \$844.4 million net position as of June 30, 2022.

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Statements of Activities and Results of Operations

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

	Governmental Activities		Business-type Activities		Primary Government	
	2021		2021		2021	
	2022	(As restated)	2022	(As restated)	2022	(As restated)
Revenue:						
Program revenue:						
Charges for services	\$ 996,025	868,050	1,373,267	1,819,034	2,369,292	2,687,084
Operating grants and contributions	14,159,419	16,402,111	4,309,835	8,513,320	18,469,254	24,915,431
Capital grants and contributions	70,292	60,735	—	—	70,292	60,735
	15,225,736	17,330,896	5,683,102	10,332,354	20,908,838	27,663,250
General revenue:						
Taxes	13,372,643	12,407,999	—	—	13,372,643	12,407,999
Revenue from opioid settlement agreement	122,145	—	—	—	122,145	—
Revenue from global tobacco settlement agreement	82,703	80,577	—	—	82,703	80,577
Revenue from component units	52,435	55,562	—	—	52,435	55,562
Other, including earning (loss) on investments	234,035	340,648	2,732	12,014	236,767	352,662
	13,863,961	12,884,786	2,732	12,014	13,866,693	12,896,800
Total revenue	29,089,697	30,215,682	5,685,834	10,344,368	34,775,531	40,560,050
Expenses:						
General government	7,308,295	11,759,267	—	—	7,308,295	11,759,267
Public safety	1,786,143	2,001,357	—	—	1,786,143	2,001,357
Health	4,169,977	3,858,465	—	—	4,169,977	3,858,465
Public housing and welfare	5,773,611	5,229,480	—	—	5,773,611	5,229,480
Education	4,069,254	3,704,161	—	—	4,069,254	3,704,161
Economic development	1,106,426	1,057,899	—	—	1,106,426	1,057,899
Intergovernmental	339,094	221,236	—	—	339,094	221,236
Interest and other	2,020,697	2,033,294	—	—	2,020,697	2,033,294
Unemployment insurance	—	—	1,124,623	5,887,812	1,124,623	5,887,812
Puerto Rico Health Insurance Administration	—	—	3,960,765	3,658,538	3,960,765	3,658,538
Puerto Rico Medical Services Administration	—	—	207,374	184,253	207,374	184,253
Nonmajor proprietary funds	—	—	633,997	572,795	633,997	572,795
	26,573,497	29,865,159	5,926,759	10,303,398	32,500,256	40,168,557
Increase (decrease) in net position before special and extraordinary items and transfers	2,516,200	350,523	(240,925)	40,970	2,275,275	391,493
Special and Extraordinary items:						
Special item - Forgiveness of Debt	389,750	—	—	—	389,750	—
Extraordinary item - Gain on PROMESA Title III and VI	5,504,342	—	—	—	5,504,342	—
	5,894,092	—	—	—	5,894,092	—
Total special and extraordinary items	(330,585)	(211,978)	330,585	211,978	—	—
Transfers	8,079,707	138,545	89,660	252,948	8,169,367	391,493
Change in net position	8,079,707	138,545	89,660	252,948	8,169,367	391,493
Net position (deficit), beginning of year, as restated (note 4)	(59,993,878)	(60,132,423)	754,767	501,819	(59,239,111)	(59,630,604)
Net position (deficit), end of year	\$ (51,914,171)	(59,993,878)	844,427	754,767	(51,069,744)	(59,239,111)

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2022

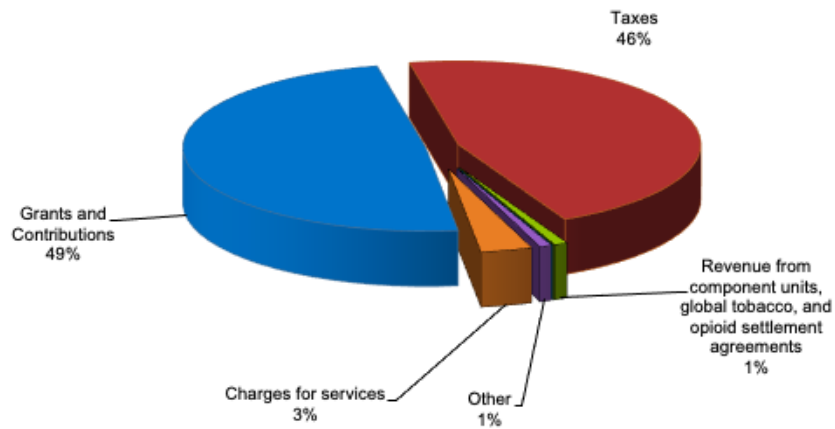
As described above, the Governmental Activities net deficit position decreased from approximately \$60 billion as of June 30, 2021 (as restated) to approximately \$51.9 billion as of June 30, 2022, a decrease of approximately \$8.1 billion. The decrease in total net deficit position is mainly due to the net effect of the restructuring of the Commonwealth general obligation and revenue bonds from approximately \$21.7 billion to approximately \$16.1 billion as a result of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) Title III and VI. During fiscal year 2022 the result of the aforementioned transaction among other liabilities restructured resulted in the recognition of an extraordinary gain of approximately \$5.5 billion and a special item of approximately \$389.8 million. Approximately 46% of the Governmental Activities revenue came from taxes, while approximately 49% resulted from grants and contributions (primarily federal financial assistance). Charges for services represented approximately 3% of total revenue. The Governmental Activities' expenses cover a range of governmental services. The largest expenses were for: (i) general government (27% of total expenses), (ii) public housing and welfare (22% of total expenses), (iii) education (16% of total expenses), (iv) interest and other (8% of total expenses), (v) health (16% of total expenses), and (vi) public safety (7% of total expenses). In fiscal year 2022, Governmental Activities' expenses, which amounted to approximately \$26.6 billion, were funded by approximately \$13.9 billion in general revenue, and approximately \$15.2 billion in program revenue (comprised primarily of federal financial assistance). In addition, the implementation of Act No. 66-2014, known as the "*Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act*" contributed to a control in expenses through measures such as:

- Reduction in payroll and payroll related expenses.
- Freeze formula base contributions to the University of Puerto Rico, the Commonwealth's Judicial Branch, and the Municipalities.
- Reduction in education expenses, such as, a reduction in school transportation services, payroll savings on account of teacher's retirement system and no contracting to fill vacancies.
- Reduction of special appropriations.
- Elimination of certain subsidies to programs or operations of discretely presented component units.

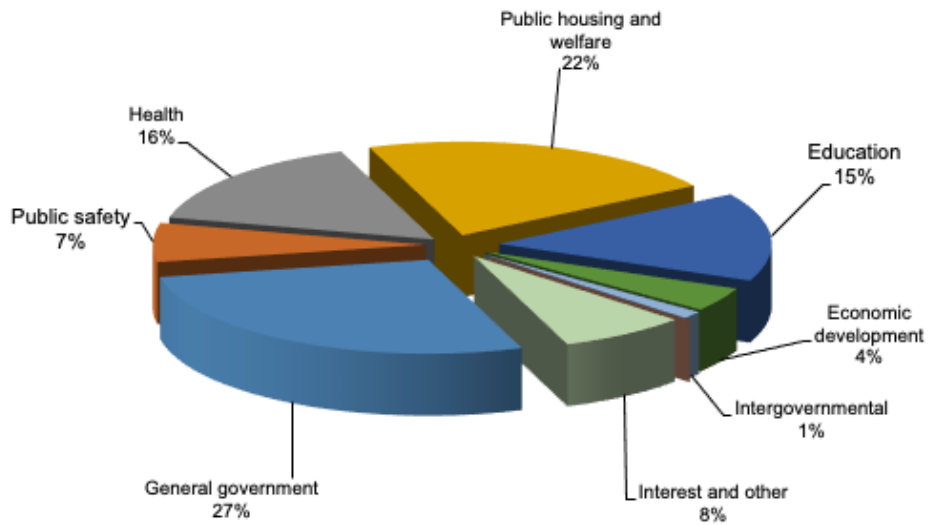
The total revenue from Governmental Activities for fiscal year 2022 decreased by approximately \$1.1 billion compared to fiscal year 2021. This decrease is in large part related to a decrease in operating grants and contributions of approximately \$2.2 billion.

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Revenues – Governmental Activities



Expenses – Governmental Activities



COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2022

As of June 30, 2022, Business-type Activities' total net position increased by approximately \$89.7 million when compared to the prior fiscal year. Approximately 24% of the Business-type Activities total revenue came from charges for services, while approximately 75.80% resulted from grants and contributions (primarily federal financial assistance). Business-type Activities expenses cover a range of services. The largest expenses were for Unemployment Insurance and Health Insurance Administration. In fiscal year 2022, Business-type Activities' total expenses exceeded revenue by approximately \$241 million. The excess of expenses over revenues in fiscal year 2022 was the result of a reduction in operating grants and contributions, amounting to approximately \$4.2 billion. Total expenses decreased by approximately \$4.4 billion in comparison with the prior year's expenses, related to a decrease of approximately \$4.8 billion in insurance benefits payments from the Unemployment Insurance Fund.

Governmental Funds

The governmental funds financial statements provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2022, the Commonwealth's governmental funds, which include the General Fund, the Debt Service Fund, ERS Special Revenue Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, and nonmajor governmental funds, reported a combined ending fund balance of approximately \$8.9 billion. In fiscal year 2022, revenue in these governmental funds exceeded expenditures by approximately \$1.8 billion. This excess of revenues over expenditures was increased by a gain on PROMESA Title III transaction of approximately \$1.6 billion in the governmental funds. For fiscal year 2022, the excess of revenue over expenditures increased by approximately \$247.3 million when compared with the prior year.

The General Fund is the chief operating fund of the Commonwealth. At the end of fiscal year 2022, the General Fund, which encompasses other financial resources outside the General Fund budget such as federal funds, pledged funds, special revenue funds, and agencies with independent treasuries, had a total fund balance of approximately \$7.7 billion. The fund balance of the Commonwealth's General Fund decreased by approximately \$3.3 billion as a result of the fiscal year's change in financial position. An excess of revenue over expenditures of approximately \$4.2 billion.

The Debt Service Fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term general obligations debt. The net change in fund balance of the debt service fund was a decrease in deficit of approximately \$4.9 billion in fiscal year 2022, and the fund balance at the end of year increased to approximately \$125.2 million as of June 30, 2022. Bonds and interest payable during fiscal year 2022 decreased by approximately \$4.9 billion when compared with fiscal year 2021 as a result of the plan of adjustment of general obligation bonds during fiscal year 2022.

The ERS Special Revenue Fund is used to account for the unliquidated assets that will be transferred to the Commonwealth's General Fund after the legal proceedings under the Title III of PROMESA are completed. The fund balance of the ERS Special Revenue Fund decreased by approximately \$52.3 million in fiscal year 2022, decreasing to a fund balance of approximately \$413.1 million as of June 30, 2022.

The COFINA Special Revenue Fund is used to account for and report all financial resources of the Puerto Rico Sales Tax Financing Corporation (COFINA). The fund balance of the COFINA Special Revenue Fund decreased by approximately \$227 thousand in fiscal year 2022, decreasing to a fund balance of approximately \$16.1 million as of June 30, 2022. The COFINA Debt Service Fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations of COFINA. The fund balance of the COFINA Debt Service Fund increased by approximately \$32.7 million during fiscal year 2022, to a fund balance of approximately \$182.8 million as of June 30, 2022.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2022

Proprietary Funds

The Commonwealth's enterprise funds provide the same type of information presented in the Business-type Activities in the government-wide financial statements, but in more detail. The Unemployment Insurance Fund's total net position balance increased from approximately \$196.7 million as of June 30, 2021, to approximately \$267.9 million as of June 30, 2022, an increase of approximately \$71.2 million. Expenses from the fund for unemployment benefits decreased by approximately \$4.8 billion, as compared to fiscal year 2021.

The PRHIA enterprise fund total net position increased from a net position of approximately \$408.7 million as of June 30, 2021, to a net position of approximately \$414.4 million as of June 30, 2022, an increase of approximately \$5.7 million in large part as a result in an increase of transfers received from the General Fund.

The PRMeSA enterprise fund net deficit increased from approximately \$733.4 million as of June 30, 2021, to a deficit of approximately \$756.2 million as of June 30, 2022, an increase of approximately \$23.2 million.

General Fund Budgetary Highlights

The Commonwealth Constitution requires the Governor of Puerto Rico (the Governor) to submit a balanced budget that contains a plan of expenditures for the ensuing fiscal year and identifies the anticipated revenues and other resources sufficient to meet the proposed expenditures. The Commonwealth adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided on page 198 as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund presents only the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP.

The total General Fund actual revenue, on a budgetary basis for fiscal year 2022, was approximately \$12.6 billion (excluding other financing sources), representing an increase of approximately \$2.4 billion, or 24%, from the originally budgeted revenue, and an increase of approximately \$672.9 million or 6% from actual revenue of approximately \$11.9 billion for fiscal year 2021.

Total General Fund actual expenditures, on a budgetary basis for fiscal year 2022, were approximately \$22.9 billion, which included approximately \$10.1 billion in one-time expenditures related to the implementation of the Commonwealth Plan of Adjustment. Ordinary course expenditures (unrelated to Commonwealth Plan of Adjustment expenses) were approximately \$12.8 billion for fiscal year 2022 as originally budgeted, representing an increase of approximately \$2.7 billion over the actual expenditures of approximately \$10.1 billion for fiscal year 2021.

For fiscal year 2022, the total deficiency of revenue under expenditures in the General Fund (budgetary basis) was approximately \$10.1 billion, a one-time expenditure related to the implementation of the Commonwealth Plan of Adjustment. It consisted of the difference between actual revenue of approximately \$12.8 billion (including other financing sources), less total actual expenditures of approximately \$12.8 billion, less the approximately \$10.1 billion of non-recurring expenditures related to implementation of the Commonwealth Plan of Adjustment. This deficiency of approximately \$10.3 billion in the General Fund (budgetary basis) differs from the excess of revenue over expenditures in the General Fund on a modified accrual basis (U.S. GAAP) of approximately \$4.2 billion, which was offset by approximately \$7.5 billion in other financing uses, principally consisting of transfers to other funds, for a resulting net decrease in fund balances of approximately \$3.3 billion for the fiscal year 2022. The variance between the U.S. GAAP and budgetary basis deficiency results from differences in the basis of accounting, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements. Examples of such differences include: (i) recognition of proceeds of long-term debt issued as other financing sources, (ii) recognition of receivables (revenue) for reimbursements of expenses allocated to federal funds, (iii) the recognition of revenue and expenditures of entities with independent treasuries, (iv) expenditures incurred in nonbudgetary funds (special revenue funds, internal revenue funds, and other funds), which were not included in the General Fund Budget, and (v) timing

COMMONWEALTH OF PUERTO RICO
 Management's Discussion and Analysis (Unaudited)
 June 30, 2022

differences in basis of accounting such as (a) the recognition of receivables on income and corporate taxes and (b) recognition of expenditure accruals. A reconciliation is presented on page 198 in the notes to required supplementary information section. The Commonwealth's ability to continue reducing the deficit will depend in part on its ability to continue raising revenues and reducing expenditures and debt obligations in the face of economic uncertainties.

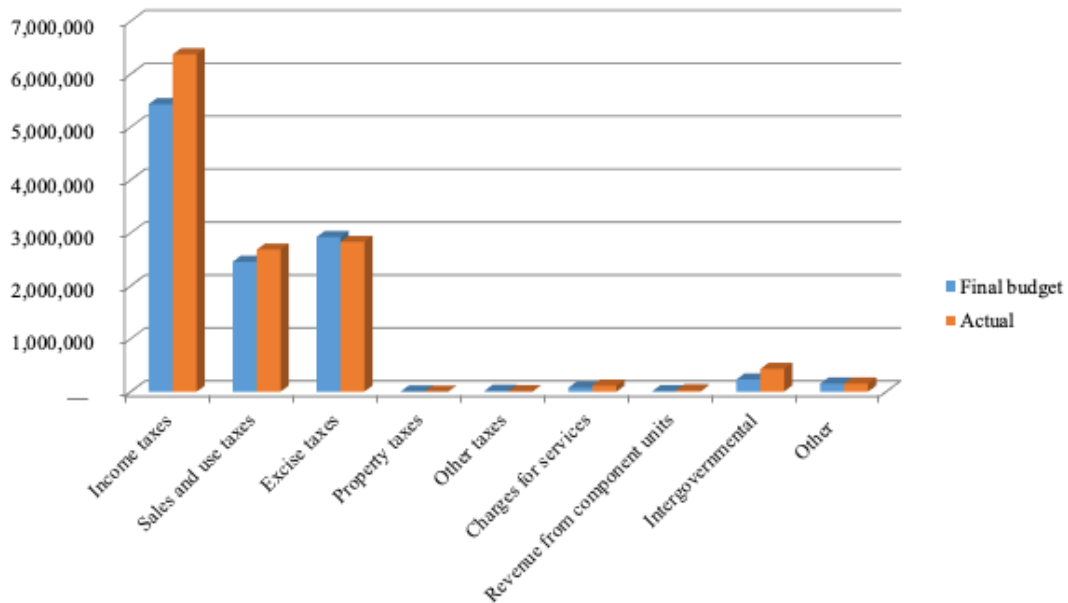
The following information is presented to assist the reader in comparing the final amended budget and the actual results.

Actual Revenue – General Fund

Budgetary Basis

Year ended June 30, 2022

(In thousands)



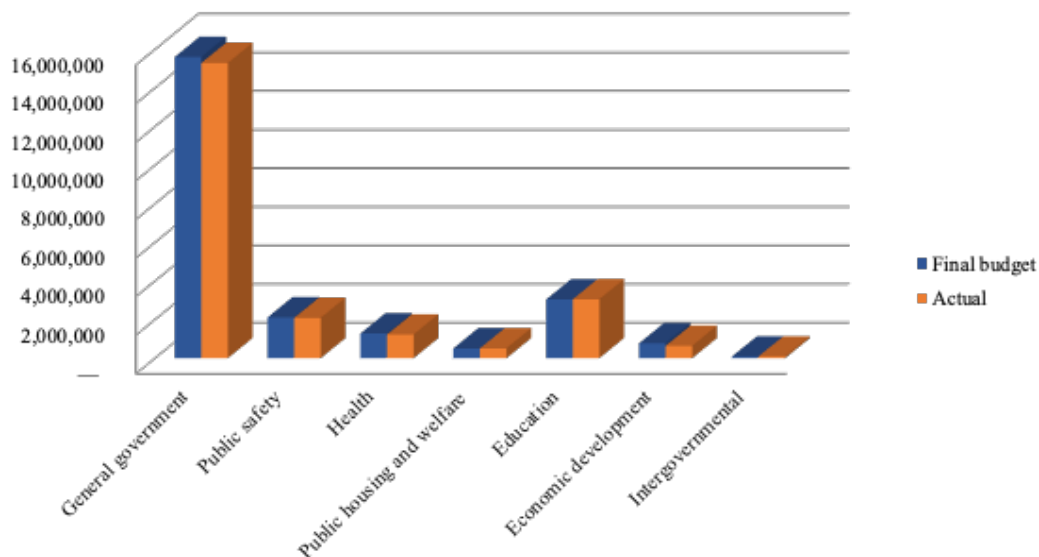
COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Actual Expenditures – General Fund

Budgetary Basis

Year ended June 30, 2022

(In thousands)



Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the Primary Government's capital assets (in thousands):

	Governmental activities		Business-type activities		Total Primary Government	
	2022	2021 (as restated)	2022	2021 (as restated)	2022	2021 (as restated)
	Land	\$ 983,401	985,064	36,005	36,005	1,019,406
Construction in progress	990,298	928,489	—	—	990,298	928,489
Buildings and building improvements, net	5,120,154	5,171,611	51,007	41,415	5,171,161	5,213,026
Equipment, furniture, fixtures, vehicles and software, net	225,834	203,273	25,316	20,487	251,150	223,760
Infrastructure, net	356,545	369,652	—	—	356,545	369,652
Total capital assets	\$ 7,676,232	7,658,089	112,328	97,907	7,788,560	7,755,996

The Commonwealth's investment in capital assets for its Governmental Activities and Business-type Activities as of June 30, 2022, amounted to approximately \$14.9 billion, less accumulated depreciation and amortization of approximately \$7.1 billion, resulting in a book value of approximately \$7.8 billion. Capital assets include land, constructions in progress, buildings, building improvements, equipment, and infrastructure. Capital assets included in the Governmental Activities column are principally owned by blended component units (e.g., PBA and PRIFA) and are primarily of value only to the Commonwealth, such as public schools, roads, and buildings used

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2022

for governmental services. Depreciation and amortization expense for its Governmental Activities and Business-type Activities amounted to approximately \$383.3 million for the year ended June 30, 2022.

Other infrastructure assets, such as highways, bridges, toll road facilities, water and sewer systems, electricity production, transmission and distribution systems, and similar assets, are owned by discretely presented component units.

Additional information on the Commonwealth's capital assets can be found in Note 9 to the basic financial statements that accompany this report.

Debt Administration – Primary Government

The Commonwealth has incurred long-term debt financing and other obligations, including lease/purchases and contractual obligations where the Commonwealth's legal obligation to make payments is typically subject to and paid from annual appropriations made by the Legislature of Puerto Rico (the Legislature) of the Commonwealth. For example, the debts reported by most blended component units, by Business-type Activities and certain discretely presented component units are supported, directly or indirectly, by payments from resources from the Commonwealth's Governmental Activities.

As of June 30, 2022, the Primary Government's bonds and notes outstanding amounted to approximately \$31.8 billion, and the discretely presented component units' bonds and notes outstanding amounted to approximately \$20.3 billion.

General obligation bonds are backed by the full faith, credit, and taxing power of the Commonwealth. The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the Commonwealth is in compliance with the 15% limitation at the time of issuance of such guaranteed debt. Internal revenue consists principally of income taxes, sales and use tax, property taxes, and excise taxes.

In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. Issues related to this matter were resolved under the COFINA Plan of Adjustment.

Debt of certain discretely presented component units (other than bond anticipation notes), such as Puerto Rico Electric and Power Authority and Puerto Rico Aqueduct and Sewer Authority, is supported by operating revenue. However, the debt of certain blended and discretely presented component units was historically supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or conditionally allocated taxes.

Additional information on the Commonwealth's long-term debt can be found in Note 11 to the accompanying basic financial statements.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order confirming the *Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al.* [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment), which incorporates several agreements reached with creditors and other parties in interest to resolve Puerto Rico's Title III cases, including resolving the

COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis (Unaudited)
June 30, 2022

litigation related to the retention of certain revenues that were historically transferred to the Authority . For a further discussion of the Eighth Amended Plan and litigation related thereto, refer to the PROMESA Proceedings in Note 3.

Currently Known Facts

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Commonwealth's financial position and results of operations. For additional information and further detail, refer to Note 2, Note 3, and Note 19.

Hurricane Fiona

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

Puerto Rico Highway and Transportation Authority (PRHTA) Loan

The Commonwealth Plan of Adjustment included a \$360 million loan to the PRHTA for liquidity, which was repaid as part of the commercial close of the Puerto Rico Public-Private Partnerships Authority (PPPA) concession granted by PRHTA to Spanish infrastructure operator Abertis Infraestructuras, S.A. For additional information on this transaction, please refer to Note 19, Subsequent Events.

Puerto Rico Power Electric Authority (PREPA) Loan

On December 19, 2023, the Puerto Rico Treasury Department (PRTD) completed a first disbursement to PREPA for approximately \$115 million as part of a \$300 million loan by the PRTD to PREPA. The loan proceeds will be strictly used to fund the: (i) PREPA Pension Obligations through the end of the third fiscal quarter of FY2024, and (ii) Rollover Reserve. For additional information on this transaction, please refer to Note 19, Subsequent Events.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2022

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Totals primary government	
Assets:				
Cash and cash equivalents in commercial banks	\$ 9,539,636	642,987	10,182,623	2,473,329
Cash and cash equivalents in governmental banks	—	—	—	544
Investments	63,069	—	63,069	1,460,521
Receivables – net:				
Income and excise taxes	1,696,228	—	1,696,228	—
Sales and use tax receivable	66,478	—	66,478	—
Insurance premium	—	5,191	5,191	90,390
Intergovernmental	713,447	844,179	1,557,626	335,422
Accounts	103,993	128,819	232,812	873,600
Loans	283,203	—	283,203	278,833
Accrued interest	2,263	161	2,424	36,125
Lease	55,083	940	56,023	881,594
Other	320,649	2,053	322,702	40,880
Due from – net :				
Primary government	—	—	—	147,192
Component units	246,828	—	246,828	139,954
Other governmental entities	47,763	3,060	50,823	1,098,487
Internal balances	(94,612)	94,612	—	—
Inventories	18,080	—	18,080	502,452
Prepaid expenses	17,773	—	17,773	62,760
Other assets	11,565	4,940	16,505	5,414
Restricted assets:				
Cash and cash equivalents in commercial banks	2,753,961	361,501	3,115,462	2,269,689
Cash and cash equivalents under the custody of U.S. Treasury	—	351,122	351,122	—
Deposits with restructuring administrator	264,000	—	264,000	—
Sales and use tax receivable	72,017	—	72,017	—
Insurance premium – net	—	56,835	56,835	—
Intergovernmental receivable	25,038	1,064	26,102	—
Accounts	—	18	18	—
Accrued interest	—	445	445	—
Loans receivable from component units	—	614,274	614,274	—
Investments	407,868	28,255	436,123	849,286
Other	852	12,400	13,252	97,740
Real estate held for sale or future development	44,211	—	44,211	197,999
Capital assets:				
Land and other nondepreciable	1,973,699	36,005	2,009,704	4,667,660
Other capital assets, net of depreciation/amortization	5,702,533	76,323	5,778,856	20,933,810
Total assets	24,335,625	3,265,184	27,600,809	37,443,681
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivatives	—	—	—	17,662
Loss on bonds refunding	10,799	—	10,799	123,725
Asset retirement obligation	—	—	—	87,166
Other postemployment benefits related	89,117	1,430	90,547	74,474
Pension related	6,625,516	100,880	6,726,396	1,833,694
Total deferred outflows of resources	6,725,432	102,310	6,827,742	2,136,721

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2022

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Totals primary government	
Liabilities:				
Accounts payable and accrued liabilities	1,685,385	494,313	2,179,698	3,135,434
Deposits and escrow liabilities	—	—	—	667,452
Tax refunds payable	655,901	—	655,901	—
Due to:				
Primary government	—	—	—	1,683,326
Component units	225,386	38,478	263,864	2,706,749
Other governmental entities	84,621	6,393	91,014	167,163
Interest payable	892,665	221,774	1,114,439	5,268,815
Grant advances	1,594,242	—	1,594,242	—
Unearned revenue	40,858	59,042	99,900	479,203
Notes payable to DRA	1,700	—	1,700	—
Tax revenue anticipation notes	400,000	—	400,000	—
Liabilities payable within one year:				
Commonwealth appropriation bonds	191,300	—	191,300	22,448
General obligations and revenue bonds	589,811	—	589,811	3,607,622
Contingent value instrument debt	361,806	—	361,806	—
Notes payable to component units	2,000	182,196	184,196	—
Note payable to financial institution	—	—	—	744,886
Lease liability	63,086	1,388	64,474	25,625
Compensated absences	305,974	8,901	314,875	67,369
Obligation for unpaid lottery prizes	—	120,215	120,215	—
Voluntary termination benefits	74,480	3,551	78,031	14,384
Net pension liability	—	—	—	171,894
Total pension liability	1,909,644	35,878	1,945,522	331,529
Total other postemployment benefit liability	88,418	1,429	89,847	21,348
Liability for insurance benefits	—	356,396	356,396	703,735
Other long-term liabilities	311,524	2,222	313,746	56,742
Liabilities payable after one year:				
Commonwealth appropriation bonds	384,920	—	384,920	496,585
General obligations and revenue bonds	21,043,964	—	21,043,964	14,932,775
Contingent value instrument debt	8,354,617	—	8,354,617	—
Notes payable to component units	505,204	303,207	808,411	—
Notes payable to financial institutions	—	—	—	554,098
Lease liability	128,842	4,962	133,804	77,345
Compensated absences	241,995	7,344	249,339	174,474
Obligation for unpaid lottery prizes	—	37,131	37,131	—
Voluntary termination benefits	377,978	8,831	386,809	66,523
Net pension obligation	—	—	—	12,095
Net pension liability	—	—	—	6,396,637
Total pension liability	39,315,363	580,640	39,896,003	6,321,582
Total other postemployment benefit liability	1,037,662	16,377	1,054,039	769,493
Hedging derivatives instruments – interest rate swaps	—	—	—	17,662
Other long-term liabilities	979,406	1,926	981,332	762,071
Total liabilities	81,848,752	2,492,594	84,341,346	50,457,064
Deferred inflows of resources:				
Service concession arrangements	—	—	—	1,651,730
Leases	53,942	650	54,592	858,867
Other post employment benefits related	8,267	—	8,267	66,414
Pension related	1,064,267	29,823	1,094,090	1,512,457
Total deferred inflows of resources	1,126,476	30,473	1,156,949	4,089,468
Net position:				
Net investment in capital assets	6,745,980	82,890	6,828,870	3,898,474
Restricted for:				
Capital projects	81,666	—	81,666	201,687
Debt service	169,726	—	169,726	151,193
Emergency services	—	85,090	85,090	—
Lending activities	—	851,906	851,906	—
Payment of insurance benefits	—	307,990	307,990	—
Public housing and welfare	—	—	—	47,289
Student loans and other educational purposes	—	—	—	253,659
Other	487,432	—	487,432	776,219
Unrestricted (deficit)	(59,398,975)	(483,449)	(59,882,424)	(20,294,651)
Total net position	\$ (51,914,171)	844,427	(51,069,744)	(14,966,130)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2022

(In thousands)

Functions	Expenses	Program revenue			Net (expense) revenue and changes in net position			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 7,308,295	342,047	4,122,572	—	(2,843,676)	—	(2,843,676)	—
Public safety	1,786,143	147,790	169,403	—	(1,468,950)	—	(1,468,950)	—
Health	4,169,977	225,577	3,499,126	—	(445,274)	—	(445,274)	—
Public housing and welfare	5,773,611	44,185	4,864,063	70,292	(795,071)	—	(795,071)	—
Education	4,069,254	700	1,302,697	—	(2,765,857)	—	(2,765,857)	—
Economic development	1,106,426	235,726	201,558	—	(669,142)	—	(669,142)	—
Intergovernmental	339,094	—	—	—	(339,094)	—	(339,094)	—
Interest and other	2,020,697	—	—	—	(2,020,697)	—	(2,020,697)	—
Total governmental activities	26,573,497	996,025	14,159,419	70,292	(11,347,761)	—	(11,347,761)	—
Business-type activities:								
Unemployment insurance	1,124,623	239,499	1,000,224	—	—	115,100	115,100	—
Puerto Rico Health Insurance Administration	3,960,765	158,534	3,269,562	—	—	(532,669)	(532,669)	—
Puerto Rico Medical Services Administration	207,374	122,206	9,620	—	—	(75,548)	(75,548)	—
Nonmajor proprietary funds	633,997	853,028	30,429	—	—	249,460	249,460	—
Total business-type activities	5,926,759	1,373,267	4,309,835	—	—	(243,657)	(243,657)	—
Total primary government	\$ 32,500,256	2,369,292	18,469,254	70,292	(11,347,761)	(243,657)	(11,591,418)	—

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2022

(In thousands)

Functions	Expenses	Program revenue			Net (expense) revenue and changes in net position			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Component units:								
Government Development Bank for Puerto Rico	\$ 322,761	35,612	289,278	—	—	—	—	2,129
Puerto Rico Highways and Transportation Authority	1,087,184	259,218	21,844	199,188	—	—	—	(606,934)
Puerto Rico Electric Power Authority	5,239,470	4,004,807	288,628	124	—	—	—	(945,911)
Puerto Rico Aqueduct and Sewer Authority	1,157,412	1,083,950	—	103,272	—	—	—	29,810
University of Puerto Rico	943,392	241,962	618,681	6,308	—	—	—	(76,441)
State Insurance Fund Corporation	432,021	634,676	—	—	—	—	—	202,655
Nonmajor component units	2,237,399	613,260	1,016,262	93,422	—	—	—	(514,455)
Total component units	\$ 11,419,639	6,873,485	2,234,693	402,314	—	—	—	(1,909,147)
General revenue:								
Income taxes					6,384,343	—	6,384,343	—
Sales and use tax					3,338,352	—	3,338,352	—
Excise taxes					3,376,343	—	3,376,343	523,712
Other taxes					273,605	—	273,605	—
Revenue from opioid settlement agreement					122,145	—	122,145	—
Revenue from global tobacco settlement agreement					82,703	—	82,703	—
Revenue from State Insurance Fund Corporation					30,235	—	30,235	—
Revenue from Automobile Accidents Compensation Administration					2,200	—	2,200	—
Revenue from Puerto Rico Electric Power Authority					20,000	—	20,000	—
Grants and contributions not restricted to specific programs					131,249	—	131,249	9,326
Revenue from primary government					—	—	—	926,511
Unrestricted investment earnings – net					42,467	1,488	43,955	94,163
Other					60,319	1,244	61,563	—
Special item - Forgiveness of Debt					389,750	—	389,750	—
Extraordinary item - Gain on PROMESA Tittle III and VI proceedings					5,504,342	—	5,504,342	347,738
Transfers					(330,585)	330,585	—	—
Total general revenue, special item, extraordinary items, and transfers					19,427,468	333,317	19,760,785	1,901,450
Change in net position					8,079,707	89,660	8,169,367	(7,697)
Net position:								
At beginning of year, as previously reported					(59,978,704)	754,128	(59,224,576)	(14,975,722)
Correction of errors and change in reporting entity (note 4)					(15,174)	639	(14,535)	17,289
Net position (deficit) – beginning of year, as restated					(59,993,878)	754,767	(59,239,111)	(14,958,433)
Net position (deficit) – end of year					\$ (51,914,171)	844,427	(51,069,744)	(14,966,130)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2022

(In thousands)

	General	Debt service	ERS special revenue	COFINA special revenue	COFINA debt service	Nonmajor governmental	Total governmental
Assets:							
Cash and cash equivalents in commercial banks	\$ 9,279,451	—	30,422	21,781	—	207,982	9,539,636
Investments	—	—	57,712	—	—	5,357	63,069
Receivables – net:							
Income and excise taxes	1,696,228	—	—	—	—	—	1,696,228
Sales and use tax receivable	66,478	—	—	—	—	—	66,478
Intergovernmental	711,193	—	—	—	—	2,254	713,447
Accounts	100,017	—	—	—	—	3,976	103,993
Loans	—	—	169,146	—	—	114,057	283,203
Accrued interest	2,262	—	—	—	—	1	2,263
Leases	1,139	—	—	—	—	2	1,141
Other	281,401	—	231	441	—	38,576	320,649
Due from – net:							
Other funds	30,540	—	137,235	—	—	63,702	231,477
Component units	246,828	—	—	—	—	—	246,828
Other governmental entities	46,172	—	—	—	—	1,591	47,763
Other assets	11,565	—	—	—	—	—	11,565
Restricted assets:							
Cash and cash equivalents in commercial banks	1,733,672	729,698	21,101	—	1,010	268,480	2,753,961
Deposits with restructuring administrator	264,000	—	—	—	—	—	264,000
Sales and use tax receivable	—	—	—	—	72,017	—	72,017
Intergovernmental receivable	—	25,038	—	—	—	—	25,038
Investments	32,981	—	—	—	269,388	105,499	407,868
Due from other funds	—	—	—	—	—	720	720
Other assets	—	—	—	—	—	852	852
Real estate held for sale or future development	—	—	—	—	—	1,854	1,854
Total assets	\$ 14,503,927	754,736	415,847	22,222	342,415	814,903	16,854,050
Liabilities, deferred inflow of resources, and fund balances (deficit):							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,509,549	—	2,710	285	—	172,841	1,685,385
Tax refunds payable	655,901	—	—	—	—	—	655,901
Due to:							
Other funds	148,474	—	—	5,867	159,657	12,811	326,809
Component units	217,129	—	—	—	—	8,257	225,386
Other governmental entities	71,620	—	—	—	—	13,001	84,621
Interest payable	202,170	160,732	—	—	—	99,041	461,943
Grant advances	1,594,242	—	—	—	—	—	1,594,242
Unearned revenue	32,847	—	—	—	—	8,011	40,858
Notes payable to component units	—	—	—	—	—	1,700	1,700
Tax revenue anticipation notes	400,000	—	—	—	—	—	400,000
Commonwealth appropriation bonds	163,965	—	—	—	—	675	164,640
General obligation and revenue bonds	—	468,784	—	—	—	—	468,784
Other liabilities	124,636	—	—	—	—	—	124,636
Total liabilities	5,120,533	629,516	2,710	6,152	159,657	316,337	6,234,905
Deferred inflows of resources:							
Unavailable income taxes	1,453,140	—	—	—	—	—	1,453,140
Intergovernmental grants and contributions	32,420	—	—	—	—	—	32,420
Developer fees	121,938	—	—	—	—	—	121,938
Opioid settlement agreement	122,145	—	—	—	—	—	122,145
Global tobacco settlement agreement	—	—	—	—	—	37,229	37,229
Total deferred inflows of resources	1,729,643	—	—	—	—	37,229	1,766,872
Fund Balances:							
Spendable:							
Restricted	412,425	125,220	413,137	—	182,758	247,447	1,380,987
Committed	—	—	—	—	—	12,841	12,841
Assigned	5,553	—	—	16,070	—	279,250	300,873
Unassigned (deficit)	7,235,773	—	—	—	—	(78,201)	7,157,572
Total fund balances (deficit)	7,653,751	125,220	413,137	16,070	182,758	461,337	8,852,273
Total liabilities, deferred inflow of resources, and fund balances	\$ 14,503,927	754,736	415,847	22,222	342,415	814,903	16,854,050

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2022

(In thousands)

Total fund balances of governmental funds	\$	8,852,273
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:		
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net position		35,853
Accounts receivables reported in governmental activities but not in governmental funds		
Leases		53,942
Deferred outflows of resources reported in governmental activities but not in governmental funds		
Loss on bonds refunding		10,799
Other postemployment benefits related		89,117
Pension related		6,625,516
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds		7,676,232
Real estate held for sale or future development are not current financial resources and, therefore, are not reported in the governmental funds		42,357
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities		1,766,872
Deferred inflows of resources reported in governmental activities but not in governmental funds		
Leases		(53,942)
Other postemployment benefits related		(8,267)
Pension related		(1,064,267)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Interest payable		(430,722)
Commonwealth appropriation bonds		(411,580)
General obligation and revenue bonds		(21,164,991)
Contingent value instruments		(8,716,423)
Notes payable to component units		(507,204)
Lease liability		(191,928)
Compensated absences		(547,969)
Voluntary termination benefits		(452,458)
Total pension liability		(41,225,007)
Other postemployment benefit obligation		(1,126,080)
Other long-term liabilities		(1,166,294)
Total net position (deficit) of governmental activities	\$	<u><u>(51,914,171)</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds

Year ended June 30, 2022

(In thousands)

	<u>General</u>	<u>Debt service</u>	<u>ERS special revenue</u>	<u>COFINA special revenue</u>	<u>COFINA debt service</u>	<u>Nonmajor governmental</u>	<u>Total governmental</u>
Revenue:							
Taxes:							
Income taxes	\$ 6,181,002	—	—	—	—	—	6,181,002
Sales and use tax	2,872,500	—	—	—	465,852	—	3,338,352
Excise taxes	3,376,343	—	—	—	—	—	3,376,343
Property taxes	201	—	—	—	—	—	201
Other taxes	273,404	—	—	—	—	—	273,404
Charges for services	996,025	—	—	—	—	—	996,025
Revenue from global tobacco settlement agreement	82,492	—	—	—	—	—	82,492
Revenue from component units	52,435	—	—	—	—	—	52,435
Intergovernmental	14,077,294	131,249	—	—	—	130,764	14,339,307
Interest and investment earnings	14,703	—	24,041	1	195	3,527	42,467
Other	38,777	—	—	—	—	20,357	59,134
Total revenue	27,965,176	131,249	24,041	1	466,047	154,648	28,741,162
Expenditures:							
Current:							
General government	6,576,493	—	97,451	966	—	406,113	7,081,023
Public safety	1,769,005	—	—	—	—	—	1,769,005
Health	4,245,827	—	—	—	—	50,913	4,296,740
Public housing and welfare	5,658,632	—	—	—	—	871	5,659,503
Education	3,612,050	—	—	—	—	3,406	3,615,456
Economic development	963,864	—	—	—	—	20	963,884
Intergovernmental	339,094	—	—	—	—	—	339,094
Capital outlays	385,360	—	—	239	—	20,137	405,736
Debt service:							
Principal	132,599	802,559	—	7	17,480	244,352	1,196,997
Interest and other	71,619	783,171	117,793	—	430,056	80,659	1,483,298
Other – debt issuance costs	—	176,683	—	—	—	—	176,683
Total expenditures	23,754,543	1,762,413	215,244	1,212	447,536	806,471	26,987,419
Excess (deficiency) of revenue over (under) expenditures	4,210,633	(1,631,164)	(191,203)	(1,211)	18,511	(651,823)	1,753,743
Other financing sources (uses):							
Transfers in	576,909	5,813,428	8,198	6,611	—	1,973,266	8,378,412
Transfers out	(8,384,522)	—	(36,787)	(5,866)	(6,611)	(275,211)	(8,708,997)
Proceeds from long term debt issued	243,187	—	—	239	20,813	1,850	266,089
Proceeds from sale of capital assets	5,405	—	—	—	—	—	5,405
Total other financing sources (uses)	(7,559,021)	5,813,428	(28,589)	984	14,202	1,699,905	(59,091)
Extraordinary item:							
Gain on PROMESA Title III transaction	65,157	690,391	167,481	—	—	662,435	1,585,464
Total extraordinary item	65,157	690,391	167,481	—	—	662,435	1,585,464
Net change in fund balances	(3,283,231)	4,872,655	(52,311)	(227)	32,713	1,710,517	3,280,116
Fund balances (deficit) – beginning of year, as restated (note 4)	10,936,982	(4,747,435)	465,448	16,297	150,045	(1,249,180)	5,572,157
Fund balances (deficit) – end of year	\$ 7,653,751	125,220	413,137	16,070	182,758	461,337	8,852,273

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2022

(In thousands)

Net change in fund balances – total governmental funds	\$	3,280,116
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	\$	405,736
Less depreciation and amortization expense		(373,582)
Loss on disposal of assets		<u>(14,723)</u>
Subtotal		17,431
The issuance of long-term debt (e.g., bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments of long-term debt		1,196,997
Proceed from long-term debt issued		<u>(266,089)</u>
Subtotal		930,908
Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds. Also, revenue related to prior periods that became available during the current period is reported in governmental funds but are eliminated in the statement of activities.		348,535
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(802,905)
Special items reported in the statement of activities related to the plan of adjustments not reported at the governmental funds		389,750
Extraordinary items reported in the statement of activities related to the plan of adjustments not reported at the governmental funds		3,918,878
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net position. This amount is the net decrease in total inventories and prepaid expenses.		<u>(3,006)</u>
Change in net position of governmental activities	\$	<u><u>8,079,707</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Net Position – Proprietary Funds
June 30, 2022
(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	\$ —	392,363	8,344	242,280	642,987
Receivables – net:					
Insurance premiums	—	—	—	5,191	5,191
Intergovernmental	—	844,171	—	8	844,179
Accounts	—	116,286	7,352	5,181	128,819
Accrued interest receivable	—	—	—	161	161
Lease receivable	—	—	338	—	338
Other	—	—	236	613	849
Due from other funds	—	—	36,220	56,079	92,299
Due from component units	—	—	—	—	—
Due from other governmental entities	—	—	3,060	—	3,060
Other assets	—	574	3,672	694	4,940
Restricted assets:					
Cash and cash equivalents in commercial banks	27,297	—	—	250,977	278,274
Cash and cash equivalents under the custody the U.S. Treasury	351,122	—	—	—	351,122
Due from other funds	—	—	—	—	—
Accounts	—	—	—	18	18
Accrued interest	—	—	—	445	445
Insurance premiums receivable	56,835	—	—	—	56,835
Intergovernmental receivable	1,064	—	—	—	1,064
Other	1	—	—	—	1
Loans from component units	—	—	—	10,000	10,000
Total current assets	436,319	1,353,394	59,222	571,647	2,420,582
Noncurrent assets:					
Cash and cash equivalents in commercial banks – restricted	—	—	83,227	—	83,227
Receivables – net:					
Loans from component units – restricted	—	—	—	604,274	604,274
Lease receivable	—	—	602	—	602
Due from other funds	458	20,213	—	—	20,671
Other	—	1,204	—	—	1,204
Restricted investments	—	—	—	28,255	28,255
Other restricted assets	—	—	—	12,399	12,399
Land and other nondepreciable	—	—	6,872	29,133	36,005
Capital assets, net of depreciation/amortization	—	3,268	65,020	8,035	76,323
Total assets	436,777	1,378,079	214,943	1,253,743	3,283,542
Deferred outflows of resources:					
Other postemployment benefits related	—	12	1,131	287	1,430
Pension related	—	1,312	82,446	17,122	100,880
Total deferred outflows of resources	—	1,324	83,577	17,409	102,310
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	360	453,661	27,693	12,599	494,313
Due to other funds	—	2,474	6,586	9,298	18,358
Due to component units	—	—	38,478	—	38,478
Due to other governmental entities	—	—	6,393	—	6,393
Interest payable	—	82,797	127,644	11,333	221,774
Unearned revenue	43,577	—	297	15,168	59,042
Notes payable to component units	—	182,196	—	—	182,196
Lease Liability	—	370	179	839	1,388
Compensated absences	—	734	7,583	584	8,901
Obligation for unpaid lottery prizes	—	—	—	120,215	120,215
Voluntary termination benefits payable	—	409	2,886	256	3,551
Liability for insurance benefits	124,942	230,893	—	561	356,396
Total pension liability	—	312	23,919	11,647	35,878
Total other postemployment benefit liability	—	12	1,131	286	1,429
Other long-term liabilities	—	—	2,222	—	2,222
Total current liabilities	168,879	953,858	245,011	182,786	1,550,534
Noncurrent liabilities:					
Notes payable to component units	—	—	282,445	20,762	303,207
Lease Liability	—	2,493	193	2,276	4,962
Compensated absences	—	—	4,863	2,481	7,344
Obligation for unpaid lottery prizes	—	—	—	37,131	37,131
Voluntary termination benefits payable	—	2,067	5,691	1,073	8,831
Total pension liability	—	6,168	476,969	97,503	580,640
Total other postemployment benefit liability	—	134	12,975	3,268	16,377
Other long-term liabilities	—	—	1,926	—	1,926
Total liabilities	168,879	964,720	1,030,073	347,280	2,510,952
Deferred inflows of resources:					
Pension related	—	270	24,018	5,535	29,823
Leases	—	—	650	—	650
Total deferred outflows of resources	—	270	24,668	5,535	30,473
Net position:					
Net investment in capital assets	—	444	71,519	10,927	82,890
Restricted for emergency services	—	—	78,821	6,269	85,090
Restricted for lending activities	—	—	—	851,906	851,906
Restricted for payment of insurance benefits	267,898	—	—	40,092	307,990
Unrestricted (deficit)	—	413,969	(906,561)	9,143	(483,449)
Total net position (deficit)	\$ 267,898	414,413	(756,221)	918,337	844,427

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenses, and Changes in Fund Net Position – Proprietary Funds

Year ended June 30, 2022

(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Operating revenue:					
Health insurance administration	\$ —	158,000	—	—	158,000
Insurance premiums	239,499	—	—	25,184	264,683
Lottery ticket sales	—	—	—	804,045	804,045
Patient service, net of provision for bad debts	—	—	122,077	—	122,077
Emergency telephone service charges	—	—	—	23,122	23,122
Interest	—	—	—	516	516
Other	—	534	129	161	824
Total operating revenue	239,499	158,534	122,206	853,028	1,373,267
Operating expenses:					
Insurance benefits	1,124,623	—	—	1,802	1,126,425
Medical premiums and claims	—	3,927,583	—	—	3,927,583
Lottery prizes	—	—	—	521,238	521,238
Patient services	—	—	149,320	—	149,320
General, administrative, and other operating expenses	—	25,002	44,052	98,188	167,242
Total operating expenses	1,124,623	3,952,585	193,372	621,228	5,891,808
Operating income (loss)	(885,124)	(3,794,051)	(71,166)	231,800	(4,518,541)
Nonoperating revenue (expenses):					
U.S. government grants	1,000,224	3,269,562	9,620	30,429	4,309,835
Contributions to component units	—	—	—	(11,170)	(11,170)
Interest and investment earnings	4,738	236	—	(3,486)	1,488
Interest expense	—	(8,180)	(14,002)	(1,599)	(23,781)
Other	—	—	1,536	(292)	1,244
Total nonoperating revenue (expenses)	1,004,962	3,261,618	(2,846)	13,882	4,277,616
Income (loss) before transfers	119,838	(532,433)	(74,012)	245,682	(240,925)
Transfers from other funds	—	538,180	59,021	627	597,828
Transfers to other funds	(48,606)	—	(8,198)	(210,439)	(267,243)
Net change in net position	71,232	5,747	(23,189)	35,870	89,660
Net position (deficit)– beginning of year, as restated (note 4)	196,666	408,666	(733,032)	882,467	754,767
Net position (deficit)– end of year	\$ 267,898	414,413	(756,221)	918,337	844,427

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Cash Flows – Proprietary Funds
Year ended June 30, 2022
(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Cash flows from operating activities:					
Receipts from customers and users	\$ 252,297	147,527	106,194	852,253	1,358,271
Other receipts	—	—	—	46	46
Payments to healthcare organizations and third party administrators	—	(3,681,310)	—	—	(3,681,310)
Payments to suppliers	—	(13,398)	(76,150)	(75,305)	(164,853)
Payments to employees	—	(5,222)	(138,688)	(17,923)	(161,833)
Loans originated	—	—	—	(19,569)	(19,569)
Interest received on loans	—	—	—	878	878
Principal collected on loans	—	—	—	10,018	10,018
Payments of lottery prizes	—	—	—	(522,855)	(522,855)
Payments of insurance benefits	(1,167,742)	—	—	(1,831)	(1,169,573)
Net cash provided by (used in) operating activities	<u>(915,445)</u>	<u>(3,552,403)</u>	<u>(108,644)</u>	<u>225,712</u>	<u>(4,350,780)</u>
Cash flows from noncapital financing activities:					
U.S. government grants	1,013,665	3,088,715	9,620	31,494	4,143,494
Contributions to component units	—	—	—	(11,171)	(11,171)
Interest paid	—	(71)	—	—	(71)
Transfers from other funds	—	551,534	106,548	832	658,914
Transfers to other funds	(48,606)	—	(8,198)	(277,031)	(333,835)
Net cash provided by (used in) noncapital and related financing activities	<u>965,059</u>	<u>3,640,178</u>	<u>107,970</u>	<u>(255,876)</u>	<u>4,457,331</u>
Cash flows from capital and related financing activities:					
Principal and interest payments	—	—	—	(1,031)	(1,031)
Capital expenditures	—	(3,416)	(16,623)	(257)	(20,296)
Net cash used by capital and related financing activities	<u>—</u>	<u>(3,416)</u>	<u>(16,623)</u>	<u>(1,288)</u>	<u>(21,327)</u>
Cash flows from investing activities:					
Interest collected on deposits, and investments	5,406	236	1,462	671	7,775
Proceeds from sales and maturities of investments	—	—	—	774	774
Net cash provided by investing activities	<u>5,406</u>	<u>236</u>	<u>1,462</u>	<u>1,445</u>	<u>8,549</u>
Net change in cash and cash equivalents	55,020	84,595	(15,835)	(30,007)	93,773
Cash and cash equivalents at beginning of year	323,399	307,768	107,406	523,264	1,261,837
Cash and cash equivalents at end of year	<u>\$ 378,419</u>	<u>392,363</u>	<u>91,571</u>	<u>493,257</u>	<u>1,355,610</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (885,124)	(3,794,051)	(71,166)	231,800	(4,518,541)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	—	588	7,720	1,408	9,716
Provision for bad debts	—	24,620	4,981	—	29,601
Changes in operating assets and liabilities:					
Decrease (increase) in accounts and loans receivable	(857)	(10,745)	(5,891)	(542)	(18,035)
Decrease in lease receivable	—	—	610	—	610
Decrease (increase) in due from component units	—	—	(253)	(9,551)	(9,804)
Decrease in due from other governmental entities	—	—	1,045	—	1,045
Decrease (increase) in other assets	—	(262)	1,625	534	1,897
Decrease (increase) in deferred outflow of resources	—	242	5,977	3,380	9,599
Increase (decrease) in accounts payable and accrued liabilities	228	296,606	687	4,748	302,269
Increase (decrease) in due to other funds	—	(2,368)	122	—	(2,246)
Decrease in due to component units	—	—	(29,245)	—	(29,245)
Increase (decrease) in unearned revenue	13,655	—	(11,523)	122	2,254
Increase in lease liability	—	2,863	372	—	3,235
Increase (decrease) in compensated absences	—	76	(952)	381	(495)
Increase (decrease) in deferred inflow of resources	—	7	(1,158)	(159)	(1,310)
Increase (decrease) in total pension liability	—	(139)	(6,217)	(4,413)	(10,769)
Decrease in total other postemployment benefits liability	—	(7)	(963)	(277)	(1,247)
Increase in obligation for unpaid lottery prizes	—	—	—	(1,617)	(1,617)
Increase (decrease) in voluntary termination benefits payable	—	(376)	(3,902)	(73)	(4,351)
Increase (decrease) in liability for unemployment, disability and health insurance	(43,347)	(69,457)	—	(29)	(112,833)
Decrease in other long-term liabilities	—	—	(513)	—	(513)
Total adjustments	<u>(30,321)</u>	<u>241,648</u>	<u>(37,478)</u>	<u>(6,088)</u>	<u>167,761</u>
Net cash provided by (used in) operating activities	<u>\$ (915,445)</u>	<u>(3,552,403)</u>	<u>(108,644)</u>	<u>225,712</u>	<u>(4,350,780)</u>
Supplemental disclosure of cash flows information:					
Receivable and payable settlement	\$ —	—	26,043	—	26,043

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2022

(In thousands)

	Custodial Fund
Assets:	
Cash and cash equivalents in commercial banks:	
Unrestricted	\$ <u>586,061</u>
Total assets	<u>586,061</u>
Liabilities:	
Accounts payable and accrued liabilities	<u>586,061</u>
Total liabilities	<u><u>\$ 586,061</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Statement of Changes in Fiduciary Net Position
Year ended June 30, 2022
(In thousands)

	<u>Custodial Fund</u>
Additions:	
Tax and fee collections for other governments	\$ 34,700
Collections for individuals and other organizations	<u>667,828</u>
Total additions	<u>702,528</u>
Deductions:	
Distributions of taxes and fees to other governments	34,700
Distributions to individuals and other organizations	<u>667,828</u>
Total deductions	<u>702,528</u>
Net decrease in net position	—
Net position:	
Beginning of year	<u>—</u>
End of year	<u>\$ —</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2022

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Assets:									
Cash and cash equivalents in commercial banks	\$ 80,568	21,508	272,246	401,842	212,195	612,665	1,601,024	872,305	2,473,329
Cash and cash equivalents with governmental banks	—	—	—	—	—	—	—	544	544
Investments	93,860	—	—	—	72,026	802,218	968,104	492,417	1,460,521
Receivables – net:									
Insurance premiums	—	—	—	—	—	90,390	90,390	—	90,390
Intergovernmental	—	64,139	95,311	46,154	49,352	—	254,956	80,466	335,422
Accounts	—	16,610	599,451	120,720	21,789	—	758,570	115,030	873,600
Loans and advances	156,599	—	—	—	8,085	83,011	247,695	31,138	278,833
Accrued interest	1,632	—	—	—	—	3,946	5,578	30,547	36,125
Lease receivable	—	4,498	28,860	—	2,963	2,874	39,195	842,399	881,594
Other	3,635	—	11,566	2,707	—	2,040	19,948	20,932	40,880
Due from – net:									
Primary government	—	23,571	77,649	17,713	8,470	—	127,403	19,789	147,192
Component units	3,100	—	49,532	16,223	—	—	68,855	71,099	139,954
Other governmental entities	—	—	—	67,729	3,786	—	71,515	1,026,972	1,098,487
Inventories	—	—	439,185	46,131	2,589	1,932	489,837	12,615	502,452
Prepaid expenses	—	4,814	14,790	15,584	2,526	—	37,714	25,046	62,760
Other assets	982	—	—	—	—	—	982	4,432	5,414
Restricted assets:									
Cash and cash equivalents in commercial banks	140,687	128,010	820,465	645,862	207,005	—	1,942,029	327,660	2,269,689
Investments	75,277	92,368	—	—	262,041	—	429,686	419,600	849,286
Other restricted assets	21,246	—	—	—	—	—	21,246	76,494	97,740
Real estate held for sale or future development	3,175	—	—	—	—	—	3,175	194,824	197,999
Capital assets:									
Land and other nondepreciable	7,753	2,456,489	450,468	629,301	71,004	18,532	3,633,547	1,034,113	4,667,660
Other capital assets, net of depreciation/amortization	834	6,073,128	7,229,230	4,953,511	704,217	151,198	19,112,118	1,821,692	20,933,810
Total assets	589,348	8,885,135	10,088,753	6,963,477	1,628,048	1,768,806	29,923,567	7,520,114	37,443,681
Deferred outflows of resources:									
Accumulated decrease in fair value of hedging derivatives	—	—	17,662	—	—	—	17,662	—	17,662
Loss on bonds refunding	1,042	58,315	14,388	48,132	749	—	122,626	1,099	123,725
Asset retirement obligation	—	—	87,166	—	—	—	87,166	—	87,166
Other post employment benefits related	251	1,446	20,645	14,487	32,155	2,044	71,028	3,446	74,474
Pension related	40,764	114,162	495,432	294,706	211,794	351,560	1,508,438	325,256	1,833,694
Total deferred outflows of resources	42,057	173,943	635,293	357,325	244,698	353,604	1,806,920	329,801	2,136,721

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2022

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Liabilities:									
Accounts payable and accrued liabilities	61,366	124,537	2,103,120	311,769	61,319	88,584	2,750,695	384,739	3,135,434
Deposits and escrow liabilities	—	—	327,692	97,232	—	—	424,924	242,528	667,452
Due to:									
Primary government	51,900	14,455	789,398	606,438	21,949	—	1,484,140	199,186	1,683,326
Component units	19,910	1,946,739	18,387	50,815	13,459	1,665	2,050,975	655,774	2,706,749
Other governmental entities	—	2,136	—	1,080	19,279	21,947	44,442	122,721	167,163
Interest payable	1,136	2,123,742	2,472,756	294,588	—	—	4,892,222	376,593	5,268,815
Unearned revenue	53,886	511	26,418	100,011	37,284	40,418	258,528	220,675	479,203
Liabilities payable within one year:									
Commonwealth appropriation bonds	653	—	—	—	—	—	653	21,795	22,448
Revenue bonds	9,762	838,434	2,313,599	94,005	31,270	—	3,287,070	320,552	3,607,622
Notes payable to financial institutions	1,821	—	711,705	2,061	253	—	715,840	29,046	744,886
Lease liability	151	—	2,533	2,603	2,498	16,016	23,801	1,824	25,625
Compensated absences	—	—	5,593	6,510	26,739	16,907	55,749	11,620	67,369
Voluntary termination benefits	—	—	—	5,884	—	—	5,884	8,500	14,384
Liability for insurance benefits	—	—	—	—	—	644,446	644,446	59,289	703,735
Net pension liability	—	—	171,894	—	—	—	171,894	—	171,894
Total pension liability	10,094	32,000	—	86,501	—	110,953	239,548	91,981	331,529
Total other postemployment benefits liability	251	1,200	5,446	9,119	—	1,893	17,909	3,439	21,348
Other long-term liabilities	1,192	3,466	—	—	837	47,576	53,071	3,671	56,742
Liabilities payable after one year:									
Commonwealth appropriation bonds	2,696	—	—	414,452	—	—	417,148	79,437	496,585
Revenue bonds	18,232	3,401,130	6,004,258	3,259,268	316,871	—	12,999,759	1,933,016	14,932,775
Notes payable to financial institutions	58,300	—	39,708	394,476	429	—	492,913	61,185	554,098
Lease liability	258	—	10,865	7,549	2,797	49,576	71,045	6,300	77,345
Compensated absences	—	3,670	2,893	34,872	105,520	18,591	165,546	8,928	174,474
Voluntary termination benefits	—	21,126	—	13,282	—	—	34,408	32,115	66,523
Net pension obligation	—	—	—	—	—	—	—	12,095	12,095
Net pension liability	—	—	4,865,873	—	1,530,764	—	6,396,637	—	6,396,637
Total pension liability	201,665	646,378	—	1,772,140	—	1,852,369	4,472,552	1,849,030	6,321,582
Total other postemployment benefits liability	2,693	16,863	338,321	98,941	250,387	22,998	730,203	39,290	769,493
Hedging derivative instruments – interest rate swaps	—	—	17,662	—	—	—	17,662	—	17,662
Other long-term liabilities	42,010	64,214	448,999	—	92,535	54,835	702,593	59,478	762,071
Total liabilities	537,976	9,240,601	20,677,120	7,663,596	2,514,190	2,988,774	43,622,257	6,834,807	50,457,064
Deferred inflows of resources:									
Service concession arrangements	—	1,013,586	—	—	—	—	1,013,586	638,144	1,651,730
Leases	—	4,441	29,274	—	2,861	2,874	39,450	819,417	858,867
Other post employment benefits related	—	504	37,237	25,225	3,448	—	66,414	—	66,414
Pension related	11,044	29,607	112,536	85,354	1,078,375	81,691	1,398,607	113,850	1,512,457
Total deferred inflows of resources	11,044	1,048,138	179,047	110,579	1,084,684	84,565	2,518,057	1,571,411	4,089,468
Net position:									
Net investment in capital assets	8,587	1,300,118	(796,063)	1,005,959	441,287	101,264	2,061,152	1,837,322	3,898,474
Restricted for:									
Capital projects	—	77,041	—	—	6,227	—	83,268	118,419	201,687
Debt service	261	—	—	—	47,127	—	47,388	103,805	151,193
Affordable housing and related loan insurance programs	47,289	—	—	—	—	—	47,289	—	47,289
Student loans and other educational purposes	—	—	—	—	249,353	—	249,353	4,306	253,659
Other	—	—	131,982	405,410	48,063	—	585,455	190,764	776,219
Unrestricted (deficit)	26,248	(2,606,820)	(9,468,040)	(1,864,742)	(2,518,185)	(1,052,193)	(17,483,732)	(2,810,919)	(20,294,651)
Total net position (deficit)	\$ 82,385	(1,229,661)	(10,132,121)	(453,373)	(1,726,128)	(950,929)	(14,409,827)	(556,303)	(14,966,130)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
Combining Statement of Activities – Discretely Presented Component Units
Year ended June 30, 2022
(In thousands)

	Program revenue				Net revenue (expenses) and changes in net position	General revenue and transfers					Extraordinary Gain	Change in net position	Net position (deficit) – beginning of year, as previously reported	Correction of errors and adoption of new pronouncements (note 4)	Net position (deficit) – beginning of year, as restated	Net position (deficit) end of year	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions		Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Interest and investment earnings	Excise taxes and others							
Major component units:																	
Government Development Bank for Puerto Rico	\$ 322,761	35,612	289,278	—	2,129	—	—	—	—	—	—	2,129	80,256	—	—	80,256	82,385
Puerto Rico Highways and Transportation Authority	1,087,184	259,218	21,844	199,188	(606,934)	82,633	—	—	1,120	102	—	(523,079)	(697,890)	(8,692)	(706,582)	(1,229,661)	
Puerto Rico Electric Power Authority	5,239,470	4,004,807	288,628	124	(945,911)	(20,000)	—	—	57,681	4,941	—	(903,289)	(9,228,832)	—	(9,228,832)	(10,132,121)	
Puerto Rico Aqueduct and Sewer Authority	1,157,412	1,083,950	—	103,272	29,810	—	—	—	2,858	2,619	—	35,287	(488,660)	—	(488,660)	(453,373)	
University of Puerto Rico State Insurance Fund Corporation	943,392	241,962	618,681	6,308	(76,441)	520,602	—	—	—	171,162	—	615,323	(2,341,451)	—	(2,341,451)	(1,726,128)	
Nonmajor component units	432,021	634,676	—	—	202,655	(30,235)	—	—	—	—	—	172,420	(1,123,349)	—	(1,123,349)	(950,920)	
	2,237,399	613,260	1,016,262	93,422	(514,455)	373,511	—	9,326	32,504	344,888	347,738	593,512	(1,175,796)	25,981	(1,149,815)	(556,303)	
	\$ 11,419,639	6,873,485	2,234,693	402,314	(1,809,147)	926,511	—	9,326	94,163	523,712	347,738	(7,697)	(14,975,722)	17,289	(14,958,433)	(14,966,130)	

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution as approved by the people of Puerto Rico and the U.S. Congress. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development. On June 30, 2016, as a result of the current fiscal crisis that affects the Commonwealth (as further described below in Note 2 and Note 3), the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), was established under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, including review and approval of certain governmental functions.

The accompanying basic financial statements of the Commonwealth are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds and discretely presented component units, the results of operations of the Commonwealth and its various funds and discretely presented component units, and the cash flows of the proprietary funds.

(a) Financial Reporting Entity

As required by U.S. GAAP, the financial reporting entity of the Commonwealth includes all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Commonwealth appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. In situations where the Commonwealth has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Commonwealth and when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(b) 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 Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*.

(i) Blended Component Units

The following entities, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the Primary Government as follows:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is a cost sharing, multiple employers defined benefit pension plan, that covers all regular

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. On May 21, 2017, the Oversight Board—at the request of the Governor—commenced a Title III case for ERS by filing a petition for relief under Title III of PROMESA in the Title III Court. As discussed in Note 3, ERS has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA.

After the enactment of Act 106-2017 on August 23, 2017, ERS is governed by a thirteen member board of trustees, composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), who served as President of the Retirement Board of the Government of Puerto Rico's (the Retirement Board), the Secretary of the Department of Treasury (DOT) of the Commonwealth, the Director of the Office of Management and Budget of the Commonwealth (PROMB), the Director of the Office of Human Resources of the Commonwealth, a representative of the teachers from the Department of Education (DOE), a representative from the public corporations, a representative from the Judicial Branch, the President of the Federation of Mayors, the President of the Association of Mayors, and four representatives of the public interest. After August 23, 2017, ERS is administered by the Retirement Board which also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of ERS. Therefore, the basic financial statements of ERS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Ponce Authority (PA) (Previously Known as Port of the Americas Authority) – On August 12, 2016, the Governor signed into law Act No. 176-2016, known as “Law of the Ponce Authority”, to amend various articles from Act No. 171-2002. Act No. 176-2016 re-named the Port of the Americas Authority to Ponce Authority, changed the PA's governance structure, and expanded its purposes, faculties, and powers, including through the creation of a new Coordinated Infrastructure Master Plan for the City of Ponce. After the enactment of Act No. 176-2016, PA is now governed by a seven member board co-presided by the Secretary of the Department of Economic Development and Commerce (DEDC) and the Director of the Ponce Territorial Order Office. The other members include (1) the Secretary of the Department of Natural and Environmental Resources (DNER), (2) an architect or certified planner, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (3) an economist, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (4) a civil engineer, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature, and (5) a small businesses representative, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature. The main purpose of the PA is the promotion, development, improvement, and operation of the large-scale container terminal in the city of Ponce, Puerto Rico. The PA must also prepare a coordinated master plan for the Infrastructure of Ponce. The Commonwealth provides financial support to the PA through legislative appropriations and its current existing debt is guaranteed by the Commonwealth pursuant to the provisions of Act No. 409 of September 22, 2004 (Act No. 409-2004). The Commonwealth continues to provide financial support to this new entity. Therefore, PA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Ponce Ports Authority (PPA) – On December 12, 2011, Act No. 240 (Act No. 240-2011) was approved creating the PPA, with a seven member board composed of (1) the Secretary of the DEDC, (2) the director of the Ponce port, (3) three members to be appointed by the Governor with the consent of the Senate and (4) two members to be appointed by the Mayor of Ponce with the consent of the Ponce Municipal Legislature. PPA was created to continue the development of the container terminal formerly undertaken by Ponce Authority (PA) and to implement the facilities' future operations. Therefore, all the assets, rights, and duties of PA (with the exception of its existing debt) would be transferred to PPA. Effective fiscal year 2015, the PPA board was formed, and operations started. However, as of June 30, 2022, the PA assets have not been transferred to PPA. On December 19, 2013, Act No. 156 was approved amending Act No. 240-2011 by, among other things, authorizing PPA to request a line of credit of up to \$60 million from GDB and establishing that the payment of such debt would be satisfied with annual Commonwealth's legislative appropriations starting in fiscal year 2015. As the total debt outstanding of PPA is payable from Commonwealth's legislative appropriations, PPA's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) – On April 6, 2016, Act No. 21 (Act No. 21-2016) was approved creating FAFAA as an independent public corporation and government instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth, its agencies, instrumentalities, subdivisions, public corporations and/or municipalities, and to assist such entities in confronting the fiscal and economic emergency that Puerto Rico is experiencing. FAFAA assumed the fiscal agency and financial advisory responsibilities that were previously held by the Government Development Bank (GDB). On January 18, 2017, the Governor of Puerto Rico (the Governor) signed into law the Enabling Act of the Fiscal Agency and Financial Advisory Authority, Act No. 2-2017. This new law amended and replaced sections of the prior law that established FAFAA. Act No. 2-2017 expanded FAFAA's powers to include, among other things, sole responsibility to renegotiate, to restructure and/or to reach an agreement with creditors on all or part of the public debt or any other debt issued by any government entity. In addition, FAFAA is the entity in charge of the collaboration, communication and cooperation efforts between the Commonwealth and the Oversight Board, created under PROMESA.

FAFAA's Board is composed of five members: (1) FAFAA's Executive Director appointed by the Governor, (2) a representative of the Senate of Puerto Rico, (3) a representative of the House of Representatives of Puerto Rico who will be appointed by the President of each Legislative Body, and (4) two members appointed by the Governor. The members can only be replaced and/or removed by the entity who appointed them. FAFAA does not have legal authority to issue bonds, notes, or any other debt instrument; however, it will be the principal financial advisor and will approve all future debt issuances of any instrumentality of the Commonwealth. FAFAA's annual budget is appropriated from the General Fund.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a board of directors, which, by law, is composed of eleven members (six compulsory members and five discretionary members). The compulsory members are the Secretary of the Department of Health (PRDOH) of the Commonwealth, the Secretary of the DOT of the Commonwealth, the Director of the PROMB, the Executive Director of FAFAA, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. The board of directors'

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

president is designated by the Governor and all discretionary board members are executives in a trustworthy position. PRHIA was created for the purpose of implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals (via the Medicaid program administered and funded primarily by the Centers for Medicare and Medicaid Services through a memorandum of understanding with the PRDOH); and also to employees of the Commonwealth, Municipalities and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan in exchange for a fee paid by them through payroll deductions. PRHIA also recovers its operating costs through charges made to Municipalities and a rebate program with pharmacies where PRHIA retains 100% of the income derived from this program. Since 2015, the Commonwealth appropriates funds from its general fund budget to provide resources for the payment of principal and interest on PRHIA's line of credit obligation, which is the total debt outstanding of PRHIA. Therefore, PRHIA's basic financial statements are blended in the Commonwealth's fund financial statements as a major enterprise fund.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by a seven member board comprised of five members appointed by the board of directors of the FAFAA, the Secretary of the DOT and one member appointed by the Governor. The President is appointed by the Governor from among its members. PRIFA is a financing authority whose responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's total debt outstanding, mostly Special Tax Revenue Bonds comprising over 95% of its total debt, was payable from federal excise taxes levied on the rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Department of the Treasury and returned to the Commonwealth. The Special Tax Revenue Bonds were payable from Commonwealth legislative appropriations. Therefore, PRIFA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund. As discussed in Note 3, PRIFA has successfully completed its restructuring pursuant to a court-approved qualified modification under Title VI of PROMESA, which became effective on March 15, 2022.

Puerto Rico Maritime Shipping Authority (PRMSA) – PRMSA is governed by the Executive Director of FAFAA. The operations of PRMSA have been limited to processing the remaining legal requirements resulting from the sale of certain maritime operations formerly owned and operated by PRMSA. Such legal requirements consist solely of servicing the long-term debt that remained in PRMSA after the sale. In the past, the Commonwealth has appropriated funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMSA's basic financial statements are blended in the Commonwealth's fund financial statements as a debt service fund.

Puerto Rico Medical Services Administration (PRMeSA) – PRMeSA is governed by a ten member board comprised of the Secretary of the PRDOH (who serves as the Chairman), the Dean of the Medical Sciences Faculty of the University of Puerto Rico (UPR), the President of the board of directors of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the PRDOH. PRMeSA's purpose is to plan, organize, operate, and administer the Commonwealth's centralized health services, and provide support for the hospital and other

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth should annually appropriate funds from its general operating budget to provide for the payment of principal and interest of its debt, which is the total debt outstanding of PRMeSA. Therefore, PRMeSA's basic financial statements are blended in the Commonwealth's fund financial statements as a major enterprise fund.

Puerto Rico Sales Tax Financing Corporation (Known as COFINA, its Spanish Acronym) – COFINA was created under Act No. 91-2006, as amended. COFINA was originally created for the purpose of financing the payment, retirement, or defeasance of certain debt obligations of the Commonwealth outstanding as of June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Legislature expanded the purposes of COFINA to assist in funding operational expenses of the Commonwealth for 2009 through 2012, to the extent included in the annual budget of the Commonwealth. As of June 30, 2020, the board of directors of COFINA is comprised of three members appointed by the Governor. Because COFINA's Sales Tax Revenue Bond obligations have historically been repaid with the Commonwealth-levied sales and use taxes as described in Note 11, its basic financial statements are blended in the Commonwealth's fund financial statements as a major special revenue and major debt service fund. As discussed in Note 3, COFINA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on February 12, 2019.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is a single employer trust created by the Legislature for the purpose of providing pension and other benefits to all teachers of the DOE, all pensioned teachers, all teachers transferred to an administrative position in the DOE, and those who practice in private institutions accredited by the Department of Education (DOE) who elect to become members. TRS provides retirement, death, and disability benefits. After the enactment of Act 106-2017 on August 23, 2017, TRS is governed by the same board of trustees as ERS and is administered by the Retirement Board, which also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC). TRS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the DOE and retired employees of TRS Administration. After the enactment of Act 106-2017, TRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of TRS. Therefore, the basic financial statements of TRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Public Buildings Authority (PBA) – PBA is governed by a seven member board comprised of the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the DOE, the President of the GDB, and four members appointed by the Governor with the advice and consent of the Senate. As provided under Act No. 2-2017, the board member position previously occupied by the President of the GDB is currently held by the Executive Director of FAFAA as of January 18, 2017. PBA is a legally separate entity, whose activities are blended within the Primary Government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities to the Commonwealth's departments, component units, and instrumentalities. Therefore, the basic financial statements of the PBA are blended in the Commonwealth's fund financial statements as a special revenue, debt service, and capital project fund. As discussed in Note 3, PBA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on March 15, 2022.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth. After the enactment of Act 106-2017 on August 23, 2017, JRS is governed by the same board of trustees as ERS and is administered by the Retirement Board. After the enactment of Act 106-2017, JRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of JRS. Therefore, the basic financial statements of JRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Special Communities Perpetual Trust (SCPT) – SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth (the Commonwealth DOH), the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one Mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. Over the years since its inception, SCPT has seen its revenue sources diminish as its principal assets, mortgage loans, are being fully reserved. SCPT had accumulated debt with the GDB, which is payable from Commonwealth Legislative appropriations. Therefore, SCPT's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

The Children's Trust – The Children's Trust is governed by a seven member board comprised of the Governor, who designates the president of the board, the Executive Director of FAFAA, the Director of the PROMB, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the wellbeing of families, children, and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998, between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies should continue making contributions in perpetuity. As the Children's Trust provides financial assistance entirely or almost entirely to the Commonwealth's departments and its total debt outstanding is being repaid with the GSA resources received by the Commonwealth, its basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) – UPRCCC is governed by a nine member board comprised of four ex officio members: the President of the UPR, the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the PRDOH, and the Dean of the UPR School of Medicine. The remaining five members must be citizens of Puerto Rico who have shown commitment to the fight against cancer, and are appointed by the Governor with the approval of the Commonwealth Senate with the following criteria: two members from the investigative studies or cancer treatment community; one member with experience in management, finance, or business administration, or with previous experience managing hospitals or medical investigation clinics; one member who is a cancer patient; and one member who will be a member of the "Liga Puertorriqueña Contra el Cancer." The Commonwealth provides financial support to UPRCCC through legislative

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

appropriations. The UPRCCC was created by Act No. 230 of August 26, 2004 (Act No. 230-2004), to be the governmental entity principally responsible to execute public policy related to the prevention, orientation, investigation, and treatment of cancer in Puerto Rico. On October 31, 2013, Act No. 128 (Act No. 128-2013) was approved amending Act No. 230-2004 in order to specifically establish that beginning with fiscal year 2015, annual Commonwealth legislative appropriations of \$15 million could be made available to cover the debt service of the obligations incurred by the UPRCCC in its capital related projects, particularly the construction of its medical and hospital facilities. Prior to Act No. 128-2013, Act No. 230-2004 was not conclusive as to the revenue source from which to repay the aforementioned debt service. As the total debt outstanding is payable from the Commonwealth's legislative appropriations, UPRCCC's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

The COFINA Debt Service Fund, the COFINA Special Revenue Fund and the ERS Special Revenue Fund are presented as major governmental funds, while PRMeSA and PRHIA are presented as major enterprise funds. All the other blended component units are reported in the nonmajor governmental funds column, except for PPA, which is reported in the nonmajor enterprise funds column. Complete basic financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico P .O. Box 42003 – Minillas Station San Juan, PR 00940-2203	Puerto Rico Sales Tax Financing Corporation P.O. Box 42001 San Juan, PR 00940-2001
Ponce Authority P .O. Box 195534 San Juan, PR 00919-5534	Puerto Rico System of Annuities and Pensions for Teachers P.O . Box 191879 San Juan, PR 00919-1879
Ponce Ports Authority P .O. Box 7051 Ponce, PR 00752	Public Buildings Authority P.O. Box 41029- Minillas Station San Juan, PR 00940-1029
Puerto Rico Fiscal Agency and Financial Advisory Authority P.O. Box 42001 San Juan, PR 00940-2001	Retirement System for the Judiciary of the Commonwealth of Puerto Rico P.O. Box 42003- Minillas Station San Juan, PR 00940-2203
Puerto Rico Health Insurance Administration P.O. Box 195661 San Juan, PR 00919-5661	Special Communities Perpetual Trust P.O . Box 42001 San Juan, PR 00940-2001
Puerto Rico Infrastructure Financing Authority P .O. Box 41207 Minillas Station San Juan. PR 00940	The Children's Trust P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Maritime Shipping Authority P .O . Box 42001 San Juan, PR 00940-2001	University of Puerto Rico Comprehensive Cancer Center PMB 711, 89 De Diego Ave., Suite 105 San Juan, PR 00927-6346
Puerto Rico Medical Services Administration P .O. Box 2129 San Juan, PR 00922-2129	

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(ii) *Discretely Presented Component Units*

The discretely presented component units described below, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and No. 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority and the Puerto Rico Science, Technology and Research Trust, which do not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These discretely presented component units are not blended with the Primary Government because they do not provide services entirely, or almost entirely to the Primary Government, their governing board is not substantively the same as that of the Primary Government, the Primary Government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the Primary Government. These discretely presented component units have been classified by management between major and nonmajor discretely presented component units. A major discretely presented component unit is determined by the Commonwealth based on the nature and significance of its relationship to the Primary Government. This determination is based on the evaluation of the following factors: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. If a discretely presented component unit is expected to meet some of these considerations for inclusion as major discretely presented component unit in a future year, the Commonwealth may elect to report it as such.

Major Discretely Presented Component Units

Government Development Bank for Puerto Rico (GDB) – Prior to March 23, 2018, when GDB ceased operating and commenced an orderly winddown of its operations, GDB acted as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also issued warranties to third parties, made loans, and advanced funds predominantly to the Commonwealth's departments, component units, and municipalities. Act No. 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (the Moratorium Act), created FAFAA to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities. This new fiscal agency and advisory authority commenced its functions as described above immediately upon the Moratorium Act's enactment. The Moratorium Act did not have an impact on the designation of GDB as a major discretely presented component unit for fiscal year 2022. GDB completed a debt restructuring pursuant to the GDB Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. For additional information regarding GDB's Qualifying Modification under Title VI of PROMESA, refer to Note 3.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine member board comprising of six members appointed by the Governor with the advice and consent of the Senate (including the President of the Puerto Rico Planning Board), the Executive President of the Puerto Rico Electric Power Authority (PREPA), the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth previously guaranteed the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45-1994 was later amended to include other loans under the Clean Water State Revolving Funds Program (SRFP) and under the USDA Rural Development Program. All bonds and loans previously guaranteed under Act No. 45-1994 have been restructured or refinanced to eliminate any Commonwealth guarantee. The Commonwealth historically provided certain financial support to PRASA through legislative appropriations for debt service of its Public Finance Corporation (PFC) notes, which are contingent upon such appropriation. As discussed in Note 19, the PFC notes have been discharged and canceled pursuant to the PFC Title VI Qualifying Modification.

Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a seven member board, six of which are appointed by the Governor and one member is an elected consumer representative. PREPA is responsible for conserving, developing, and utilizing the power resources to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth's municipalities are entitled to receive contributions in lieu of taxes from PREPA. On July 2, 2017, the Oversight Board—at the request of the Governor—commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the Title III Court.

Puerto Rico Highways and Transportation Authority (PRHTA) – PRHTA is governed by a seven member board comprised of the Secretary of DTPW (serving as the President of the board), the President of the Planning Board (PRPB), the Secretary of the DOT, the Executive Director of FAFAA, and three other members from the private sector appointed by the Governor with the advice and consent of the Senate. The PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by the PRHTA, and the power to issue bonds, notes, or other obligations. Prior to establishing of the public private partnerships of the toll highway system, the PRHTA planned and managed the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. On May 21, 2017, the Oversight Board—at the request of the Governor—commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the Title III Court. As discussed in Note 3 and Note 19, PRHTA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on December 6, 2022.

State Insurance Fund Corporation (SIFC) – SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board is comprised of the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources (DLHR) of the Commonwealth, an officer from the PRDOH, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico (UPR) – The UPR is governed by a thirteen member Governing Board, nine of which are appointed by the Governor and confirmed by the Senate of Puerto Rico. The

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

remaining members of the Governing Board consist of two tenured professors and two full time students. The Secretary of the DOE becomes an ex officio member of the governing board. The Commonwealth provides financial support to the UPR through legislative appropriations.

Nonmajor Discretely Presented Component Units

Agricultural Enterprises Development Administration (AEDA) – AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth can impose its will on AEDA and provides it with financial support through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) – AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. The AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth may influence rates charged by the AACA and may have access to its resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) – CCCPRC is governed by a seven member board comprised of the Secretary of the PRDOH, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the PRMeSA, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to the CCCPRC through legislative appropriations.

Center of Diabetes for Puerto Rico (CDPR) – CDPR is governed by a nine member board, which includes the Secretary of the PRDOH, the dean of the School of Medical Sciences of the UPR, the other seven members are appointed by the Governor. The CDPR was created to be responsible for the planification, organization, operation and administration of investigative services, orientation, prevention, and treatments of diabetes in Puerto Rico. The Commonwealth provides financial support to the CDPR through legislative appropriations.

Company for the Integral Development of the “Península de Cantera” (CIDPC) – CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members are appointed by the Mayor of the Municipality of San Juan. The CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. The Commonwealth generally provides financial support to the CIDPC.

Corporation for the “Caño Martín Peña” ENLACE Project (CPECMP) – CPECMP was created for the purpose of coordinating the public policy related to the rehabilitation of the Caño Martín Peña area. The CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members are appointed by the Mayor of the Municipality of San Juan. The Commonwealth generally provides financial support to the CPECMP through legislative appropriations.

Culebra Conservation and Development Authority (CCDA) – CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the Municipality of Culebra. The CCDA is administered through a board of directors comprised of five members, including the Mayor of the Municipality of Culebra and four additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to the CCDA through legislative appropriations. Although CCDA's board of directors is not appointed by the Commonwealth and it is not fiscally dependent on the Commonwealth, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the financial support provided by the Commonwealth.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine member board comprised of the Executive Director of FAFAA, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the DEDC, the Director of the PROMB, the Secretary of the DOT, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. The EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited to economic activities that may have the effect of substituting imports. The Commonwealth can impose its will on the EDB.

Farm Insurance Corporation of Puerto Rico (FICPR) – FICPR is governed by a five member board comprised of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of the FAFAA, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth can impose its will on the FICPR.

Fine Arts Center Corporation (FACC) – FACC is governed by a nine member board comprising of the President of the Musical Arts Corporation (MAC) and eight members appointed by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Government Development Bank Debt Restructuring Authority (DRA) – DRA is a statutory public trust and governmental instrumentality of the Commonwealth created pursuant to Act No. 109 of August 24, 2017, as amended, known as the GDB Restructuring Act, which was enacted for the purpose of facilitating the restructuring of GDB's indebtedness and release of certain claims against GDB pursuant to a largely consensual debt restructuring process under Title VI of PROMESA. The DRA is independently operated and governed by a three member board of trustees who are appointed by, and serve at the pleasure of, the Governor. The Commonwealth can impose its will on the DRA.

Institute of Puerto Rican Culture (IPRC) – IPRC is governed by a nine member board comprised of the President of MAC and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities, and culture. The Commonwealth provides financial support to the IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – ITNGPR is governed by a seven member board comprised of the Adjutant General of the Puerto Rico National Guard, the Executive Director of FAFAA, the Secretary of Justice of the Commonwealth, three members of the military from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active and retired members of the Puerto Rico National Guard and their families. The Commonwealth can impose its will on the ITNGPR.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Land Authority of Puerto Rico (LAPR) – LAPR is governed by a five member board comprised of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico, principally geared to the agricultural development of Puerto Rico. LAPR maintains debt that is payable from Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (LRA) – LRA is governed by a nine member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential, and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. The LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation, and maintenance of the economic development on the land and facilities formerly occupied by the U.S. Navy. The Commonwealth generally provides financial support to the LRA through legislative appropriations.

Musical Arts Corporation (MAC) – MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – PCSDIPRC is governed by a nine member board comprised of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the DOT, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth can impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) – PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. The PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and private citizens. The Commonwealth occasionally provides financial support to the PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) – PRCCDA is governed by a nine member board of directors comprised of three members from the public sector and six members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Director of the PROMB, and the Executive Director of FAFAA. The private sector members are individuals having

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

experience in the areas of hotel operations, tourism, real estate, convention centers, and at least one with financial expertise who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to be responsible, for improving, developing, managing, and operating the property and improvements within the Puerto Rico Convention Center District (the District) geographical area. PRCCDA has the power to finance all the improvements to be developed through the issuance of bonds and the imposition of assessments against the owners or lessees of land within the District who benefit from the Puerto Rico Convention Center (Convention Center) and other improvements. Also, PRCCDA promotes the development, construction, expansion, and improvement of the Convention Center, Bahía Urbana, and the Jose Miguel Agrelot Coliseum (the Coliseum). The administration, operation and management of the Convention Center and the Coliseum are carried out by a third-party private entity, under PRCCDA's responsibility. Bahía Urbana is administered by PRCCDA's management. The Commonwealth provides financial support to the PRCCDA through legislative appropriations. As discussed in Note 3, PRCCDA has successfully completed its restructuring pursuant to a court-approved qualifying modification under Title VI of PROMESA, which became effective on March 15, 2022.

Puerto Rico Destination Marketing Corporation (DMO) – DMO was created under the provisions of Act No. 17 of March 30, 2017, known as the Act for the Promotion of Puerto Rico as Destination. The purpose of Act No. 17 was to combine within the organization the sales and marketing efforts performed by the Puerto Rico Convention Bureau for the groups and convention segment, and those performed by PRTC for the leisure segment to unify the brand and provide consistency in the efforts to attract visitors and increase the exposure of Puerto Rico as a tourist destination worldwide. The DMO is governed by a thirteen member board comprised of three ex officio members: the Secretary of the DEDC, the Executive Director of the PRTC, the Executive Director of the PRCCDA; two members representing the Legislature, one appointed by the President of the Senate of Puerto Rico and one appointed by the Speaker of the House of Representatives; seven members representing the tourism industry, one member of the board of directors or a chief executive of the Puerto Rico Hotel and Tourism Association, Inc., one chief or executive or a member of the governing body of the Puerto Rico Convention Bureau, Inc., one chief executive or member of the board of directors of the contractor hired by the Public-Private Partnership for the administration and operation of the Luis Muñoz-Marín International Airport, one member of the Paradores de Puerto Rico Owners' Association, as determined by the governing body of such organizations, three members appointed by the Governor of Puerto Rico with the advice and consent of the Senate and the House of Representatives of Puerto Rico, from a list of candidates to be submitted by a Committee on Appointments created and constituted by members of the board of directors of the DMO who are not representatives of government entities; and one member appointed by the Governor who is a member, director, or chief executive of a nonprofit organization committed to the visitor economy and to the transformation of Puerto Rico into a world destination as an economic and social development strategy. The Commonwealth provides financial support to the DMO through legislative appropriations.

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the DOT, the Executive Director of FAFAA, the President of the Puerto Rico Planning Board (PRPB), and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth's sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are used for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that was payable from Commonwealth's appropriations. The Commonwealth has historically provided financial support to PRIDCO through legislative appropriations and can influence PRIDCO.

On October 27, 2023, PRIDCO, through the Oversight Board, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court approved the Qualifying Modification on December 6, 2023. The Qualifying Modification for PRIDCO went into effect on December 28, 2023, for additional information see Note 3(b)(xii).

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA, its Spanish acronym) – AFICA is governed by a seven-member board comprised of the Executive Director of PRIDCO, the Executive Director of FAFAA, the Executive Director of PRIFA, the Executive Director of the Puerto Rico Tourism Company (PRTC), the President of the Environmental Quality Board (EQB), and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units. The Commonwealth can impose its will on AFICA.

Puerto Rico Integrated Transit Authority (PRITA) – PRITA is governed by a nine member board comprised of the Secretary of the DTPW, who serves as Chairman, the Executive Director of PRHTA, the President of the PRPB, the Director of PROMB, the Executive Director of FAFAA, two additional members from the private sector appointed by the Governor with the advice and consent of the Senate and two other members representing entities within the Metropolitan Planning Organization, who are selected through the vote from its own Board of Directors. PRITA was created by Act No. 123 of August 3, 2014 (Act No. 123-2014) for the purpose of implementing a uniform public policy on collective, road and maritime transportation, and with it the integration of the operations, assets, rights, obligations, and funds of PRHTA's urban train, the Puerto Rico Metropolitan Bus Authority (PRMBA) and the Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA). As of June 30, 2022, full transfer of responsibility from PRHTA and the transit agencies to PRITA has not been fully completed due to the lack of available resources, mostly due to the Commonwealth's fiscal deficit. Despite this, there has been some progress in the integration as several bus routes previously managed by PRMBA are now managed by PRITA for management in 2015. The Commonwealth generally provides financial support to PRITA through legislative appropriations and PRITA will transfer the necessary funds to the PRHTA, PRMBA and PRMIMTA, when they are engaged in construction, operations and maintenances of Mass, Rail and Maritime Transportation Facilities.

Puerto Rico Land Administration (PRLA) – PRLA is governed by an eleven member board comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the PRPB, who serves as Vice President, the Secretary of the DOT, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of PRIDCO, and four members appointed by the Governor with the advice and consent of the Senate. The PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) – PRMIMTA is governed by a five member board comprised of the Secretary of DTPW, who serves as President, the Executive Director of the Puerto Rico Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of PRMIMTA consist of administering and operating the maritime transportation services between San Juan, Fajardo, Vieques, and Culebra. The Commonwealth generally provides financial support to PRMIMTA through legislative appropriations. Act No. 123-2014, which created PRITA, provided for the integration of PRMIMTA's operations into PRITA; however, as of June 30, 2022, PRMIMTA's operations, assets, rights, obligations, and funds had not been transferred.

Puerto Rico Metropolitan Bus Authority (PRMBA) – PRMBA is governed by the Secretary of DTPW of the Commonwealth. The PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to the PRMBA legislative appropriations. Act No. 123-2014, which created PRITA, and provided for the integration of PRMBA's operations into PRITA; however, as of June 30, 2022, PRMBA's operations, assets, rights, obligations, and funds had not been transferred.

Puerto Rico Municipal Finance Agency (PRMFA) – PRMFA is governed by a five member board comprised of the Executive Director of FAFAA, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom must be either the Mayor or chief financial officer of a municipality. The PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs. The Commonwealth is required to cover any potential deficiency that may exist on the PRMFA reserve accounts established for debt service.

Puerto Rico Municipal Finance Corporation (Known as COFIM, for its Spanish Acronym) – COFIM is governed by a seven member board comprised of three members of the Board of Directors of FAFAA, three Mayors from municipalities in Puerto Rico (two of them from the political party controlling the majority of municipalities and the remaining Mayor elected by the rest of the municipalities) and one member representing the public interest recommended by all the Mayors of the municipalities and ratified by the Governor. COFIM was created by Act No. 19-2014 to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities' debt obligations payable from the municipal sales and use tax. The Commonwealth is required to cover any potential deficiency that may exist on the COFIM reserve accounts established for debt service.

Puerto Rico Ports Authority (PRPA) – PRPA is governed by a five member board comprised of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of the DEDC, the Executive Director of the PRTC, the Executive Director of PRIDCO and one private citizen appointed by the Governor with the advice and consent of the Senate. The purpose of the PRPA is to administer all owned ports and aviation transportation facilities of the Commonwealth and to render other related services, including the supervision and monitoring of the service concession arrangement of the Luis Muñoz Marín International Airport. The Commonwealth generally provides financial support to the PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) – PRPBC is governed by an eleven member board of directors comprised of the Secretary of the DOE, the President of the UPR, the Executive Director of the IPRC, and eight private citizens appointed by the Governor with the advice and

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. The PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to the PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) – PPPA is governed by a five member board of directors comprised of the Executive Director of FAFAA, the Secretary of the DOT, the President of the PRPB, and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. The PPPA is the only government entity authorized and responsible for implementing public policy on public private partnerships established by Act No. 29-2009, as amended, and to determine the functions, services, or facilities for which such Partnerships will be established. The Commonwealth generally provides financial support to the PPPA through legislative appropriations.

Puerto Rico School of Plastic Arts (PRSPA) – PRSPA is governed by a seven member board. Four members are appointed by the board of directors of the IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of the IPRC, one of whom serves as president. The PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to the PRSPA through legislative appropriations.

Puerto Rico Science, Technology and Research Trust (PRSTRT) – PRSTRT is governed by an eleven member board of trustees comprised of five members ex officio representing certain Primary Government agencies and public corporations: the Secretary of the DEDC, the President of the UPR, the Director of PROMB, the Executive Director of FAFAA and the Executive Director of PRIDCO; and six additional trustees appointed by the board of trustees. The PRSTRT was created by Act No. 214-2004, as amended, to foster and fund research, development and infrastructure projects related to science and technology to promote the economic, social, or educational development of the Commonwealth and to operate exclusively for charitable, educational, and scientific purposes. The PRSTRT was initially financially supported through various sources including moneys from certain UPR's funds, private donations and legislative appropriations which have not recurred during the past several years. But recently, most of the funds come indirectly from the Commonwealth's contributions into several funds that are managed and administered by PRIDCO, which in turn makes such funds available to PRSTRT. The PRSTRT's board of trustees is not appointed by the Commonwealth. However, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the substantial indirect financial support provided by the Commonwealth through legislative appropriations, and the fact that PRSTRT was created by law to implement and execute the Commonwealth's scientific research mission. Further, it can be eliminated by actions of the Commonwealth.

Puerto Rico Tourism Company (PRTC) – PRTC is governed by a seven member board comprised of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to the PRTC through legislative appropriations.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Complete basic financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Agricultural Enterprises Development Administration P.O. Box 9200 Santurce, PR 00908-0200	Automobile Accidents Compensation Administration P.O. Box 364847 San Juan, PR 00936-4847
Cardiovascular Center Corporation of Puerto Rico and the Caribbean P.O. Box 366528 San Juan, PR 00936-6528	Center of Diabetes for Puerto Rico P.O. Box 70344 PMB-87 San Juan, PR 00936
Company for the Integral Development of the "Península de Cantera" P.O. Box 7187 Santurce, PR 00916-7187	Corporation for the "Caño Martín Peña" ENLACE Project P.O. Box 41308 San Juan, PR 00940-1308
Culebra Conservation and Development Authority P.O. Box 217 Culebra, PR 00775-0217	Economic Development Bank for Puerto Rico P.O. Box 2134 San Juan, PR 00922-2134
Farm Insurance Corporation of Puerto Rico P.O. Box 9200 Santurce, PR 00908	Fine Arts Center Corporation P.O. Box 41287 – Minillas Station San Juan, PR 00940-1287
Government Development Bank for Puerto Rico P.O. Box 42001 San Juan, PR 00940-2001	GDB Debt Restructuring Authority P.O. Box 42001 San Juan, PR 00940-2001
Institute of Puerto Rican Culture P.O. Box 9024184 San Juan, PR 00902-4184	Institutional Trust of the National Guard of Puerto Rico P.O. Box 9023786 San Juan, PR, 00902-3786
Land Authority of Puerto Rico P.O. Box 9745 Santurce, PR 00908-9745	Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads 400 Calaf Street, PMB 456 San Juan, PR 00918-1314
Musical Arts Corporation P.O. Box 41227 San Juan, PR 00940-1227	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives P.O. Box 195449 San Juan, PR 00919-5449
Puerto Rico Aqueduct and Sewer Authority P.O. Box 7066 San Juan, PR 00916-7066	Puerto Rico Conservatory of Music Corporation 951 Ponce de León Ave. San Juan, PR 00907-3373
Puerto Rico Convention Center District Authority P.O. Box 19269, San Juan, Puerto Rico, 00910-1269	Puerto Rico Destination Marketing Corporation Tanca Street #500, Ochoa Building, Suite 402B Old San Juan, PR 00901

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Puerto Rico Electric Power Authority P.O. Box 364267 San Juan, PR 00936-4267	Puerto Rico Highways and Transportation Authority P.O. Box 42007 San Juan, PR 00940-2007
Puerto Rico Industrial Development Company P.O. Box 362350 San Juan, PR 00936-2350	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Integrated Transit Authority P.O. Box 41267 San Juan, PR 00940	Puerto Rico Land Administration P.O. Box 363767 San Juan, PR 00936-3767
Puerto Rico and Municipal Islands Maritime Transport Authority P.O. Box 4305 Puerto Real, PR 00740	Puerto Rico Metropolitan Bus Authority P.O. Box 195349 San Juan, PR 00919-5349
Puerto Rico Municipal Finance Agency P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico Municipal Finance Corporation P.O. Box 42001 San Juan, PR 00940-2001
Puerto Rico Ports Authority P.O. Box 362829 San Juan, PR 00936-2829	Puerto Rico Public Broadcasting Corporation P.O. Box 190909 San Juan, PR 00919-0909
Puerto Rico Public Private Partnerships Authority P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico School of Plastic Arts P.O. Box 9021112 San Juan, PR 00902-1112
Puerto Rico Science, Technology and Research Trust P.O.Box 363475 San Juan, PR 00936-3475	Puerto Rico Tourism Company Tanca Street #500, Ochoa Building, 3rd Floor Old San Juan, PR 00902-3960
State Insurance Fund Corporation P.O. Box 365028 San Juan, PR 00936-5028	University of Puerto Rico Jardín Botánico Sur 1187 Street Flamboyán San Juan, PR 00916-1117

(c) Component Units Audited Separately

The basic financial statements of the Commonwealth include the basic financial statements of the following component units that were audited by other auditors:

(i) Blended Component Units

Ponce Ports Authority

Ponce Authority (formerly known as Port of the Americas Authority)

Public Buildings Authority

Puerto Rico Fiscal Agency and Financial Advisory Authority

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Puerto Rico Health Insurance Administration
Puerto Rico Infrastructure Financing Authority
Puerto Rico Maritime Shipping Authority
Puerto Rico Medical Services Administration
Retirement System for the Judiciary of the Commonwealth of Puerto Rico
Special Communities Perpetual Trust
The Children's Trust
University of Puerto Rico Comprehensive Cancer Center

(ii) *Discretely Presented Component Units*

Agricultural Enterprises Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Center of Diabetes for Puerto Rico
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Government Development Bank for Puerto Rico
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
Musical Arts Corporation
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Convention Center District Authority
Puerto Rico Destination Marketing Corporation
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities
Financing Authority

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Puerto Rico Integrated Transit Authority
Puerto Rico Land Administration
Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Municipal Finance Corporation
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Public Private Partnerships Authority
Puerto Rico School of Plastic Arts
Puerto Rico Science, Technology and Research Trust
Puerto Rico Tourism Company
State Insurance Fund Corporation
University of Puerto Rico

(d) Basis of Presentation

(i) Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the nonfiduciary activities of the Commonwealth and its discretely presented component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from Business-type Activities, which rely to a significant extent on fees and charges for services or which are financed and operated in a manner similar to private business enterprises. Likewise, the Primary Government is reported separately from the legally separate discretely presented component units for which the Primary Government is financially accountable. The statement of net position presents the reporting entities' nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.
- *Restricted Net Position* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. The Commonwealth does not allocate general government (indirect) expenses to other functions. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

(ii) *Fund Financial Statements*

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

Major funds are determined using a predefined percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue, or expenditures/expenses of either the fund category or the governmental and proprietary funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

(iii) *Governmental Funds*

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

- *General Fund* – The General Fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. The General Fund includes transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. The financial resources received and used in the General Fund mostly include budgeted resources (such as taxes and charges for services), as approved by the Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

such as: federal funds, pledged funds, other special revenue and general type funds, and agencies with independent treasuries.

- *Debt Service Fund* – The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs, other than bonds payable from the operations of proprietary fund types, pension trust funds, and component units, either blended or discretely presented.
- *ERS Special Revenue Fund* – The ERS Special Revenue Fund is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund after the legal proceedings under the Title III of PROMESA are completed.
- *COFINA Special Revenue Fund* – The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) was used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in the COFINA Debt Service fund.
- *COFINA Debt Service Fund* – The debt service fund of COFINA was used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.
- *Nonmajor Governmental Funds* – The Commonwealth reports the following blended component units within the nonmajor governmental funds: PBA, FAFAA, The Children's Trust, PRIFA, PRMSA, PA, SCPT, TRS, JRS and the UPRCCC. The nonmajor governmental funds also includes the Commonwealth's capital project fund.

If a component unit is blended, it should be blended with those funds of the Primary Government by including them in the appropriate fund category of the Primary Government. Although the Primary Government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a special revenue fund. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the Primary Government directly or for discretely presented component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority. The highest

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

level of decision-making authority for the Commonwealth is the Legislature and the Governor, and the formal action is the passage of a law specifying the purposes for which amounts can be used.

- *Assigned* – includes fund balance amounts that are constrained by the Commonwealth and are intended to be used for specific purposes that are neither considered restricted nor committed. The Director of the PROMB is authorized to assign an amount for a specific purpose through the approval of budget certificates as required by statute.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Commonwealth uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

(iv) *Proprietary Funds*

These funds account for those activities that are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

- *Unemployment Insurance Fund* – This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.
- *PRHIA* – This fund, a blended component unit, accounts for a health insurance system operated through contracts with insurance underwriters to provide quality medical and hospital care to low-income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan.
- *PRMeSA* – This fund, a blended component unit, accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as the Puerto Rico Medical Center.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, the Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), PPA and the Bureau of Emergency Services 9-1-1.

(v) *Fiduciary Funds*

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following is the Commonwealth's fiduciary funds:

- *Custodial Funds* – The Custodial Fund accounts for assets held by the Commonwealth. Consigned monies in the Puerto Rico Court of Justice and in the Puerto Rico Department of the

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Family for child support are the major assets accounted for in this fund. There are no actions, approvals or conditions required to be fulfilled by the beneficiary prior to the release of the assets.

(e) Measurement Focus and Basis of Accounting

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period (see Note 1(h) for further description about the period of availability for the principal sources of revenue in the Governmental Activities).

Principal revenue sources considered susceptible to accrual include personal and corporate income taxes (recognized as taxpayers earn the underlying income), sales and uses taxes (recognized as the underlying sales are made), excise taxes (as the underlying import or related activity takes place), property taxes (imposed on real estate property values, as defined), intergovernmental revenue (typically, when related expenditures are incurred), and other taxes and charges for services (typically, as cash is received).

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation as of June 30, 2022, is reported only in the government-wide financial statements.
- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.
- Debt service requirements, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and is awaiting payment. Until these criteria are met, these liabilities have been recorded only in the government-wide financial statements.

A summary reconciliation of the difference between total fund balances (deficit) as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected in the governmental funds statement of revenue, expenditures, and changes in fund balances (deficit) and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of the statement of revenue, expenditures, and changes in fund balances (deficit) of governmental funds to the statement of activities.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Basic Financial Statements – The basic financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major sources of revenue of the Commonwealth's major proprietary funds are as follows:

- *Unemployment Insurance Fund* – Insurance premiums charged to individual employers.
- *PRHIA* – Amounts received through the PRDOH representing payments by the Medicaid Program under Title XIX of the Social Security Act and State Plan, contributions from the Commonwealth to cover the local share to meet the Medicaid Program matching requirements and amounts charged and collected from employers and municipalities for direct health services provided to its members.
- *PRMeSA* – Amounts charged and collected from private citizens, member institutions and municipalities for patient services provided.

(f) Cash, Cash Equivalents and Short-Term Investments

The Commonwealth follows the practice of pooling cash. Cash balances of funds held in the Commonwealth Treasury are commingled in a general checking account and several zero balance bank accounts for special purposes. The available cash balance in the general checking account beyond immediate need is pooled in interest bearing accounts with commercial banks insured with the Federal Deposit Insurance Corporation (FDIC).

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition. Short-term investments are recorded at cost.

The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Department of the Treasury. Interests earned over such deposit is retained in the fund.

Cash and short-term investments and cash equivalents of the component units and certain funds of the Primary Government are maintained in bank accounts, separate from those of the rest of the Primary Government, in their own names.

(g) Investments

Investments in large part include U.S. government and agencies' obligations, mortgage-backed securities, local government obligations, and corporate debt and equity obligations. Investments and investment contracts are carried at fair value, except for money market investments with a remaining maturity at the time of purchase of one year or less, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds, and the statement of revenue, expenses, and changes in net position – proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included within interest and investments earnings.

GASB 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 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: (i) the market approach, (ii) the cost approach, or (iii) the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – inputs whose values are based are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commonwealth's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification.

(h) Accounts Receivable, Loans, General Revenue and Unearned Revenue

Income taxes receivables, in both the General Fund balance sheet and statement of net position, include predominantly an estimate of amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income taxes receivables in the General Fund are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the current fiscal year-end that are related to taxable years of prior periods. Income taxes receivable also include amounts owed by taxpayers on income earned prior to June 30, 2022, estimated to be collectible but not currently available, and thus are reported as deferred inflows of resources in the General Fund; such deferred inflows are considered revenue in the statement of activities as the availability criteria is not applicable on the government-wide financial statements for revenue recognition.

The sales and use tax receivable are recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year-end related to sales and use transactions due on or before year end. The same treatment is given in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Excise tax receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year-end related to transactions that occurred before year end. The same treatment is given in the government-wide financial statements. Act No. 154-2010 imposed a temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations, and foreign partnerships. Act No. 154-2010 applies to income realized and acquisitions occurring after December 31, 2010. Initially, the excise tax would apply until the year 2017. The excise tax is based on the value of the personal property, or the services acquired, and was 4% for calendar year 2011, 3.75% in 2012 and 2.75% for portions of 2013 until February 28, 2013. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017. On January 23, 2017, Act No. 3-2017 was enacted extending the fixed rate of 4% for ten additional years.

Intergovernmental receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for one year following the fiscal year-end related to transactions that occurred before year end. Those intergovernmental receivables not expected to be collected within the aforementioned one-year period are recorded as deferred inflows of resources. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements, are met, other than timing, are met are considered unearned revenue. Resources received before timing requirements are met are considered deferred inflows of resources.

Intergovernmental receivables also include taxes that the CRIM is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM, pursuant to Act No. 83-1991. This receivable from CRIM is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for 180 days following the current fiscal year-end that are related to transactions that occurred before year end. The amounts from CRIM not expected to be collected within the aforementioned 180 days period are recorded as deferred inflows of resources.

Unemployment, disability, driver's insurance, and other services receivables recognized in the proprietary funds are stated net of estimated allowances for uncollectible accounts.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the Primary Government and other component units that arise from service charges, are evaluated for collectability.

Loans of the General Fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the General Fund on their behalf.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The loans of the pension plans are presented net of estimated allowances for adjustments and losses in realization. However, most of the loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the Primary Government, other component units, and municipalities, and are presented net of allowances for uncollectible accounts. The remaining loans of the component units are to small and medium businesses, agricultural, and low-income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(i) Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net position of Governmental Activities.

(j) Restricted Assets

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits and lending activities.

(k) Real Estate Held for Sale or Future Development

Real estate held for sale or future development is carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(l) Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable Governmental Activities, Business-type Activities, and discretely presented component unit columns in the government-wide financial statements and in the proprietary fund financial statements. The Commonwealth's Primary Government defines capital assets as assets that (i) have an initial, individual cost of \$25,000 or more at the date of acquisition and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

Capital assets donated by third parties are recorded at fair value at the time of donation. Those capital assets donated by related parties are recorded at the carrying value existing at the transferor's records. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for Business-type Activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and discretely presented component units' basic financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Capital assets of the Primary Government are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	<u>Years</u>
Buildings and building improvements	20–50
Equipment, furniture, fixtures, vehicles, and software	5–15
Infrastructure	50

The capital assets of the discretely presented component units are recorded in accordance with the applicable standards of the discretely presented component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets, and on the nature of each of the discretely presented component unit's operations.

The estimated useful lives of capital assets reported by the discretely presented component units are as follows:

	<u>Years</u>
Buildings and building improvements	3–50
Equipment, furniture, fixtures, vehicles, and software	3–20
Intangibles, other than software	3–5
Infrastructure	10–50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (mostly attributed to PRPA and PRHTA), these are maintained on their books and stated at cost or at estimated historical cost. Construction in progress made by the third-party operators under these service concession arrangements is not recorded by the aforementioned discretely presented component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated after the closing date of their respective service concession arrangements because such agreements require the third-party operators to return the related facilities to these discretely presented component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service concession arrangements. Under these service concession arrangements, the aforementioned discretely presented component units have received from the third-party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the discretely presented component units, are considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions,

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others. The Commonwealth evaluated its capital assets as required by GASB Statement No. 42 and identified no impairments at the Primary Government level during the year ended June 30, 2022. At the discretely presented component units level, nonmajor component units identified impairments of approximately \$1.1 million.

(m) Accounting for Leases

The Commonwealth accounts for leases in accordance with GASB Statement No. 87, "Leases". This statement requires a lessee to recognize a lease liability and an intangible right-of-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources for a period, exceeding 12 months, during which a lessee has a noncancelable right to use an underlying asset. This term should include any additional periods covered by either the lessor's or lessee's option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain that the lessee will not exercise that option.

Leases with a maximum possible term of 12 months or less at commencement, including any options to extend, regardless of their probability of being exercised, are recognized as expenses on a straight-line basis over the lease term.

The Commonwealth monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively.

Lease receivable and liability

At the lease commencement date, the Commonwealth initially measures a lease receivable at the present value of payments expected to be received, reduced by any provision of estimated uncollectible accounts, and a lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease receivable or liability is reduced by the principal portion of lease payments received or made at or before the lease commencement date.

The future lease payments received or made should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligation for those payments is incurred.

Right-of-use lease asset

The right-of-use lease asset is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(n) Income Tax Refunds Payable

During the calendar year, the Commonwealth collects individual and corporate income taxes through withholdings and payments from taxpayers. As of June 30, of each year, the Commonwealth estimates the amount owed to taxpayers for overpayments of income taxes during the first half of the calendar year. These estimated amounts and the actual individual and corporate income tax refunds claimed for prior years but not paid at year-end are recorded as income tax refunds payable and as a reduction of tax revenue in both the Governmental Funds and the Governmental Activities.

(o) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes deferred outflows of resources, which 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. The Primary Government and the discretely presented component units have four major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) the accumulated decrease in the fair value of hedging derivatives, (iii) asset retirement obligation and (iv) several items related to pensions and other postemployment benefits, the four of them reported in the government-wide statement of net position. A loss on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding losses can be found in Note 11. Of the pension related items (further disclosed in Note 1(q) and Note 16), changes in proportionate share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will include deferred inflows of resources, which represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of captions arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is unavailable revenue. Deferred inflows of resources related to unearned revenue at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. Deferred inflows of resources related to leases arise when the Primary Government acts as a lessor. Under the modified accrual basis of accounting, a lessor is required to recognize a lease receivable and a deferred inflow of resources to account for a lease. A lessor subsequently should recognize the deferred inflow of resources as an inflow of resources. The Primary Government and the discretely presented component units also have two captions that qualify for reporting in this category in the government-wide statement of net position and those are the unamortized balance of gains on bond refunding and several items related to pensions and other postemployment benefits. A gain on a bond refunding results when the carrying value of refunded debt is less than its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding gains can be found in Note 11. Of the pension and other postemployment benefits related items (further disclosed in Note 1(q) and Note 16), changes in proportionate share of contributions, differences between expected and actual experience and changes

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. The discretely presented component units also have one additional item that qualifies for reporting in this category in the government-wide statement of net position, which is the unamortized balances of the upfront amounts received and related adjustments pertaining to the Service Concession Arrangements of PRPA and PRHTA.

(p) Long-Term Debt

The liabilities reported in the government-wide financial statements include the Commonwealth's general obligation and revenue bonds, contingent value instruments and long-term notes, obligations under lease/purchase agreements, obligations for voluntary termination benefits, accrued compensated absences, long-term liabilities to other governmental entities, net pension liability, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and discretely presented component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government-wide financial statements, premiums and discounts on long-term debt and other long-term obligations are presented in the columns for Governmental and Business-type Activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs, other than prepaid insurance, are reported as expenses.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

(q) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, except for synthetic guaranteed investment contracts that are fully benefit responsive, are reported at fair value in the government-wide financial statements. The changes in fair value of effective hedging derivative instruments are reported as deferred inflows or deferred outflows of resources. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

(r) Accounting for Pension Costs

The Commonwealth accounts for pension costs under the provision 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 No. 67 and 68* (GASB Statement 73). Statement No. 73 maintains the "accrual basis" model under Statement 68, where

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

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 106-2017 eliminated all contribution requirements for the pension 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, the Commonwealth 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 the Commonwealth'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 16.

The Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Other employers also participate in the pension plan. A proportionate share of pension related amounts is determined because certain participating employers, component units of the Commonwealth, issue stand-alone basic financial statements. 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 employer's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS, JRS and TRS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2021, actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2022.

(s) Other Postemployment Benefits

In addition to the pension benefits described in Note 16, the Commonwealth provides other retirement benefits, such as summer (for JRS retirees only) and Christmas bonus, and postemployment healthcare benefits (collectively referred to as other postemployment benefits or OPEB) for its retired employees in accordance with local law. Substantially, all the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. The Commonwealth follows the guidance of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, this statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflow of resources, deferred inflow of resources and expenses. For additional information regarding OPEB, refer to Note 17.

(t) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days, except for the teachers who accrue 4 days per month, up to an annual maximum of 40 days and police officers and firefighters who accrue 2.5 days per month. 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 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method (except for Puerto Rico Police Bureau

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

employees), in which leave amounts for both employees who currently are 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). The liability for compensated absences of Puerto Rico Police Bureau (PRPOB) employees is estimated based on actual termination payments made and projected statistically, which is a hybrid between the vesting and termination methods. The governmental fund financial statements record expenditures when employees are paid for leave, or when the balance due is accrued upon the employee's separation from employment. Compensated absences accumulation policies for blended and discretely presented component units varies by entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

(u) Termination Benefits

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Whereby, 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.

(v) Interfund Activities and Intraentity Transactions

The Commonwealth had the following interfund activities and intraentity transactions:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the Primary Government and its discretely presented component units, and among the discretely presented component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the Primary Government and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between the Primary Government and discretely presented component units which are equivalent to long-term debt financing. The Primary Government's liability is reported in the statement of net position, the proceeds in the Primary Government's statement of revenue, expenditures and changes in fund balance governmental funds, and the asset in the discretely presented component units' statement of net position. Amounts due from discretely presented component units are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(w) Lottery Revenue and Prizes

The revenue, expenses, and prizes awarded by the Traditional Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as unearned revenue. Unpaid prizes awarded as of June 30, are reported as obligation for unpaid lottery prizes. Unclaimed prizes expire after six months and are transferred to the General Fund.

(x) Risk Management

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the Primary Government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. The Commonwealth's blended component units are responsible for assuring that its property is properly insured. Annually, these blended component units compile the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2022 remained similar to those of prior years. In the last three years, the Commonwealth's or the component units' insurance settlements have not exceeded the amount of coverage.

Certain discretely presented and blended component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations. The most significant self-insurance funds reside at the discretely presented component unit's level and are described in detail in Note 14.

(y) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues*, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, generally referred to as Tobacco Settlement Authority (in the Commonwealth's case, the Children's Trust), should be considered a blended component unit of the government that created it. The TB also states that the government receiving the payments from the tobacco companies under the agreement, referred to as settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and tobacco settlement authorities for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(z) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(aa) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2021:

- GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The changes adopted to conform to the provisions of this statement were not reflected as a restatement of the beginning net position because management does not believe it would have a material effect on the presentation of these financial statements. For more information related to the implementation of GASB Statement No. 87, please refer to Notes 9 and 11.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB, and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a Business-type Activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. As of June 30, 2022, there was no significant impact at the Primary Government level.
- GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. As of June 30, 2022, there was no significant impact at the Primary Government level.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. As of June 30, 2022, there was no significant impact at the Primary Government level.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. As of June 30, 2022, there was no significant impact at the Primary Government level.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of this statement is to establish the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. As of June 30, 2022, there was no significant impact at the Primary Government level.

(bb) Accounting Pronouncements Issued But Not Yet Effective

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

- GASB Statement No. 91, *Conduit Debt Obligations*. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing,

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.
- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

- GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. 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 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these statements may have on the Commonwealth's basic financial statements upon adoption.

(2) Going Concern, Uncertainties and Liquidity Risk

(a) Considerations of Going Concern, Uncertainties and Liquidity Risk – Primary Government

For many years the Commonwealth faced a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that started in 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

Pursuant to PROMESA and the establishment of the Oversight Board on June 30, 2016, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth's obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the *Law to End the Bankruptcy of Puerto Rico* (Law 53) to, among other things, approve the issuance of the new general obligation bonds (the GO Bonds) and contingent value instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Commonwealth's plan of adjustment, subject to certain amendments that would preserve pension benefits. The Title III Court confirmed the Commonwealth Plan of Adjustment (as defined below) on January 18, 2022, and it became effective on March 15, 2022.

Since the Commonwealth remediated its financial conditions and addressed its liabilities through the implementation of the Commonwealth Plan of Adjustment, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern as of the date of these basic financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(b) Going Concern – Discretely Presented Component Units

The following major discretely presented component units have been identified as having substantial doubt about their ability to continue as a going concern. Each major discretely presented component unit's circumstances and remediation plan are described below:

(i) GDB

The stand-alone audited basic financial statements of GDB disclose that there is substantial doubt about GDB's ability to continue as a going concern for the following reasons:

- On March 23, 2018, GDB ceased its operations and management initiated an orderly winddown process, which included a restructuring of GDB's debts pursuant to a Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. Details of the Qualifying Modification are further discussed in Note 3. For this reason, the stand-alone audited basic financial statements of GDB disclose that there is substantial doubt about GDB's ability to continue as a going concern.

For additional information about GDB's cessation of operations and implementation of the Qualifying Modification, refer to the notes to GDB's 2022 stand-alone audited basic financial statements.

(ii) PREPA

The stand-alone audited basic financial statements of PREPA disclose that there is substantial doubt about PREPA's ability to continue as a going concern for the following reasons:

- PREPA has defaulted on various debt obligations and does not currently have sufficient funds available to repay its obligations as they come due.
- PREPA has an accumulated deficit of approximately \$10.1 billion as of June 30, 2022, and during the year ended June 30, 2022, the deficit increased by approximately \$903.3 million.
- On July 2, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the Title III Court. PREPA is currently operating under the protection of the Title III Court.
- In recent years, Puerto Rico's infrastructure systems have experienced devastating damage in the wake of several natural disasters. In September 2017, Puerto Rico was directly impacted by Hurricanes Irma and Maria, causing substantial island-wide damage to PREPA's Transmission and Distribution System and other assets. In January 2020, Puerto Rico experienced a magnitude 6.4 earthquake located near Puerto Rico's southwestern coast, which caused significant damage to two units at PREPA's Costa Sur power plant and left most of Puerto Rico without electricity for hours. The effects of the earthquake were quickly followed by the emergence of the COVID-19 pandemic, which has had a negative effect on PREPA's collections and revenues, further weakening its liquidity position. Russia's February 2022 invasion of Ukraine placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption directly affected PREPA's operations by significantly increasing fuel purchase costs.

Remediation Plan – PREPA

On June 23, 2023, the Oversight Board certified a new fiscal plan that lays out a path for the operational and financial reorganization of PREPA and the transformation of Puerto Rico's energy system.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

There is no certainty that any certified fiscal plan for PREPA will be fully implemented, or if implemented will ultimately provide the intended results.

On December 16, 2022, the Oversight Board filed the initial Title III Plan of Adjustment of the Puerto Rico Electric Power Authority [Case No. 17-4780, ECF No. 3110] and related PREPA Disclosure Statement [Case No. 17-4780, ECF No. 3111]. The PREPA plan of adjustment's confirmation hearing was scheduled for July 2023, but significant developments regarding the certified 2023 PREPA fiscal plan caused a suspension of such schedule.

As a result of these developments, on August 25, 2023, the Oversight Board filed its third amended plan of adjustment for PREPA (as modified, amended, or supplemented, the "Amended Plan") [Case No. 17-4780, ECF No. 3918]. The Amended Plan incorporated settlements reached between the Oversight Board and (i) Vitol Inc.; (ii) the Fuel Line Lenders; and (iii) National Public Finance Guarantee Corporation. It also incorporated a restructuring support agreement with funds and accounts managed by BlackRock Financial Management Inc. and its affiliates, with Nuveen Asset Management LLC, Franklin Advisers, Whitebox Advisors LLC, and Taconic Capital Advisors LP, who together hold over 40% of the PREPA's uninsured bonds.

On September 15, 2023, the Oversight Board filed a supplemental disclosure statement [Case No. 17-4780, ECF No. 3964] for the plan of adjustment. After considering multiple objections and a hearing on the matter, the Title III Court approved the disclosure statement on November 17, 2023 [Case No. 17-4780, ECF No. 4181]. Certain PREPA bondholder parties appealed this decision to the First Circuit, but on December 28, 2023, the United States Court of Appeals for First Circuit dismissed the appeal for lack of jurisdiction [Case No. 23-2064, Document No. 00118090456].

The latest version of the Amended Plan was filed on February 16, 2024 [Case No. 17-4780, ECF No. 4680]. This version also incorporates the terms of a settlement the Oversight Board reached with the unsecured creditors' committee. The Amended Plan was accepted by multiple impaired accepting classes, and proposes to reduce PREPA's obligations by approximately 75%, to approximately \$2.54 billion, excluding pension liabilities. The Amended Plan further requires an up to \$400 million contribution from the Central Government to fund administrative expense claims.

The Amended Plan's confirmation proceeding took place from March 4–18, 2024. Upon its conclusion, the Title III Court took the matter under advisement.

There is no certainty that the Title III Court will confirm the PREPA plan of adjustment, or that, if confirmed, the PREPA plan of adjustment will be fully implemented. For further information, refer to the currently proposed versions of the PREPA Plan of Adjustment and PREPA Disclosure Statement, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

Detailed information about PREPA's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of PREPA's 2022 fiscal year stand-alone audited basic financial statements.

(iii) UPR

The stand-alone audited basic financial statements of UPR disclose that there is substantial doubt about its ability to continue as a going concern for the following reasons:

- UPR had an accumulated deficit position of approximately \$1.7 billion as of June 30, 2022.
- UPR has had recurring operating losses and has been highly dependent on the Commonwealth's appropriations to finance its operations and has historically relied on GDB for liquidity. Approximately 40% of UPR's total revenues were derived from Commonwealth appropriations

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

for the year ended June 30, 2022. UPR's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.

- UPR has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.
- On June 29, 2017, UPR and the trustee for the University of Puerto Rico University System Refunding Bonds, Series P and Q (the UPR System Revenue Bonds) entered into a standstill agreement (the Standstill Agreement), pursuant to which the UPR agreed to transfer to a segregated account, for the benefit of the holders of the UPR System Revenue Bonds, certain amounts in respect of revenue pledged for the repayment of the UPR System Revenue Bonds on the condition that during the covered period of the Standstill Agreement the trustee would not institute, commence, or continue any legal proceeding against the UPR, the Commonwealth, or any of its agencies, instrumentalities, or municipalities thereof, to enforce rights related to UPR System Revenue Bonds. The Standstill Agreement has been subject to multiple extensions and currently remains effective through May 31, 2024 (unless further extended).

Remediation Plan – UPR

On May 27, 2021, the Oversight Board certified a new version of the UPR fiscal plan.

There is no certainty that any certified fiscal plan for UPR will be fully implemented, or if implemented will ultimately provide the intended results.

Detailed information about UPR's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of UPR's 2022 fiscal year stand-alone audited basic financial statements.

(iv) Other Nonmajor Discretely Presented Component Units

There are other nonmajor discretely presented component units that have accumulated deficits and others that even without deficits, have outstanding debt payable to the DRA or subject to the Moratorium Act and related executive orders. Similar, to the reasons presented above for certain major discretely presented component units, there is uncertainty as to the ability of other nonmajor discretely presented component units to satisfy their obligations as they become due; therefore, raising substantial doubt about their ability to continue as a going concern.

Additionally, there are other nonmajor discretely presented component units that do not have a deficit position or loans outstanding with DRA as of June 30, 2022, and have not been impacted by the Moratorium Act and related executive orders. However, these entities are highly dependent on the financial support provided by the Commonwealth and depended on GDB as their only option to obtain financing to fund their operations. The financial support provided by the Commonwealth is contingent on inclusion of such entities in its General Fund's budget appropriations as approved by the Legislature (and subject to a budget certified by the Oversight Board). Any reduction in the amount of these contributions could result in financial difficulties for these entities, including the uncertainty as to their ability to satisfy their obligations as they become due, thereby raising substantial doubts about their ability to continue as a going concern.

(3) PROMESA Proceedings

As discussed in Note 2, prior to March 15, 2022, the Commonwealth and many of its component units were in an economic and fiscal crisis, which caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

these problems. 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 the Puerto Rico Tourism Development Fund (TDF) initiated proceedings under Title III and Title VI of PROMESA at the request of the Governor to restructure or adjust their existing debt. All of these Title III and Title VI proceedings have concluded other than PREPA, as more fully discussed below.

(a) PROMESA and Puerto Rico Legislation

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under 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 (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 Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board."

(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

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

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

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

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

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

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, PRHTA, and COFINA.

(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-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also 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.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two-years. The GAO published its initial report on October 2, 2017. On June 29, 2023, 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 the GDB. The GDB Title VI process is discussed below under Discretely Presented Component Units – GDB, Qualifying Modification and Title VI Approval Process.

In addition, the Title VI process was utilized to restructure certain debts of PRIFA, PRCCDA, PFC, and TDF.

(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.”

(ii) *Puerto Rico Legislation*

Act No. 101-2020, the Debt Responsibility Act, was enacted to “restore Puerto Rico's credibility and its access to the capital markets under reasonable terms . . . [and] help restore economic growth while protecting future generations of the mistakes of the past” by, among other things, establishing a comprehensive cap on all net tax-supported debt and a sublimit on secured and/or securitized debt incurred to pay debt service on the new COFINA bonds. In addition, the Commonwealth Plan of Adjustment and Confirmation Order include provisions requiring the Commonwealth to adhere to the

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Debt Responsibility Act and a Debt Management Policy [ECF No. 20353, Ex. J] that provides further guardrails for ongoing fiscal responsibility, including maximum limits on the Commonwealth's annual amount of debt service payments. For further information, refer to the Commonwealth Plan of Adjustment, Confirmation Order, and Debt Management Policy, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

Act No. 53-2021, the Law to End the Bankruptcy of Puerto Rico, was enacted on October 26, 2021, to, among other things, approve the issuance of the New GO Bonds and CVIs (each as defined and discussed below) necessary to implement the restructuring transactions contemplated in the Commonwealth Plan of Adjustment (as defined below). In addition to approving the Commonwealth's restructuring transactions, Act 53 conditioned the effectiveness of the Government's approval on the preservation of all accrued pension benefits owed to current public pension participants, which required the elimination of the proposed pension cuts, as discussed in part (b) below.

(b) PROMESA Title III Cases

(i) Commonwealth Title III Case

On May 3, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the Title III Court. [The deadline set by the Title III Court by which all creditors were required to file their proofs of claim against the Commonwealth was June 29, 2018. Approximately 119,199 claims were filed against the Commonwealth in the total aggregate asserted amount of approximately \$33.3 trillion. Of this amount, approximately 101,876 claims in the total aggregate asserted amount of approximately \$33.2 trillion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 4,932 claims in the total aggregate asserted amount of approximately \$12.1 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into Administrative Claim Reconciliation).] The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process described in section (vii) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17627] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the Title III Court.

On October 26, 2021, the Governor signed into law Act 53, which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its proposed pension cut.

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

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment [ECF No. 19812] (the Commonwealth Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813]

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Commonwealth Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of New GO bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit, which have all been denied.

On March 15, 2022 (the Commonwealth Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, thereby, causing the plan to become effective.

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

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

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

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

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs are deemed issued on July 1, 2021.

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

The Commonwealth Plan of Adjustment classifies claims into 69 classes, which receive the following aggregate recoveries:

- Various categories of Commonwealth Bond Claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA Bond Claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders will receive on account of their CW Guarantee Claims.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS Bond Claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio.
- Various categories of General Unsecured Claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full. All other general unsecured creditors at the Commonwealth will receive a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Commonwealth Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to benefits freeze, and the elimination of any cost-of-living adjustments (or COLAs) previously authorized under the JRS and TRS pension plans.

The Commonwealth Plan of Adjustment also created the Pension Reserve Trust for the purpose of providing budgetary support to meet the Commonwealth's pay-as-you-go pension obligations under Act 106. The Pension Reserve Trust will be funded through a yearly base contribution of \$175 million and an additional contribution based on the Commonwealth's outperformance of projected surplus after debt-service, with contribution ending in fiscal year 2032. Starting in fiscal year 2032, the Commonwealth will be able to request budgetary support from the Pension Reserve Trust pursuant to Section V of the Pension Reserve Guidelines.

The Commonwealth's Plan of Adjustment provided that the PBA leases be deemed rejected effective upon the earliest occurrence of one of various events which ultimately occurred on June 30, 2022; no other event occurred before this date.

From the Effective Date of the Commonwealth Plan of Adjustment through June 30, 2022, the monthly lease payments between PBA, as a lessor, and the Commonwealth or its discretely presented component units, as lessees, were limited to the lower of (i) the amount budgeted and approved pursuant to the certified fiscal plan and (ii) the monthly costs and expenses associated with the applicable leased property. Any past due accruals on PBA, the Commonwealth, or its discretely presented component units for debt service rent under a PBA lease were deemed released under the Commonwealth Plan of Adjustment.

The execution of the Commonwealth Plan of Adjustment resulted in an extraordinary gain on debt restructuring as follows (in thousands):

Description	General Fund	Debt Service Fund	ERS Debt Service Fund	Nonmajor governmental funds	Total governmental funds	Accrual basis adjustments	Total
Cash paid to creditors	\$ -	(5,647,126)	(443,750)	(1,533,111)	(7,623,987)	-	(7,623,987)
Legacy general obligation bonds	-	2,358,480	-	-	2,358,480	10,010,088	12,368,568
Legacy revenue bonds	-	-	-	790,313	790,313	8,586,434	9,376,747
Interest payable-legacy bonds and notes related	-	3,979,037	611,231	1,356,412	5,946,680	411,248	6,357,928
Net loss on bonds refundings-legacy bonds related	-	-	-	-	-	(190,694)	(190,694)
Restructured general obligation bonds	-	-	-	-	-	(7,414,019)	(7,414,019)
General obligation contingent value instrument	-	-	-	-	-	(3,500,000)	(3,500,000)
Clawback contingent value instrument	-	-	-	-	-	(5,216,422)	(5,216,422)
Notes payable discharged	23,764	-	-	48,821	72,585	258,031	330,616
Accounts payable and legal claims discharged	41,393	-	-	-	41,393	974,212	1,015,605
Extraordinary (loss) gain on debt restructuring	\$ 65,157	690,391	167,481	662,435	1,585,464	3,918,878	5,504,342

As a result of the Commonwealth Plan of Adjustment, the bond obligations of the Commonwealth, PBA, PRIFA, ERS, PA and PRCCDA have been discharged and in certain instances, replaced with restructured bond debt.

For further information on the Commonwealth Plan of Adjustment, refer to the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(ii) *PRHTA Title III Case*

On May 21, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. [The deadline set by the Title III Court by which all creditors were required to file their proofs of claim against PRHTA was June 29, 2018. Approximately 2,299 claims

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

were filed against PRHTA in the total aggregate asserted amount of approximately \$83.1 billion. Of this amount, approximately 1,590 claims in the total aggregate asserted amount of approximately \$82.3 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court, expunged through the Commonwealth Plan of Adjustment or PRHTA Plan of Adjustment, or resolved through the ACR process. As a result, approximately 378 claims in the total aggregate asserted amount of approximately \$502.5 million remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ACR.) The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process, described in section (vi) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

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

On December 6, 2022 (the PRHTA Effective Date), the conditions precedent to the Effective Date of the PRHTA Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the PRHTA Plan of Adjustment became effective.

As of the PRHTA Effective Date, the PRHTA Plan of Adjustment reduced PRHTA's debt levels. Specifically, the PRHTA Plan of Adjustment reduced PRHTA's funded debt by 75%, from approximately \$6.4 billion to \$1.245 billion senior and \$359 million subordinate PRHTA toll road-supported debt. As of December 14, 2023, PRHTA's restructured debt has been defeased with the proceeds of the PPPA transaction, as further detailed in Note 19.

For further information, refer to the final versions of the HTA Plan of Adjustment, PRHTA Findings of Fact, and PRHTA Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(iii) ERS Title III Case

On May 21, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for ERS by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. All obligations against ERS were resolved through the Commonwealth Plan of Adjustment as described in section (i) above.

On the Commonwealth Effective Date, the ERS Bond Claims (Class 65) were discharged, and all related litigation dismissed in exchange for a 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (defined below). Specifically holders of the ERS Bonds received (i) \$373

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

million in cash distributions, with such cash payments being made available from ERS and the Commonwealth from the purchase of ERS assets, and (ii) interest in a trust holding a portfolio of private equity interests held by ERS as of the Commonwealth Effective Date (the ERS Private Equity Portfolio), which assets continue to be managed by ERS up to the date that such assets are purchased by the Commonwealth or holders of the ERS Bonds Claims, pursuant to an election provided in the Commonwealth Plan of Adjustment (the Bondholder Election). In particular, under the Commonwealth Plan of Adjustment, (i) the Commonwealth is granted an option through April 10, 2023 to purchase the ERS Private Equity Portfolio for approximately \$70.8 million, (ii) in the event the Commonwealth declines to exercise such option, pursuant to the Bondholder Election, ERS bondholders have the option to purchase the ERS Private Equity Portfolio for approximately \$70.8 million, plus such amount as may be necessary to reimburse the Commonwealth for any funded shortfall amounts in connection with the ERS Private Equity Portfolio, and (iii) in the event that the Bondholder Election is not exercised, the Commonwealth shall purchase the ERS Private Equity Portfolio for approximately \$70.8 million. On November 18, 2022, the Commonwealth exercised the options and purchased the ERS Private Equity Portfolio.

The Commonwealth Plan of Adjustment also preserves all accrued pension benefits for active and retired public employees under Class 51, such that all accrued pension benefit claims are not reduced or modified and will be paid under the PayGo system. However, JRS and TRS participants will be subject to benefits freeze, and the elimination of any cost-of-living adjustments previously authorized under the JRS and TRS pension plans.

As a result of the Commonwealth Plan of Adjustment Effective Date, the bond obligations of ERS have been discharged.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(iv) *PREPA Title III Case*

On July 3, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. [The deadline set by the Title III Court by which all creditors were required to file their proofs of claim against PREPA was June 29, 2018. Approximately 4,750 claims have been filed against PREPA in the total aggregate asserted amount of approximately \$27.9 billion. Of this amount, approximately 1,881 claims in the total aggregate asserted amount of approximately \$8.0 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 1,728 claims in the total aggregate asserted amount of approximately \$12.5 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ADR).] The validity of these asserted claims has not yet been determined and all claims remain subject to the claims reconciliation process, described in section (vii) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

On December 16, 2022, the Oversight Board filed the initial *Title III Plan of Adjustment of the Puerto Rico Electric Power Authority* [Case No. 17-4780, ECF No. 3110] and related PREPA Disclosure Statement [Case No. 17-4780, ECF No. 3111]. After considering multiple objections and a hearing on the PREPA Disclosure Statement, the Title III Court approved the PREPA Disclosure Statement on November 17, 2023.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The most recent version of the PREPA Plan of Adjustment was filed on February 16, 2024 [Case No. 17-4780, ECF No. 4680]. The PREPA Plan of Adjustment incorporates settlements reached between the Oversight Board and (i) Vitol Inc.; (ii) holders of claims arising under certain fuel line credit agreements with PREPA; (iii) National Public Finance Guarantee Corporation; (iv) certain funds and accounts managed by BlackRock Financial Management Inc. and its affiliates, with Nuveen Asset Management LLC, Franklin Advisers, Whitebox Advisors LLC, and Taconic Capital Advisors LP, who together hold over ~40% of PREPA's uninsured bonds; and (v) the unsecured creditors' committee.

The confirmation hearing on the PREPA Plan of Adjustment took place from March 4–18, 2024. The Title III Court took the matter under advisement. There is no certainty that the Title III Court will approve or confirm the PREPA Plan of Adjustment, or that, if confirmed, the PREPA Plan of Adjustment will be fully implemented.

For further information, refer to the currently proposed versions of the PREPA Plan of Adjustment and PREPA Disclosure Statement, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(v) *PBA Title III Case*

On September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for PBA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against PBA was June 26, 2020. Approximately 421 claims have been filed against PBA in the total aggregate asserted amount of approximately \$7.1 billion. Of this amount, approximately 144 claims in the total aggregate asserted amount of approximately \$6.8 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 195 claims in the total aggregate asserted amount of approximately \$187.7 million remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ACR). The validity of these asserted claims has not yet been determined and all claims remain subject to the claims reconciliation process, described in section (vii) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

All obligations against PBA were resolved through the Commonwealth Plan of Adjustment as described in section (b)(i) above.

On the Commonwealth Effective Date, the Commonwealth Plan of Adjustment provided for a 79% recovery in cash, in addition to the New GO Bonds and GO CVIs that bondholders will receive on account of their CW Guarantee Claims for holders of PBA Bond Claims (Classes 1-12, 14). In addition, all legacy PBA bonds have been discharged and all related litigation has been resolved and dismissed.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(vi) *Claims Reconciliation Process for Title III Cases*

On October 16, 2018, the Oversight Board filed a motion seeking the approval of certain limited claim objection procedures designed to complete the claims reconciliation process for pre-Title III claims against the Commonwealth in a timely, efficient, and cost-effective manner. Such claims do not

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

represent ongoing claims against the Commonwealth but will instead be satisfied pursuant to the terms of the Commonwealth Plan of Adjustment.

For additional information regarding creditor recoveries contemplated under the Commonwealth Plan of Adjustment, refer to Note 3(b)(i) above and the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(vii) *PRIFA Qualifying Modification for Rum Bonds*

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the qualifying modification (the PRIFA Qualifying Modification) for the Special Tax Revenue Bonds, Section 2005A, Special Tax Revenue Bonds, Series 2005B, Special Tax Revenue Refunding Bonds, Series 2005C, and Special Tax Revenue Bonds (collectively, the PRIFA Rum Bonds). On March 15, 2022, the Commonwealth Plan of Adjustment became effective together with the PRIFA Qualifying Modification.

On the effective date of the PRIFA Qualifying Modification, all claims related to PRIFA's Rum Bonds, including extensive litigation related thereto, were resolved in exchange for the following distributions made under the Commonwealth Plan of Adjustment and the PRIFA Qualifying Modification:

- \$193.5 million in cash from the Commonwealth;
- CVIs triggered by both (i) outperformance of general fund rum tax collections relative to the projections contained in the Oversight Board's Fiscal Plan for the Commonwealth, and (ii) a 27% allocation of outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020, certified fiscal plan for the Commonwealth; and
- Approximately \$34.7 million and \$21.7 million for the fees of certain monoline insurers for supporting the Commonwealth Plan of Adjustment and the PRIFA Qualifying Modification, respectively, among other fees.

The total distributions to PRIFA creditors on account of the PRIFA-related CVIs are subject to a lifetime aggregate cap of approximately \$1.3 billion. The CVIs will be general obligations of the Commonwealth issued pursuant to the Commonwealth Plan of Adjustment.

On the effective date of the PRIFA Qualifying Modification, the PRIFA Rum Bonds were canceled and discharged, and bondholders released all remaining claims related to the PRIFA Rum Bonds.

(viii) *PRCCDA Qualifying Modification for PRCCDA Bonds*

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the qualifying modification (the PRCCDA Qualifying Modification) for the Series 2006 PRCCDA Bonds (the PRCCDA Bonds). On March 15, 2022, the Commonwealth Plan of Adjustment became effective together with the PRCCDA Qualifying Modification.

The PRCCDA Qualifying Modification resolves all claims related to the PRCCDA Bonds, including extensive litigation related thereto, in exchange for (i) a 4% allocation of the Clawback CVIs issued pursuant to the Commonwealth Plan of Adjustment (premised on outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020 certified fiscal plan for the Commonwealth), (ii) holders' pro rata share of \$97 million of cash in deposit accounts held by the Tourism Company at FirstBank, and (iii) certain fees in connection with bondholder support for the restructuring. The PRCCDA-related portion of the CVIs is subject to a lifetime aggregate cap of

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

approximately \$217 million. The CVIs are general obligations of the Commonwealth issued pursuant to the Commonwealth Plan of Adjustment.

On the effective date of the PRCCDA Qualifying Modification, the PRCCDA Bonds were canceled and discharged, and PRCCDA bondholders released all remaining claims related to the PRCCDA Bonds.

(ix) *PFC Qualifying Modification for PFC Bonds*

On December 14, 2022, the District Court approved a Title VI Qualifying Modification for PFC (the PFC Qualifying Modification). The PFC Qualifying Modification provides for a restructuring and discharge of the Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds) in exchange for (i) \$13.8 million in cash and (ii) approximately \$47 million of bonds issued by the GDB Debt Recovery Authority (the DRA Bonds). The PFC Qualifying Modification further provides that those promissory notes (the Notes) that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds are cancelled and extinguished and such entities are discharged from any liability arising from or related to such promissory notes.

On January 12, 2023, the PFC Qualifying Modification went effective, resulting in the discharge and cancellation of the PFC Bonds and the Notes.

AmeriNational Community Services, LLC, as Servicer for the DRA and Cantor-Katz Collateral Monitor LLC, as Collateral Monitor for the DRA have contested the ability to issue the DRA Bonds and this issue remains subject to ongoing litigation. The Qualifying Modification, however, provides that the discharge of the PFC Bonds remains effective, regardless of the outcome of this litigation.

On August 14, 2023, the Title III Court issued a ruling finding that FAFAA is authorized to direct the issuance of the DRA Bonds to the PFC bondholders to implement the terms of the PFC Qualifying Modification. This decision was appealed to the First Circuit and is currently pending.

For further information, refer to the PFC Qualifying Modification and PFC Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4523&DocAttrName=PFCDOCKET_Q&MenuID=8042&AttributeName=PFC%20Docket.

(x) *PRIFA-Ports Exchange*

On December 27, 2019, PRIFA completed a private exchange that resulted in the resolution of over 92% of those certain Series 2011 bonds issued by PRIFA (Ports Authority Project) (the PRIFA Ports Bonds). At the time of the exchange, the PRIFA Ports Bonds were outstanding in an amount of approximately \$190.6 million. Bondholders holding approximately \$177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRIFA Ports Bonds outstanding) of a cash payment of approximately \$82.4 million, resulting in the full resolution of such participating PRIFA Ports Bonds. The recovery the PRIFA Ports bondholders received in the exchange is in addition to the GDB DRA Bonds received by the PRIFA Ports bondholders in connection with a settlement of the bondholders' letter of credit claims against GDB, which settlement was entered into as part of the GDB Title VI Qualifying Modification. After the exchange, the PRIFA Ports Bonds remained outstanding in the total aggregate amount of approximately \$13.4 million (the PRIFA Ports Stub Bonds).

On April 28, 2023, PRIFA, PRPA, and the Bank of New York Mellon, as trustee, entered into that certain Redemption Transaction Agreement. On June 2, 2023, approximately \$13.5 million of PRIFA-Ports Stub Bonds were redeemed in exchange for approximately \$10.4 million in cash at a PRIFA

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Custody Account with the Bank of New York Mellon. The PRIFA-Ports Stub Bonds are thus no longer outstanding.

(xi) *TDF Qualifying Modification*

On September 12, 2023, the District Court approved a Title VI Qualifying Modification for the Tourism Development Fund (TDF) (the TDF Qualifying Modification). The TDF Qualifying Modification went into effect on December 4, 2023. Under the TDF Qualifying Modification, approximately \$89 million of obligations related to (i) the letters of credit issued by TDF to support the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority Tourism Revenue Refunding Bonds, 2011 Series A and Tourism Revenue Bonds, 2000 Series A and (2) three loans owed by TDF to GDB were discharged in exchange for a \$10.5 million cash payment.

For further information, refer to the TDF Qualifying Modification and TDF Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4537&DocAttrName=TDFDOCKET_Q&MenuID=8059&AttributeName=TDF%20Docket.

(xii) *PRIDCO Qualifying Modification*

On August 3, 2023, the Oversight Board, and certain holders of the PRIDCO revenue bonds (the Revenue Bonds) issued under that certain Trust Indenture, dated as of July 1, 1964, between PRIDCO and U.S. Bank Trust National Association, as successor trustee, entered into a restructuring support agreement (the PRIDCO RSA) that prescribes a restructuring of PRIDCO's debts through a Qualifying Modification under Title VI of PROMESA. On August 30, 2023, PRIDCO and FAFAA executed the PRIDCO RSA.

On October 25, 2023, the Oversight Board certified the RSA as a "Qualifying Modification" pursuant to section 601(g) of PROMESA. The Qualifying Modification was approved by the U.S. District Court for the District of Puerto Rico on December 7, 2023, and became effective on December 28, 2023. Under the Qualifying Modification, the Revenue Bonds were exchanged for (i) \$30 million cash, and (ii) new PRIDCO bonds in the amount of approximately \$159.6 million (the 2023 Revenue Bonds), issued under that certain Amended and Restated Trust Indenture, dated December 28, 2023, by and between PRIDCO and U.S. Bank Trust Company, National Association (the Amended Trust Indenture).

For further information, refer to the PRIDCO Qualifying Modification and PRIDCO Solicitation Statement, which are available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4541&DocAttrName=PRIDCODOCKET_Q&MenuID=8070&AttributeName=PRIDCO%20Docket.

(xiii) *Ports-DRA Settlement Agreement*

On January 23, 2024, (i) FAFAA; (ii) PRPA, (iii) the Puerto Rico Debt Recovery Authority (DRA); (iv) AmeriNational Community Services, LLC, as Servicer for the DRA (AmeriNational), and (v) Cantor-Katz Collateral Monitor LLC, as Collateral Monitor for the DRA (Cantor-Katz and together with the DRA and AmeriNational, the DRA Parties) entered into a Settlement Agreement to resolve approximately \$601 million of alleged liabilities owed by PRPA to the DRA Parties (the Settlement Agreement). Pursuant to the terms of the Settlement Agreement, the DRA received \$320 million in cash in full and final satisfaction of any and all claims of the DRA Parties against PRPA, including, but not limited to, all claims arising under or related to (i) the 2008 Ports Authority Loan (GDB Loan ID 200055215134), (ii) the 2014 Ports Authority Loan (GDB Loan ID 2000552151412), and (iii)

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

certain obligations arising under the Letter of Credit Disbursement and Reimbursement Agreement, dated December 1, 2011, between PRPA and GDB (the Reimbursement Agreement), including, but not limited to, Loan IDs: 200055210141, 200055210142, 200055210143. The settlement transaction closed on February 2, 2024.

(c) Default of Bond Principal and Interest Payments

The table below summarizes the past due balance of principal and interest on bonds of a major component unit as of December 22, 2023 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Past due Balance</u>
Major component units:			
PREPA	<u>2,300,224</u>	<u>2,522,182</u>	<u>4,822,406</u>
Total	\$ <u><u>2,300,224</u></u>	\$ <u><u>2,522,182</u></u>	\$ <u><u>4,822,406</u></u>

(4) Accounting Changes and Correction of Errors

During 2022, the Commonwealth identified various errors related to prior year basic financial statements. Additionally, during the year there was a change in reporting entity at the primary government and discretely presented component units. The impact of the related adjustments to beginning net position/fund balance are as follows:

Governmental and Business-type Activities

The following table summarizes the changes to net position at the beginning of the year as previously reported for the Governmental and Business-type Activities in the government-wide financial statements (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net position (deficit) – July 1, 2021, as previously reported	\$ (59,978,704)	754,128
Miscellaneous errors	<u>(15,174)</u>	<u>639</u>
Net position (deficit) – July 1, 2021, as restated	\$ <u><u>(59,993,878)</u></u>	\$ <u><u>754,767</u></u>

Governmental Funds

The following table summarizes the changes to fund balances at the beginning of the year as previously reported for the general fund (in thousands):

	<u>General Fund</u>
Fund balance – July 1, 2021, as previously reported:	\$ 10,935,738
Miscellaneous errors	<u>1,244</u>
Fund balance – July 1, 2021, as restated	\$ <u><u>10,936,982</u></u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Proprietary Funds

The following table summarizes the changes to net position at the beginning of the year as previously reported for the proprietary funds (in thousands):

	<u>PRMeSA</u>	<u>Nonmajor Proprietary Funds</u>
Net position (deficit) – July 1, 2021, as previously reported	\$ (733,446)	882,242
Correction of GASB Statement No. 73 amounts:		
Miscellaneous errors	<u>414</u>	<u>225</u>
Net position (deficit) – July 1, 2021, as restated	\$ <u><u>(733,032)</u></u>	<u><u>882,467</u></u>

Discretely Presented Component Units

The following table summarizes the changes to the beginning net deficit for certain discretely presented component units (in thousands):

Net deficit – July 1, 2021, as previously reported	\$ (14,975,722)
Miscellaneous errors	<u>17,289</u>
Net deficit – July 1, 2021 as restated	\$ <u><u>(14,958,433)</u></u>

(5) Deposits and Investments

Primary Government

The Primary Government may invest in different types of securities, including among others domestic, international, and fixed income securities, among others.

The Primary Government maintains a cash and investment pool that is available for use by all funds, including some of the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position and balance sheet as cash and cash equivalents.

Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commonwealth's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

The carrying amount of deposits of the Primary Government as of June 30, 2022, consists of the following (in thousands):

	<u>Carrying amount</u>			<u>Bank balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	
Governmental activities:				
Commercial banks	\$ <u>9,539,636</u>	<u>2,753,961</u>	<u>12,293,597</u>	<u>12,246,838</u>
Total	\$ <u><u>9,539,636</u></u>	<u><u>2,753,961</u></u>	<u><u>12,293,597</u></u>	<u><u>12,246,838</u></u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Business-type activities:				
Commercial banks	\$ 642,987	361,501	1,004,488	1,025,218
Under the custody of the U.S. Treasury	—	351,122	351,122	351,122
Total	\$ 642,987	712,623	1,355,610	1,376,340

As of June 30, 2022, the total aggregate amount of the Primary Government's bank balance of deposits in commercial banks was approximately \$13.6 billion, covered by the FDIC or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately \$351.1 million with the U.S. Treasury represent unemployment insurance premiums collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized.

Investments

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Commonwealth may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk – This is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation.

Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

The Commonwealth's general investment policy is to apply the "prudent investor" rule, which states investments must be made with judgment and care under circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, and considering the probable safety of their capital as well as the probable income to be derived. The prudent investor rule should be applied in the context of managing an overall portfolio.

Short-term funds of the agencies, including operating funds, may be invested in U.S. Treasury bills; U.S. Treasury notes or bonds with short-term maturities; short-term obligations of U.S. government agencies and instrumentalities classified within the highest rating category of Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's); fully insured or collateralized certificates of deposit of eligible financial institutions designated by the Commissioner of Financial Institutions and the Secretary of the DOT; prime commercial paper rated A1/P1 by S&P and Moody's or secured by an irrevocable line of credit of an institution rated within the highest rating category of S&P and Moody's or collateralized by government securities; bankers' acceptances (as alternatives to CDs) of eligible financial institutions doing business in Puerto Rico provided adequate collateral has been pledged; obligations of the Commonwealth and its instrumentalities with an expected rate of return similar to other securities with the same risk profile.

Longer term funds may also be invested in U.S. government and agency securities in the highest rating category of S&P and Moody's. This includes Taxable Municipal Bonds of state and local governments in the United States classified within the three (3) highest categories of at least two of the principal rating services; taxable municipal obligations of the Primary Government and its component units; structured investments (notes and other types of on balance sheet securities issued by a U.S. Government Agency or another financial institution in the highest rating category of at least two of the principal rating services); and any

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

mortgage backed instrument issued by a U.S. Government Agency in the highest rating category of S&P and Moody's.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commonwealth policy on larger portfolios with positions in securities having potential default risk is to limit the investments in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.

Interest Rate Risk – It is the Commonwealth policy that a minimum 10% of the total portfolio be held in highly marketable U.S. Treasury bills or overnight investment instruments. Larger portfolios should not hold more than 30% of the portfolio in marketable instruments with maturities beyond one month. This policy should be followed as long as it does not reduce investment yields.

Governmental Activities

The Governmental Activities investments consisted of approximately \$83.7 million in nonparticipating investment contracts (guaranteed investment contracts) that were exposed to custodial risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the Primary Government's name.

As of June 30, 2022, the fair value of the Governmental Activities' investments based on the hierarchy of inputs was as follows (in thousands):

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government securities	\$ —	12,833	—	12,833
External investment pools – fixed-income securities:				
First American Money Market Fund	21,815	—	—	21,815
Nonparticipating investment contracts:				
UniCredit Bank AG – Guaranteed: Investment Contract	—	—	83,684	83,684
Total investments measured at fair value	\$ 21,815	12,833	83,684	118,332
<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments measured at amortized cost or NAV:				
Dreyfus Government Cash Management				256,555
Money market funds				30,800
Negotiable certificate of deposits				1,698
Limited partnership/private equity				63,069
Other				483
Total investments			\$ 470,937	

The following table summarizes the type and maturities of investments held by the Governmental Activities as of June 30, 2022 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Investment type	Maturity (in years)			Total
	Within one year	After one to five years	After ten years	
U.S. government securities	\$ 12,833	—	—	12,833
Money market funds	30,800	—	—	30,800
Negotiable certificates of deposits	1,698	—	—	1,698
Other	—	483	—	483
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	256,555	—	—	256,555
Fisrt American Money Market Fund	21,815	—	—	21,815
Nonparticipating investment contracts:				
Unicredit Bank AG-Guaranteed Investment Contract	—	—	83,684	83,684
Total debt securities and fixed-income investment contracts	\$ 323,701	483	83,684	407,868
Equity securities:				
Limited parterships/private equity				63,069
Total				470,937
Reconciliation to the government-wide statement of net position:				
Unrestricted investments				\$ 63,069
Restricted investments				407,868
Total				\$ 470,937

The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Governmental Activities as of June 30, 2022, consisted of the following (in thousands):

Investment type	Rating				Total
	AAA	A+ to A-	BBB+ to B-	Not Rated	
Money market funds	—	—	—	30,800	30,800
Negotiable certificate of deposits	—	—	—	1,698	1,698
Other	—	—	—	483	483
External investment pools – fixed-income securities:					
Dreyfus Government Cash Management	256,555	—	—	—	256,555
Fisrt American Money Market Fund	—	—	21,815	—	21,815
Nonparticipating investment contracts:					
UniCredit Bank AG-Guaranteed Investment Contract	—	—	—	83,684	83,684
Total debt securities and fixed-income investment contracts	\$ 256,555	—	21,815	116,665	395,035

Approximately \$12.8 million of the total Governmental Activities' investments consist of U.S. Treasury instruments, which carry no credit risk and therefore, are not included within the table above.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Investments in Limited Partnerships

The fair value of investments in limited partnerships as of June 30, 2022, amounted to approximately \$63.1 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings of subject companies' management.

As of June 30, 2022, the Governmental Activities had capital commitments with limited partnerships and related contributions as follows (in thousands):

	<u>Public sector commitments</u>	<u>Fiscal year contributions</u>	<u>Unfunded commitments</u>	<u>Fair value</u>
Guayacán Fund of Funds II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	\$ 25,000	—	1,319	305
Puerto Rico System of Annuities and Pensions for Teachers	<u>25,000</u>	<u>—</u>	<u>1,319</u>	<u>302</u>
Subtotal	<u>50,000</u>	<u>—</u>	<u>2,638</u>	<u>607</u>
Guayacán Private Equity Fund, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	—	355	5,086
Puerto Rico System of Annuities and Pensions for Teachers	<u>5,000</u>	<u>—</u>	<u>355</u>	<u>5,055</u>
Subtotal	<u>10,000</u>	<u>—</u>	<u>710</u>	<u>10,141</u>
Guayacán Private Equity Fund II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	<u>25,000</u>	<u>—</u>	<u>453</u>	<u>9,770</u>
Subtotal	<u>25,000</u>	<u>—</u>	<u>453</u>	<u>9,770</u>
Other Funds:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	<u>69,880</u>	<u>—</u>	<u>2,988</u>	<u>42,551</u>
Subtotal	<u>69,880</u>	<u>—</u>	<u>2,988</u>	<u>42,551</u>
Total	\$ <u><u>154,880</u></u>	<u><u>—</u></u>	<u><u>6,789</u></u>	<u><u>63,069</u></u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Business-type Activities

As of June 30, 2022, the fair value of the Business-type Activities' investments based on the hierarchy of inputs is as follows (in thousands):

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and agency securities	\$ —	3,843	—	3,843
Mortgage and asset-backed securities:				
GNMA	—	387	—	387
FNMA	—	1,459	—	1,459
FHLMC	—	366	—	366
Commercial mortgages	—	442	—	442
Asset-backed securities	—	301	—	301
U.S. corporate bonds and notes	—	9,628	—	9,628
Foreign corporate and government bonds and notes	—	763	—	763
U.S. municipal notes	—	818	—	818
External investment pools – equity securities	—	10,248	—	10,248
Total investments measured at fair value	\$ —	28,255	—	28,255

The following table summarizes the type and maturities of investments held by the Business-type Activities as of June 30, 2022 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>Investment type</u>	<u>After one to five years</u>	<u>After five to ten years</u>	<u>After ten years</u>	<u>Total</u>
U.S. government and agency securities	\$ 2,000	586	1,257	3,843
Mortgage and asset-backed securities:				
GNMA	—	191	196	387
FNMA	796	—	663	1,459
FHLMC	21	—	345	366
Commercial mortgages	—	—	442	442
Asset-backed securities	301	—	—	301
U.S. corporate bonds and notes	3,864	4,035	1,729	9,628
Foreign corporate and government bonds and notes	525	238	—	763
U.S. municipal notes	15	173	630	818
Total debt securities	\$ 7,522	5,223	5,262	18,007

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Investment type	After one to five years	After five to ten years	After ten years	Total
External investment pools – equity securities:				
ISHARES TR Russell 2000 EFT				1,672
Vanguard Index Funds S&P 500 EFT				5,219
Vanguard Developed Markets EFT				3,337
Vanguard Emerging Markets ETF				20
Total				\$ <u>28,255</u>
Reconciliation to the government-wide statement of net position:				
Restricted investments				\$ <u>28,255</u>
Total				\$ <u>28,255</u>

The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Business-type Activities as of June 30, 2022, consist of the following (in thousands):

Investment type	Rating							Total
	AAA	AA+ to AA-	A+ to A-	Rating BBB+ to BBB-	BB+ to BB-	B+ to B-	Not rated	
Mortgage and asset-backed securities:								
FNMA	\$ 1,459	—	—	—	—	—	—	1,459
FHLMC	366	—	—	—	—	—	—	366
Commercial mortgages	53	—	—	—	—	—	389	442
Asset-backed securities	—	—	—	—	—	—	301	301
U.S. corporate bonds and notes	324	799	3,779	4,065	262	399	—	9,628
Foreign corporate and government bonds and notes	—	—	143	448	172	—	—	763
U.S. municipal notes	603	118	2	—	—	—	95	818
Total debt securities	\$ <u>2,805</u>	<u>917</u>	<u>3,924</u>	<u>4,513</u>	<u>434</u>	<u>399</u>	<u>785</u>	<u>13,777</u>

Approximately \$4.2 million of the total Business-type Activities' investments consist of approximately \$387 thousands in U.S. Government National Mortgage Association (GNMA) securities and approximately \$3.8 million in U.S. Treasury Instruments, which carry no credit risk and therefore, are not included within the table above.

Fiduciary Funds

Cash and Cash Equivalents

Cash and cash equivalents of the Fiduciary Funds as of June 30, 2022, consisted of the following (in thousands):

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ <u>586,061</u>	<u>—</u>	<u>586,061</u>	<u>600,578</u>

Cash and cash equivalents consist of deposits with commercial banks and short-term investments. Short-term investments include money market funds and other cash equivalents.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Discretely Presented Component Units

Deposits

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts. Cash and cash equivalents of the discretely presented component units as of June 30, 2022, consisted of (in thousands):

Major Discretely Presented Component Units

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ 1,601,024	1,942,029	3,543,053	3,443,815
Total	\$ 1,601,024	1,942,029	3,543,053	3,443,815

As of June 30, 2022, the major discretely presented component units had approximately \$68.1 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Nonmajor Discretely Presented Component Units

	Carrying amount			Bank balance
	Unrestricted	Restricted	Total	
Commercial banks	\$ 872,305	327,660	1,199,965	1,212,682
Governmental banks	544	—	544	4,751
Total	\$ 872,849	327,660	1,200,509	1,217,433

As of June 30, 2022, the nonmajor discretely presented component units had approximately \$4.8 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Credit Risk – In addition to the investments permitted for the Primary Government, the discretely presented component units' investment policies allow management to invest in the following: certificates of deposit or Euro notes issued by financial institutions in the U.S. in which the issuer is classified in the highest rating category for short-term obligations and in the two highest rating category for long-term obligations as classified by S&P and Moody's: corporate notes and bonds classified in the highest categories of at least two of the principal rating services; taxable corporate debt issued through AFICA within the two (2) highest rating categories of at least two of the principal rating services; trust certificates (subject to prior written consultation with FAFAA); and Mortgage and Asset Backed Securities rated AAA by S&P or Aaa by Moody's; no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The discretely presented component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The discretely presented component units' investment policies provide that investment transactions must be entered into with counterparties that are rated BBB+/A 1 or better by S&P's or equivalent rating by Fitch Ratings or Moody's, depending on the type and maturity of the investment and the counterparty to the transaction.

Concentration of credit risk – In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value must be invested in the securities of any single issuer. The following table summarizes the type and maturities of investments held by the discretely presented component units as of June 30, 2022

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Discretely Presented Component Units

As of June 30, 2022, the fair value of the discretely presented component units' investments based on the hierarchy of inputs is as follows:

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government securities	\$ 193,302	—	—	193,302
U.S. government agencies notes:				
FHLB	—	427	—	427
FNMA	—	14,631	—	14,631
FHLMC	—	6,484	—	6,484
FFCB	—	7,989	—	7,989
Other	—	2,569	—	2,569
Mortgage and asset-backed securities:				
GNMA	—	43,398	—	43,398
FNMA	—	10,859	—	10,859
FHLMC	—	14,198	—	14,198
Commercial mortgages	—	381	—	381
Asset-backed securities	—	2,330	—	2,330
Other	—	19,235	—	19,235
U.S. corporate bonds and notes	—	94,258	—	94,258
Foreign government bonds and notes	—	3,282	—	3,282
U.S. municipal notes	—	53,765	—	53,765
Commonwealth agency bonds and notes	—	3,965	—	3,965
External investment pools – fixed – income securities	930	12,286	—	13,216
U.S. corporate stocks	316,937	—	—	316,937
Other	52,581	—	—	52,581
Investments at fair value level	\$ <u>563,750</u>	<u>290,057</u>	<u>—</u>	853,807
Investments valued at NAV or amortized cost:				
Cash equivalent – money market fund				87,179
Limited partnership/private equity				51,102
Guaranteed investments contract				85,379
External investment pools – equity securities				<u>320,323</u>
Total major component units				1,397,790
Total nonmajor component units				<u>912,017</u>
Total investments				\$ <u>2,309,807</u>

The following table summarizes the type and maturities of investments held by major discretely presented component units as of June 30, 2022 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Investment type	Maturity (in years)				Total
	Within one year	After one to five years	After five to ten years	After ten years	
U.S. government securities	\$ 136,185	20,986	25,380	10,751	193,302
U.S. government sponsored agencies notes:					
FHLB	—	130	297	—	427
FNMA	5,848	7,495	975	313	14,631
FHLMC	—	1,158	2,759	2,567	6,484
FFCB	—	2,651	3,617	1,721	7,989
Other	50	1,952	567	—	2,569
Mortgage and asset-backed securities:					
GNMA	—	16,270	15,795	11,333	43,398
FNMA	11	1,039	2,459	7,350	10,859
FHLMC	2,350	3,011	3,602	5,235	14,198
Commercial mortgages	19	—	—	362	381
Asset-backed securities	—	2,259	—	71	2,330
Other	—	51	433	18,751	19,235
U.S. corporate bonds and notes	6,848	46,196	29,629	11,585	94,258
Foreign government bonds and notes	178	809	2,295	—	3,282
U.S. municipal notes	499	3,210	1,369	48,687	53,765
Commonwealth agency bonds and notes	—	283	—	3,682	3,965
Money market funds	87,164	15	—	—	87,179
External investment pools – fixed-income securities	121	370	439	12,286	13,216
Nonparticipating investment contracts	—	62,333	—	23,046	85,379
Other	52,581	—	—	—	52,581
Total debt securities and fixed-income investment contracts	\$ 291,854	170,218	89,616	157,740	709,428
Equity securities:					
U.S. corporate stocks					316,937
External investment pools – equity securities					320,323
Limited partnership/private equity					51,102
Total major component units					1,397,790
Total nonmajor component units					912,017
Total					\$ 2,309,807

Custodial Credit Risk – The discretely presented component units had approximately \$51.5 million (approximately \$20 million and \$51.4 million at major and nonmajor discretely presented component units, respectively) in various types of U.S. government and agency securities, mortgage backed securities, and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the discretely presented component units' name.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Foreign Currency Risk – SIFC (a major discretely presented component unit) limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2022, the SIFC had the following investments denominated in foreign currency (in thousands):

<u>Description</u>	<u>Currency</u>	<u>Fair value</u>
Common and preferred stocks and equities	Australian dollar	\$ 1,302
	Swiss Franc	2,213
	Danish Krone	1,410
	Euro	11,777
	British Pound	4,242
	Hong Kong Dollar	2,143
	Indonesian Rupiah	365
	Japanese Yen	6,130
	Swedish Krona	2,114
	Singapore Dollar	895
Total		\$ <u><u>32,591</u></u>

Credit Ratings of Commonwealth's Bonds

The investment policies of the Commonwealth require its agencies and instrumentalities to hold only investment grade ratings debt securities in their investment portfolio. With over 9% and 60% of the investments at the Primary Government and discretely presented component unit level, respectively, with credit ratings no lower than "A" or without risks as of June 30, 2022, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the downgrades. The remaining percentage of investments is either rated throughout the B spectrum or not rated, except for nonmajor discretely presented component units' investments in GDB, Primary Government Bonds, and Commonwealth's Municipalities Bonds of approximately \$310.2 million, all of which are rated D as of June 30, 2022.

(6) Receivables and Payables

Governmental and Proprietary Funds

Receivables in the governmental funds include approximately \$1.8 billion of accrued income, excise, and sales and use taxes. Intergovernmental receivables include approximately \$738.5 million from the federal government. In addition, the proprietary funds include approximately \$62 million of unemployment, disability, and drivers' insurance premium receivables; approximately \$9.3 million receivable from private citizens, member institutions, and municipalities for patient services provided by the PRMeSA; and approximately \$960.4 million receivable from the U.S. Department of Health (USDOH), municipalities and private citizens and pharmacies for the related health insurance coverage services provided by PRHIA's operations. Payables in the governmental funds include approximately \$1.6 billion of trade accounts due to suppliers for purchase of merchandise and services rendered, and approximately \$93.9 million of salary related benefits owed to eligible police agents for annual salary increases, awards, and other monetary benefits granted to them through several laws dating back to 1954, and approximately \$655.9 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004 1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended (the TB), a receivable of \$37.2 million was recorded as other receivable in the government-wide financial statements and in the nonmajor governmental funds for estimated shipments from January 1 to June 30, 2022, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the Tobacco Settlement Authority (the Children's

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Trust in the case of the Commonwealth) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone basic financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bonds sold to the settling government (the Commonwealth). Since the Children’s Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out of the fund that accounts for the activities of the Tobacco Settlement Authority. Since the Children’s Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the Tobacco Settlement Authority to the settling government (the Commonwealth), the Children’s Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Prior to the enactment of Act 106-2017 on August 23, 2017, loans receivable from plan members were guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. After August 23, 2017, pension benefits will be paid by each participating employers as the benefits become due. The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans. As of June 30, 2022, the loans and interest receivable from plan members amounted to approximately \$310.3 and \$11.1 million, respectively, net of an escrow funds of mortgage loans and guarantee insurance reserve and allowance for adjustments and losses in realization of approximately \$38.2 million.

Discretely Presented Component Units – GDB

As of June 30, 2022, loans from GDB to public corporations and agencies of the Commonwealth (excluding municipalities) amounting to approximately \$864 million were repayable from the following sources (in thousands):

	<u>Amount</u>
Repayment source:	
General fund and/or legislative appropriations	857,609
Operating revenues	<u>6,159</u>
Total	\$ <u><u>863,768</u></u>

For the fiscal year ended June 30, 2022, there were no disbursements and collections of principal of public-sector loans.

As of June 30, 2022, approximately \$864 million of the public-sector loans was impaired. The budget certified by the Oversight Board for fiscal years 2020 through 2022 did not include appropriations for the payment of debt service owed to GDB. In addition, as discussed in Note 3, the Commonwealth Plan of Adjustment discharged all appropriation claims, which includes any claim for an appropriation related to the repayment of a GDB loan.

Most loans to public corporations and agencies totaling approximately \$864 million were classified as nonaccrual. Interest income that would have been recorded under the original term of these loans amounted to approximately \$46 million in fiscal year 2022.

Loans to the private sector include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately \$157 million as of June 30, 2022. Private sector loans classified as nonaccrual amounted to approximately \$75.8 million as of June 30, 2022. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately \$4.7 million in 2022.

Tax Abatements

The Commonwealth follows the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement defines a tax abatement and requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Commonwealth enters into tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the Commonwealth. Each agreement was negotiated under a local law, which allows the Commonwealth to abate property or income taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the Commonwealth or promising to relocate within the Commonwealth. Depending on the terms of the agreement and law, abated taxes may be subject to recapture upon default of the entity. The Commonwealth is not subject to any tax abatement agreements entered into by other governmental entities. There were no amounts received or receivable from other governments; there were no government-made commitments other than to reduce taxes; there were no abatements disclosed separately, and no information was omitted if required by GASB Statement No. 77. The following table represents the abated revenues for the year ended June 30, 2022:

Name of program	Stipends received by certain physicians during their internship	Credit for construction investment in urban centers	Credit for investment in tourism development	Purchase: Tourism Development	Act 135 - 1997, Tax Incentives Law of 1998
Purpose of program	Tax exemption of stipends to resident physicians to keep them in the public service.	Tax abatement to promote and incentive the revitalization of Urban Centers through construction of living spaces. Promote increase in property values and create jobs.	The amount of credit for tourism investment. Every investor may claim a credit for tourism investment equal to 50% of its eligible investment.	Act 78 provides 90% exemption on income from eligible tourism activities, including benefits and dividends distributed from the exempt business to his shareholders or partners, as well as distributions in liquidation.	To provide the best economic and social interests of Puerto Rico through fixed income rates of the manufacturing industry.
Abated tax	Individual Tax	Individual Tax	Individual Tax	Corporate Tax	Corporate Tax
Authorizing statute/ordinance	PR Internal Revenue Code Section 1031.02 (a) 9	PR Internal Revenue Code Section 1051.08(b) (5) & Act 212 of 2002	Art. 5(f) Act 78-1993 Art. 14 Act 225-1995 Schedule B Part II Line 12 & Act 78 of 1993	Art. 5 Act 78 - 1993	Act 135-1997
Eligibility requirement	Resident doctor training at a governmental hospital facility	Project certified by the Director of Urbanism of the Department of Transportation	The business must establish a qualified project certified by the PRTC.	Every investor (including a participant) will be entitled to a credit for tourism investment in securities of a fund.	Fixed Income rate decree signed with the favorable recommendation of the Secretary of Treasury and the Executive Director
Type of commitment made by the recipient of the abated tax	Complete internship in a public hospital.	Provide construction services directly related to the revitalization of urban centers.	Invest in the development of the local tourism industry.	Invest in the development of the local tourism industry.	Invest in the development of the local manufacturing industry.
How tax is reduced	Income Tax Credit	Income tax Credit	Income tax Credit	Credit for tourism investment equal to 50% of their eligible investment or their investment in securities of a fund, to be taken in 2 terms: The first half of said credit in the year in which the exemption is obtained and the balance of said credit, in the following year.	Reduction of Tax
Determination of abated tax	Abated tax amount determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	\$ 2,500,000	\$ 700,000	\$ 24,000,000	\$ 55,800,000	\$ 15,174,900,000

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Name of program	Act 225 - 1995, Law on Agricultural Contributive Incentives of PR	Act 22 - 2012 Transfers of Investors to Puerto Rico	Credit for purchases of products manufactured in Puerto Rico	Credit for investment in film industry development (Act 27-2011 & Act 60-2019).	Act 20 - 2012, Export Services & Act 60 - 2019, Subtitle B Chapter 3
Purpose of program	The Act establishes the requirements to qualify the "bona fide" farmers and exempt them from the payment of all kinds of taxes on personal and real property, municipal license tax, taxes, income taxes, excise taxes and all municipal and/or state taxes or fees.	To attract new residents to Puerto Rico by providing a total exemption from Puerto Rico income taxes on all passive income realized or accrued after such individuals become bona fide residents of Puerto Rico.	Incentivize the manufacturing industry and local suppliers	To encourage the use of the state as a site for filming, for the digital production of films, and to develop and sustain the workforce and infrastructure for film, digital media, and entertainment production.	Act to promote the exportation of services, provides attractive tax incentives for companies that establish and expand their export services businesses in the island. In addition, the law promotes investments on research and development and initiatives from the academic and private sectors by granting credits and exemptions for these activities.
Abated tax	Corporate Tax	Corporate Tax	Corporate Tax	Individual Tax	Individual Tax
Authorizing statute/ordinance	Act 225 - 1995	Act 22 - 2012	Section 5(a)(1), Act 73 - 2008	Section 7.3 Act 27-2011, Act 60-2019	Act 20-2012, Act 60-2019
Eligibility requirement	Certification of Agricultural Bonafide Operation by the Department of Agriculture	Relocation to Puerto Rico and a full-time resident as defined by law.	Exempt business that has a decree granted under this Act or under the previous incentive laws, must buy products manufactured in Puerto Rico, including components and accessories.	Investment certified by the Auditor as disbursed in relation to Production Expenses of Puerto Rico, not including payments made to Non-Resident Talent	Relocate operations to Puerto Rico
Type of commitment made by the recipient of the abated tax	50% or more of its income must derive from the agriculture industry.	Transfer operations to Puerto Rico.	Purchase raw materials from local businesses.	Invest in the development of the local film industry.	Maintain operations and export services operating from Puerto Rico
How tax is reduced	Reduction of Tax	Reduction of Tax	Twenty-five percent (25%) of the purchases of such products, during the taxable year in which the referred credit is taken, up to a maximum of fifty percent (50%) of the aforementioned contribution.	Reduction of Tax	Reduction of tax rate
Determination of abated tax	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree	Abated tax percentage determined by law	Abated tax determined by law and decree approval
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	\$ 100,000	\$ 600,600,000	\$ 31,200,000	\$ 13,600,000	\$ 248,800,000

(7) Allocated Receivables and Future Revenue

(a) COFINA Revenues

Act No. 91-2006, as amended, establishes that in each fiscal year, the first collections of the 5.5% of the SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. Under Act No.91-2006, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year and all legal and equitable rights, title, and interest thereto. Regardless of the level of 5.5% SUT collections, Act No.91-2006 requires that in each fiscal year all collections of the 5.5% SUT be deposited in the COFINA Revenues Fund until an amount equal to the Pledged Sales Tax Base Amount is deposited before any collections of the 5.5% SUT are deposited in the Commonwealth's General Fund. The COFINA Pledged Taxes are the present and future revenues and collections generated by the portion of sales tax that corresponds to a tax rate of five and one-half (5.5) percent and the substituted collateral, if any. The substituted collateral is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the New COFINA Bonds.

The Pledged Sales Tax Base Amount in the fiscal year ended June 30, 2022, amounted to approximately \$881 million. For fiscal year 2022, debt service paid by COFINA amounted to approximately to \$447.5 million.

(b) The Children's Trust Revenue

The Children's Trust is a public trust ascribed to GDB, created pursuant to Act No. 173-1999. Through Act No. 173-1999, the Commonwealth conditionally allocated and transferred to the Children's Trust all of its rights, title, and interest in a settlement agreement entered into by and among the Commonwealth, 46 states and several cigarette manufacturers (the Tobacco Settlement Agreement), including the

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Commonwealth's right to receive certain annual payments from such cigarette manufacturers (the TSRs). The TSRs, otherwise deliverable to the General Fund, were conditionally allocated to the Children's Trust in consideration of the issuance of bonds by the Children's Trust and the application of the proceeds thereof to fund certain social programs.

(8) Interfund and Intraentity Activity

Interfund receivables and payables as of June 30, 2022, are summarized as follows (in thousands):

Receivable Fund	Payable Fund	
ERS	COFINA Debt Service	\$ 137,235
Nonmajor proprietary	General	52,057
Nonmajor governmental	General	42,000
PRMeSA	General	33,746
Nonmajor governmental	COFINA Debt Service	22,422
PRHIA	General	20,213
General	Nonmajor proprietary	9,298
General	Nonmajor governmental	8,789
General	PRMeSA	6,586
General	COFINA Special Revenue	5,867
Nonmajor proprietary	Nonmajor governmental	4,022
PRMeSA	PRHIA	2,474
Unemployment insurance	General	458
		\$ 345,167

Transfers from (to) other funds for the year ended June 30, 2022, are summarized as follows (in thousands):

Transferee fund	Transferor fund	
Debt Service Fund (a)	General	\$ 5,813,428
Nonmajor governmental (b)	General	1,973,266
PRHIA (c)	General	538,180
General (d)	Nonmajor governmental	275,211
General (e)	Nonmajor proprietary	210,439
PRMeSA (f)	General	59,021
General (g)	Unemployment Insurance	48,606
General (h)	ERS	36,787
ERS (i)	PRMeSA	8,198
COFINA Special Revenue (j)	COFINA Debt Service	6,611
General (k)	COFINA Special Revenue	5,866
Nonmajor proprietary (l)	General	627
		\$ 8,976,240

The principal purposes of the interfund transfers are to (in thousands):

- (a) Transfer of \$5,813,428 from the General Fund to the Debt Service Fund to provide funds to cover cash considerations given to the Commonwealth's GO's bondholders in accordance with the Commonwealth Plan of Adjustment.
- (b) Recognize as transfers the contribution made by the Commonwealth to PBA, a blended component unit of the Commonwealth, to cover cash considerations provided to PBA bondholders' in accordance with the Commonwealth Plan of Adjustment and for rental payments made for properties leased to the Commonwealth's agencies (\$1,576,656); (\$82,492) related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit of the

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Commonwealth; (\$196,707) to PRIFA, a blended component unit of the Commonwealth, to provide funds to cover operational expenditures and debt service payments; (\$7) to PRMSA, a blended to component unit of the Commonwealth, to provide funds for debt service payments; (\$1,712) to the Commonwealth Capital Projects Fund to provide funds for capital projects; (\$20,849) to UPRCCC, (\$93,931) to FAFAA, (\$714) to SCPT, (\$198) to PA, blended components unit of the Commonwealth, to provide funds to cover operational expenditures.

- (c) Transfer of \$538,180 from the General Fund to PRHIA, a blended component unit of the Commonwealth, to provide funds to cover operational expenditures.
- (d) Transfer of (\$69,455) from PBA, a blended component unit of the Commonwealth, and (\$33,998) from the Commonwealth Capital Projects Fund to the General Fund to provide funds for debt service payments; and (\$136,822) from TRS and of (\$34,936) from JRS, blended component units of the Commonwealth, to the General Fund to distribute resources from liquidation of assets in accordance with the provisions of Act 106-2017.
- (e) Transfer from the Lotteries, a nonmajor proprietary fund, to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation (\$204,652); and to reimburse the General Fund for expenses assistance provided on emergency calls services from 9-1-1 Services, a nonmajor proprietary fund, (\$5,787).
- (f) Transfer of \$59,021 from the General Fund to PRMeSA, a major proprietary fund, to make funds available for debt service payments, capital projects and operational expenditures.
- (g) Transfer of \$48,606 from the Unemployment Insurance Fund, a major proprietary fund, related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses.
- (h) Transfer from ERS of (\$36,787), a blended component unit of the Commonwealth, to the General Fund to distribute resources from liquidation of assets in accordance with the provisions of Act 106-2017.
- (i) Transfer of \$8,198 from PRMeSA to ERS, blended component units of the Commonwealth, for payment of employer contributions owed before the enactment of Act No. 106-2017.
- (j) Transfer of \$6,611 from the COFINA Debt Service Fund to the COFINA Special Revenue Fund, a blended component unit of the Commonwealth, to reimburse the General Fund for excess collections of sales and use tax transferred to COFINA and make funds available for operational expenditures.
- (k) Transfer of \$5,866 from the COFINA Special Revenue Fund, a blended component unit of the Commonwealth, to reimburse the General Fund for excess collections of sales and use tax transferred to COFINA.
- (l) Transfer of \$627 from the General Fund to PPA, a nonmajor proprietary fund, to make funds available for operational expenditures.

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Amounts due to the Primary Government from discretely presented component units were as follows (in thousands):

Payable entity	Receivable entity			Total due from component units
	General fund	Nonmajor governmental	Nonmajor proprietary	
Major component units:				
PRASA	\$ 9,307	—	597,131	606,438
PREPA	772,255	—	17,143	789,398
GDB	51,900	—	—	51,900
PRHTA	14,455	—	—	14,455
UPR	21,949	—	—	21,949
Nonmajor component units	189,471	9,715	—	199,186
Subtotal due from component units	1,059,337	9,715	614,274	1,683,326
Allowance for uncollectible balances	(812,509)	(9,715)	—	(822,224)
	\$ 246,828	—	614,274	861,102

The amount owed by PRASA of approximately \$614.3 million represents construction loans granted by the PWPCRF and the PRSDWTRLF, nonmajor proprietary funds, to finance the construction of capital assets for PRASA and PREPA.

Pursuant to Joint Resolution RCC039 of May 11, 2021, the Commonwealth transferred \$750 million to the Puerto Rico Electric Power Authority (PREPA) in order to fund the reserve accounts for operations, capital investment, and other purposes as required for the operation and maintenance of the electric power transmission and distribution infrastructure in Puerto Rico. Such funds are to be returned to the Commonwealth as established in said resolution, which states that will occur upon the termination of the qualified Operations and Maintenance Agreement (O&M) entered into between PREPA and LUMA Energy, LLC (LUMA) by either expiration or termination for any reason. As further discussed in notes 2, 3, 20 of these basic financial statements and the stand alone-financial statement of PREPA, the debt restructuring process of PREPA are currently undergoing along with the O&M. As of the date of these basic financial statements, no conditions for the return of the transferred funds had been triggered. However, given the uncertainty of PREPA's debt restructuring process, the continued deterioration of its financial condition and liquidity in recent years and the uncertainty of their ability to properly implement its energy transformation plan, we believe that it is probable that the funds will not be eventually collected therefore an allowance for uncollectible accounts had been provided for.

Amounts due to discretely presented component units from the Primary Government were as follows (in thousands):

Receivable entity	Payable entity				Total due to component units	Allowance for uncollectible balances	Total due to component units (net)
	General fund	Nonmajor governmental funds	PRMeSA				
Major component units:							
PREPA	\$ 55,778	1,291	34,625	91,694	(14,045)	77,649	
PRASA	17,713	—	—	17,713	—	17,713	
UPR	10,836	6,966	3,853	21,655	(13,185)	8,470	
GDB	76,154	—	—	76,154	(76,154)	—	
PRHTA	25,291	—	—	25,291	(1,720)	23,571	
Nonmajor component units	31,357	—	—	31,357	(11,568)	19,789	
Total due to component units	\$ 217,129	8,257	38,478	263,864	(116,672)	147,192	

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Amounts due from (to) discretely presented component units were as follows (in thousands):

Payable entity	Receivable entity Major component units					Nonmajor component units	Total due to component units
	GDB	PRHTA	PREPA	PRASA	UPR		
Major component units:							
GDB	\$ —	—	—	—	—	19,910	19,910
PRHTA	—	—	7,508	—	—	1,939,231	1,946,739
UPR	2,316	—	9,785	—	—	1,358	13,459
PRASA	—	—	50,815	—	—	—	50,815
PREPA	—	1,404	—	7,087	—	9,896	18,387
SIFC	—	—	1,665	—	—	—	1,665
Nonmajor component units	51,856	32,410	40,842	9,136	2,350	519,180	655,774
Subtotal due from component units	54,172	33,814	110,615	16,223	2,350	2,489,575	2,706,749
Allowance for uncollectible balances	(51,072)	(33,814)	(61,083)	—	(2,350)	(2,418,476)	(2,566,795)
Total due from component units (net)	\$ 3,100	—	49,532	16,223	—	71,099	139,954

The amount due from discretely presented component units presented by GDB of approximately \$54.2 million (before allowance for uncollectible accounts) represents loan balances owed to GDB by other Commonwealth's discretely presented component units. The rest of the loans receivable reported by the GDB consists of the following (in thousands):

Primary government – governmental activities	\$ 354,967
Primary government – business-type activities	485,403
Private sector, net of allowance for loan losses	<u>156,599</u>
Total loans receivable reported by GDB	996,969
Less allowance for public sector loans	<u>(840,370)</u>
	\$ <u>156,599</u>

The loans to the Primary Government are presented by the Commonwealth within notes payable in the statement of net position.

Expenses of the Primary Government include capital and operational contributions made by the Primary Government to the discretely presented component units during the year ended June 30, 2022, were as follows (in thousands):

UPR	\$ 520,602
PRHTA	82,633
Nonmajor components units	<u>375,711</u>
Total contributions made by primary government to component units	\$ <u>978,946</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(9) Capital Assets

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

Primary Government

	<u>Beginning Balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Decreases</u>
Governmental activities:				
<i>Other capital assets:</i>				
Land	985,064	598	2,260	\$ 983,402
Works of art	-	-	-	-
Construction in progress	<u>928,489</u>	<u>76,514</u>	<u>14,706</u>	<u>990,297</u>
Total nondepreciable capital assets	<u>1,913,553</u>	<u>77,112</u>	<u>16,966</u>	<u>1,973,699</u>
<i>Other capital assets:</i>				
Buildings and buildings improvements	10,675,011	29,766	42,563	10,662,214
Equipment, furniture, fixtures, and vehicles	1,073,607	65,765	14,890	1,124,482
Infrastructure	<u>615,224</u>	<u>-</u>	<u>-</u>	<u>615,224</u>
Total other capital assets, being depreciated	<u>12,363,843</u>	<u>95,531</u>	<u>57,453</u>	<u>12,401,921</u>
-				
<i>Less accumulated depreciation:</i>				
Buildings and buildings improvements	5,503,400	252,385	34,369	5,721,416
Equipment, furniture, fixtures, and vehicles	871,500	49,212	13,532	907,180
Infrastructure	<u>245,573</u>	<u>13,107</u>	<u>-</u>	<u>258,680</u>
Total accumulated depreciation:	<u>6,620,473</u>	<u>314,704</u>	<u>47,901</u>	<u>6,887,276</u>
Total other capital assets, being depreciated, net	<u>5,743,370</u>	<u>(219,173)</u>	<u>9,552</u>	<u>5,514,645</u>
<i>Lease assets:</i>				
Buildings and buildings improvements	-	234,297	-	234,297
Equipment, furniture, fixtures, and vehicles	<u>1,166</u>	<u>11,303</u>	<u>-</u>	<u>12,469</u>
Total lease assets, being depreciated	<u>1,166</u>	<u>245,600</u>	<u>-</u>	<u>246,766</u>
<i>Less accumulated amortization:</i>				
Buildings and buildings improvements	-	54,939	-	54,939
Equipment, furniture, fixtures, and vehicles	<u>-</u>	<u>3,939</u>	<u>-</u>	<u>3,939</u>
Total accumulated amortization:	<u>-</u>	<u>58,878</u>	<u>-</u>	<u>58,878</u>
Total lease assets, being amortized, net:	<u>1,166.00</u>	<u>186,722</u>	<u>-</u>	<u>187,888</u>
Total depreciable capital assets, net	<u>5,744,536</u>	<u>(32,451)</u>	<u>9,552</u>	<u>5,702,533</u>
Governmental activities- Total capital assets, net	<u>7,658,089</u>	<u>44,661</u>	<u>26,518</u>	<u>\$ 7,676,232</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

	<u>Beginning balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Land and other nondepreciable assets:				
Land	\$ 36,005	—	—	36,005
Total capital assets, not being depreciated	<u>36,005</u>	<u>—</u>	<u>—</u>	<u>36,005</u>
Other capital assets:				
Building and building improvements	120,404	6,642	—	127,046
Equipment	<u>117,271</u>	<u>10,427</u>	<u>618</u>	<u>127,080</u>
Total other capital assets being depreciated	<u>237,675</u>	<u>17,069</u>	<u>618</u>	<u>254,126</u>
Less accumulated depreciation				
Building and building improvements	78,989	2,946	—	81,935
Equipment	<u>97,327</u>	<u>5,421</u>	<u>611</u>	<u>102,137</u>
Total accumulated depreciation	<u>176,316</u>	<u>8,367</u>	<u>611</u>	<u>184,072</u>
Total business-type activities other capital assets, net of depreciation	<u>61,359</u>	<u>8,702</u>	<u>7</u>	<u>70,054</u>
Lease assets				
Building and building improvements	—	7,075	—	7,075
Equipment	<u>843</u>	<u>—</u>	<u>—</u>	<u>843</u>
Total lease assets being amortized	<u>843</u>	<u>7,075</u>	<u>—</u>	<u>7,918</u>
Less accumulated amortization				
Building and building improvements	—	1,179	—	1,179
Equipment	<u>300</u>	<u>170</u>	<u>—</u>	<u>470</u>
Total accumulated amortization	<u>300</u>	<u>1,349</u>	<u>—</u>	<u>1,649</u>
Total business-type activities lease assets, net of amortization	<u>543</u>	<u>5,726</u>	<u>—</u>	<u>6,269</u>
Total business-type activities capital assets, net	\$ <u>97,907</u>	<u>14,428</u>	<u>7</u>	<u>112,328</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Depreciation and amortization expense were charged to functions/programs of the Primary Government for the year ended June 30, 2022, as follows (in thousands):

Governmental activities:	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
General government	\$ 107,239	5,559	112,798
Public safety	34,320	14,230	48,550
Health	16,829	7,725	24,554
Public housing and welfare	113,399	17,196	130,595
Education	26,923	8,756	35,679
Economic development	<u>15,994</u>	<u>5,412</u>	<u>21,406</u>
Total depreciation and amortization expense – governmental activities	\$ <u>314,704</u>	<u>58,878</u>	<u>373,582</u>

General infrastructure assets include approximately \$427 million representing costs of assets transferred to the DNER of the Commonwealth (at cost) in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues River and Bucana River Projects (the Cerrillos Dam and Reservoir Project) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within Governmental Activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to approximately \$214 million. On March 21, 2014, the debt agreement with the U.S. Army Corps of Engineers was modified to reduce the interest rate and the annual payment for the remaining term of the debt. (see Note 11(o)).

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2022, PRIFA incurred approximately \$5.3 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Discretely Presented Component Units

Capital assets activity for discretely presented component units for the year ended June 30, 2022, is as follows (in thousands):

	<u>Beginning balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Land and other nondepreciable assets:				
Land	\$ 2,244,615	13,654	9,207	2,249,062
Construction in progress	1,285,745	650,306	552,850	1,383,201
Total capital assets, not being depreciated	<u>3,530,360</u>	<u>663,960</u>	<u>562,057</u>	<u>3,632,263</u>
Lease assets				
Land	—	1,284	—	1,284
Total nonamortizable capital assets	<u>3,530,360</u>	<u>665,244</u>	<u>562,057</u>	<u>3,633,547</u>
Other capital assets:				
Building and building improvements	1,746,232	6,780	27,122	1,725,890
Equipment	1,545,831	39,891	10,759	1,574,963
Infrastructure	43,689,227	499,785	15,776	44,173,236
Total other capital assets being depreciated	<u>46,981,290</u>	<u>546,456</u>	<u>53,657</u>	<u>47,474,089</u>
Less accumulated depreciation				
Building and building improvements	4,942,511	225,899	14,664	5,153,746
Equipment	845,690	22,866	9,839	858,717
Infrastructure	21,568,180	877,903	24,003	22,422,080
Total accumulated depreciation	<u>27,356,381</u>	<u>1,126,668</u>	<u>48,506</u>	<u>28,434,543</u>
Total other capital assets, net of depreciation	<u>19,624,909</u>	<u>(580,212)</u>	<u>5,151</u>	<u>19,039,546</u>
Lease assets				
Building and building improvements	8,062	61,634	—	69,696
Equipment	1,895	23,509	—	25,404
Total lease assets being amortized	<u>9,957</u>	<u>85,143</u>	<u>—</u>	<u>95,100</u>
Less accumulated amortization				
Building and building improvements	—	16,052	—	16,052
Equipment	—	6,030	—	6,030
Infrastructure	—	446	—	446
Total accumulated amortization	<u>—</u>	<u>22,528</u>	<u>—</u>	<u>22,528</u>
Total lease assets, net of amortization	<u>9,957</u>	<u>62,615</u>	<u>—</u>	<u>72,572</u>
Total capital assets, net	<u>23,165,226</u>	<u>147,647</u>	<u>567,208</u>	<u>22,745,665</u>
Nonmajor component units	<u>2,880,131</u>	<u>8,471</u>	<u>32,797</u>	<u>2,855,805</u>
Capital Assets (net)	\$ <u>26,045,357</u>	<u>156,118</u>	<u>600,005</u>	<u>25,601,470</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(10) Short-term Obligations

Short-term obligations as of June 30, 2022, and changes for the year then ended were as follows (in thousands):

	<u>Balance at June 30, 2021</u>	<u>Debt issued</u>	<u>Debt paid</u>	<u>Balance at June 30, 2022</u>
Governmental activities:				
Notes payable to DRA	\$ 1,700	—	—	1,700
Tax revenue anticipation notes	400,000	—	—	400,000
	<u>\$ 401,700</u>	<u>—</u>	<u>—</u>	<u>401,700</u>

(a) Notes Payable to DRA

The Commonwealth has entered into a short-term line of credit agreements with GDB (all within Governmental Activities), which obligation was then transferred to the DRA pursuant to the GDB Qualifying Modification. During the year ended June 30, 2022, PA has not received the required funds for the debt service of the line of credit and the bond purchase agreements. The balance of the short-term line of credit agreements with DRA consist of the following as of June 30, 2022 (in thousands):

<u>Agency</u>	<u>Purpose</u>	<u>Interest rate</u>	<u>Line of credit</u>	<u>Outstanding balance</u>
PA	To finance terms of consent decree agreement	150 bp over PRIME with floor of 6% and ceiling of 12%	\$ 1,700	1,700
			<u>\$ 1,700</u>	<u>1,700</u>

(b) Tax Revenue Anticipation Notes

Act No. 1-1987, authorizes the Secretary of the DOT to issue notes to either private or governmental institutions, in anticipation of taxes and revenue (Tax Revenue Anticipation Notes or TRANs) as an alternate means of providing liquidity to cover any temporary cash shortages projected for a fiscal year. Act No. 139-2005, amended Section 2(g) of Act No. 1-1987 to provide that the total principal amount of notes issued under the provisions of Act No. 1-1987 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenue of the General Fund for the fiscal year preceding the fiscal year in which the notes are issued or \$1.5 billion.

On September 6, 2016, the Commonwealth renewed the "intra governmental" TRANs for fiscal year 2017, in the aggregate principal amount of \$400 million with the SIFC, AACA and the Disability Insurance Fund, also at the interest rate of 6%. On April 28, 2017, the Commonwealth acknowledged that it would be unable to pay the principal and interest payments on the TRANs notes as they become due and entered into a forbearance agreement with SIFC, AACA, and Disability Insurance Fund. The forbearance period expired on June 30, 2018. The repayment has not been made and the forbearance period has not been extended.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(11) Long-term Obligations

Primary Government

Long-term obligations as of June 30, 2022, and changes for the year then ended were as follows (in thousands):

	<u>Balance at June 30, 2021</u>	<u>Debt issued</u>	<u>Debt paid</u>	<u>Other increases</u>	<u>Other (decreases)</u>	<u>Balance at June 30, 2022</u>	<u>Due within one year</u>
Governmental activities:							
Commonwealth appropriation bonds \$	576,399	—	—	—	(179)	576,220	191,300
General obligation and revenue bonds	35,739,689	—	(97,425)	7,928,158	(21,936,647)	21,633,775	589,811
Contingent value instrument	—	—	—	8,716,423	—	8,716,423	361,806
Bond purchase agreement with GDB	225,534	—	—	—	(225,534)	—	—
Notes payable to component units:							
DRA and GDB	598,502	—	—	—	(193,298)	405,204	—
Other	102,000	—	—	—	—	102,000	2,000
Note payable to financial institution	147,700	—	(10,382)	—	(137,318)	—	—
Lease liability	2,516	245,601	(56,189)	—	—	191,928	63,086
Compensated absences	558,421	—	—	284,303	(294,755)	547,969	305,974
Voluntary termination benefits payable	560,895	—	—	—	(108,437)	452,458	74,480
Total pension liability	41,608,227	—	—	1,517,245	(1,900,465)	41,225,007	1,909,644
Total other postemployment benefit liability	1,214,893	—	—	—	(88,813)	1,126,080	88,418
Other long-term liabilities	2,563,681	—	(273,571)	21,612	(1,020,792)	1,290,930	311,524
Total governmental activities	83,898,457	245,601	(437,567)	18,467,741	(25,906,238)	76,267,994	3,898,043
Business-type activities:							
Notes payable to component units	485,403	—	—	—	—	485,403	182,196
Lease liability	—	7,618	(1,268)	—	—	6,350	1,388
Compensated absences	16,741	—	—	9,692	(10,188)	16,245	8,901
Obligation for unpaid lottery prizes	158,963	—	—	386,399	(388,016)	157,346	120,215
Voluntary termination benefits payable	16,734	—	—	—	(4,352)	12,382	3,551
Total pension liability	627,272	—	—	27,489	(38,243)	616,518	35,878
Total other postemployment benefit liability	19,054	—	—	225	(1,473)	17,806	1,429
Other long-term liabilities	4,661	—	—	1,844	(2,357)	4,148	2,222
Total business-type activities	1,328,828	7,618	(1,268)	425,649	(444,629)	1,316,198	355,780
Total primary government \$	85,227,285	253,219	(438,835)	18,893,390	(26,350,867)	77,584,192	4,253,823

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the table above. The balance paid includes principal paid the first of July of each year, which was accrued as of June 30, 2022, as a fund liability. U.S. GAAP allows accrual of debt service liabilities and expenditures if a government has provided financial resources to a debt service fund for payment of liabilities that will mature within a month in the following fiscal year.

Accrual adjustments for fiscal year 2022 were made to reconcile various obligations with the new estimated balances as of June 30, 2022, and other decreases resulting from payments on these obligations made during the fiscal year. These obligations include compensated absences, net pension liabilities, other postemployment benefit obligation, voluntary termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits. These payments, as pertaining to Governmental Activities, are included not as principal payments in the statement of revenue, expenditures,

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

and changes in fund balances (deficit) – governmental funds, but as expenses within their corresponding function.

(a) Debt Discharged Under the Commonwealth’s Plan of Adjustment

As discussed in Note 3, several of the Commonwealth’s bonds and notes were discharged as a result of the Commonwealth’s Plan of Adjustment. Specific obligations and transaction amounts discharged are as follows:

Debt Discharged	Amount
Term bonds payable through 2042; interest payable monthly or semiannually at rates varyig from 3.00% to 8.00%	\$ 13,294,459
Serial bonds payable through 2040; interest payable monthly or semiannually at rates varying from 4.250% to 6.75%	5,763,478
Capital appreciation bonds payable through 2033; no interest rate, yield ranging from 4.93% to 6.5%	842,186
Special Tax Revenue Bonds payable through 2045; interest payable or accreted monthly and semiannually at rates vatyng from 4.00% to 5.5%	1,963,006
Mental Health Infrastructure Revenue Bonds payable through 2038; interest payable semiannually at rates varying from 5.60% to 6.50%	34,800
Unamortized Premium or (discount), net	(152,614)
Notes payable to Financial Institutions; interest payable semiannually at a rate of 3.0204%	23,764
Notes payable to DRA through 2044; interest payable anually or semiannually at a rate of 6%	55,884
Notes payable to GDB through 2044; interest payable anually or semiannually at rates varying from 5% to 6%	137,414
Notes payable to financial institutions through 2044; interest payable anually or semiannually at a rate of 6%	113,554
Total	\$ 22,075,931

(b) Debt Limitation and Arbitrage

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee so long as the Commonwealth is in compliance with this 15% limitation at the time of issuance of such guaranteed debt.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, requiring a rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five-years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2022.

On August 12, 2020, Act 101 was enacted to impose further controls on the debt-issuance capacity of the Commonwealth and its instrumentalities to prevent any additional hardships.

(c) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligation bonds and debt guaranteed by the Commonwealth. The full faith, credit, and taxing power of the Commonwealth is irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83-1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The levy is made by CRIM, a municipal corporation, not a discretely presented component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected by the Commonwealth to pay debt service on general obligation bonds. For fiscal year 2022, the total revenue reported by the Commonwealth amounted to \$131 million which is included in the debt service fund. There was no deferred inflow of resources for the current year since all the collections complied with the 180-day period.

For financial reporting purposes, the outstanding amount of bonds represents the total principal amount outstanding, plus unamortized premiums and interest accreted on capital appreciation bonds, less unamortized discount. Bonds payable outstanding as of June 30, 2022, including accreted interest on capital appreciation bonds, were as follows (in thousands):

	General obligation bonds	Revenue bonds	Total
Serial bonds payable through 2040; interest payable monthly or semiannually at rates varying from 3.00% to 6.75%	\$ 6,683,270	—	6,683,270
Current Interest Bonds from July 1, 2033 to July 1, 2058 payable semiannually at rates varying from 4.250% to 5.625%	—	9,119,420	9,119,420

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

	<u>General obligation bonds</u>	<u>Revenue bonds</u>	<u>Total</u>
Capital appreciation bonds payable through 2051; no interest rate, yield ranging from 4.93% to 6.5%. (1)	766,251	3,487,782	4,254,033
The Children's Trust Fund Tobacco Settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 5.38% to 8.38%	—	1,535,554	1,535,554
Capital Fund Program Bonds, maturing in various dates payable through 2027; interest payable semiannually at 5.00%	—	191,020	191,020
Total	<u>7,449,521</u>	<u>14,333,776</u>	<u>21,783,297</u>
Unamortized premium	—	22,868	22,868
Unamortized discount	—	(12,733)	(12,733)
Subtotal bonds payable	<u>7,449,521</u>	<u>14,343,911</u>	<u>21,793,432</u>
Elimination entry COFINA bonds issued to PRIFA and ERS	—	(159,657)	(159,657)
Total bonds payable	<u>\$ 7,449,521</u>	<u>14,184,254</u>	<u>21,633,775</u>

(1) Revenue bonds include \$3.4 billion capital appreciation bonds fixed interest due from July, 1 2019 to July 1, 2051.

As of June 30, 2022, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 589,811	945,691	1,535,502
2024	575,525	764,328	1,339,853
2025	592,435	743,516	1,335,951
2026	508,266	722,557	1,230,823
2027	530,125	701,146	1,231,271
2028-2032	3,287,704	3,193,961	6,481,665
2033-2037	3,856,759	2,684,639	6,541,398
2038-2042	4,419,952	1,908,426	6,328,378
2043-2047	4,333,932	1,499,937	5,833,869
2048-2052	3,543,672	1,410,164	4,953,836
2053-2057	12,728,805	861,985	13,590,790
2058-2062	945,255	46,095	991,350
2063-2067	—	—	—
Total	<u>35,912,241</u>	<u>15,482,445</u>	<u>51,394,686</u>
Less unaccreted interest	(14,128,944)		
Plus unamortized premium	22,868		
Less unamortized discount	<u>(12,733)</u>		
Subtotal	21,793,432		
Elimination of COFINA bonds issued to PRIFA and ERS	<u>(159,657)</u>		
Total	<u>\$ 21,633,775</u>		

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

As of June 30, 2022, COFINA's bonds payable consists of the following (in thousands):

<u>Description</u>	<u>Face / Effective interest</u>	<u>Amount</u>
COFINA Bonds, Series 2019A-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	\$ 5,412,723
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	3,443,680
COFINA Bonds, Series 2019A-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–5.00%	3,591,809
COFINA Bonds, Series 2019B-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	69,318
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	44,102
COFINA Bonds, Series 2019A-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–4.784%	<u>45,570</u>
Bonds payable – net		\$ <u>12,607,202</u>

COFINA bonds payable activity for the year ended June 30, 2022, is as follows (in thousands):

<u>Description</u>	<u>June 30, 2021</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>June 30, 2022</u>	<u>Due within one year</u>
Bonds payable	\$ 9,119,420	-	-	9,119,420	-
Capital appreciation bonds – principal	9,618,644	-	(17,480)	9,601,164	90,227
Discount on capital appreciation bonds	(6,283,554)	170,172	-	(6,113,382)	-
Bonds payable – net	\$ <u>12,454,510</u>	<u>170,172</u>	<u>(17,480.00)</u>	<u>12,607,202</u>	<u>90,227</u>

The COFINA Bonds are secured by a statutory lien on the COFINA Pledged Taxes subject to the Commonwealth's right to substitute "New Collateral" (as defined) in accordance with the terms of the COFINA Plan of Adjustment. The "New Collateral" is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the COFINA Plan of Adjustment.

The New COFINA Bonds include (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. Interest on the New COFINA Bonds commenced to accrue or accrete, as the case may be, as of August 1, 2018. Interest payments and interest accretion terms for CIBs and CABs, respectively, are as follows:

- (a) The CIBs will bear interest from August 1, 2018, until paid (whether at maturity, prior to redemption or after maturity following payment default by COFINA), payable on the effective date and semiannually thereafter on each payment date at the corresponding interest rates. Interest on the CIBs will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will accrue on overdue interest and principal at the corresponding interest rate and will compound on

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

each interest payment date. All overdue interest and principal (and any interest accruing thereon) will remain due and payable until paid.

- (b) Interest on the CABs will accrue and accrete from August 1, 2018, until paid (whether at maturity, prior to redemption or after maturity following payment default by COFINA). Interest on the CABs will not be paid on a current basis but will be added to the principal thereof in the form of accretion on the effective date and semiannually thereafter on each valuation date and will be treated as if accruing on the basis of a 360-day year consisting of twelve 30-day months between valuation dates, until paid (whether at maturity, prior to redemption or after maturity following payment default following payment default by COFINA).

The New COFINA Bonds will be subject to redemption at the option of COFINA, in whole or in part, in any order of maturity, at par plus accrued interest thereon or accreted value as applicable, upon thirty (30) days prior to written notice as follows:

Current Interest Bonds (CIBs)

Maturity	<i>Optional Redemption</i>
2034	Redeemable at Par commencing July 1, 2025
2040	Redeemable at Par commencing July 1, 2028
2053	Redeemable at Par commencing July 1, 2028
2058	Redeemable at Par commencing July 1, 2028

Capital Appreciation Bonds (CABs)

Maturity	<i>Optional Redemption</i>
2024 & 2027	Not subject to redemption prior to maturity
2029	Redeemable at 103% of Accreted Value ("AV") commencing July 1, 2028
2031	Redeemable at 105% of AV commencing July 1, 2028 and at 103% of AV commencing on July 1, 2029
2033	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2031 and 103% of AV commencing July 1, 2032
2046 & 2051	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2038, at 103% of AV commencing July 1, 2038 and at 100% of AV commencing July 1, 2043

The New COFINA Bonds are also subject to mandatory redemption prior to their respective maturity dates from sinking fund installments. All such mandatory redemptions of CIBs will be at a redemption price equal to par and mandatory redemptions of CABs will be at a redemption price equal to 100% of the then current accreted value.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The New COFINA Bonds will not have a debt service reserve fund nor have rights of acceleration. As of June 30, 2022, debt service requirements for bonds outstanding were as follows (in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	90,227	430,056	520,283
2024	74,225	430,056	504,281
2025	94,675	430,056	524,731
2026	115,941	430,056	545,997
2027	138,060	430,056	568,116
2028-2032	1,054,296	2,150,280	3,204,576
2033-2037	1,861,380	2,046,973	3,908,353
2038-2042	3,164,957	1,568,503	4,733,460
2043-2047	3,543,672	1,410,164	4,953,836
2048-2052	3,543,672	1,410,165	4,953,837
2053-2057	4,094,225	861,985	4,956,210
2058-2062	945,254	46,905	992,159
Total	<u>18,720,584</u>	<u>\$ 11,645,255</u>	<u>30,365,839</u>
Less unaccreted interest	<u>(6,113,382)</u>		
Total	<u>\$ 12,607,202</u>		

The first collections of the 5.5% SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. The Fixed Income Amount for the fiscal year ended June 30, 2022, was \$880,990,393. Under Act No. 91, as amended, as of June 30, 2021, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year is as follows:

	<u>Amount</u>
Year ending June 30:	
2023	491,557
2024	511,220
2025	531,669
2026	552,935
2027	575,053
2028-2032	3,239,257
2033-2037	3,941,052
2038-2042	4,748,500
2043-2047	4,962,625
2048-2052	4,962,625
2053-2057	4,962,625
2058-2062	992,525
Total	<u>\$ 30,471,643</u>

(d) Contingent Value Instrument

As further discussed in note 3, on March 15, 2022, the Commonwealth issued and delivered General Obligation Contingent Value instruments (GO CVIs) and the Clawback Contingent Value Instruments (Clawback CVIs) in the aggregate notional amount of approximately \$3.5 billion and \$5.2 billion respectively, in connection with the Commonwealth Plan of Adjustment. The notes are subject to mandatory redemption at a redemption price equal par on November 1st of each year if certain sales

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

and compensating use taxes (the 5.5% SUT) received in the preceding fiscal year exceed, or outperform, the 5.5% SUT baseline for the preceding fiscal year as reflected in the Trust Agreement (in each case, an “SUT Outperformance Condition”). In addition, the Clawback CVIS – Allowed CW/PRIFA Rum Tax Claims Sub-Series are further subject to additional mandatory redemption at par on November 1st of each year if the rum tax (the Rum Tax) received in the preceding fiscal year exceeds, or outperforms, the Rum Tax baseline for the preceding Fiscal Year as reflected in the Trust Agreement (in each case, a Rum Tax Outperformance Condition).

The Notes are general obligations of the Commonwealth, do not bear interest and there is no pledge or lien established under the Trust Agreement on the 5.5% SUT or the Rum Tax. The 5.5% SUT is used solely to determine if an SUT Outperformance Condition has occurred and, if it has, the amount by which actual receipts exceeded projections in the prior Fiscal Year. The Rum Tax is used solely to determine if a Rum Tax Outperformance Condition has occurred and, if it has, the amount by which actual receipts exceeded projections in the prior Fiscal Year. As of June 30, 2022, approximately \$8.7 billion were outstanding. The amount due within one year was determined based on the payment made on November 1, 2022.

The Commonwealth has entered into an agreement (the “Calculation Agent Agreement”) with the Trustee and AlixPartners, LLP, as calculation agent (the “Calculation Agent”), whereby the Calculation Agent determines whether a SUT Outperformance Condition and/or a Rum Tax Outperformance Condition has occurred and the amount, if any, of any mandatory redemption of the Notes. The GO CVIs Final Maturity Date will occur on the earlier of (a) the date when the Holders of the GO CVIs have been paid in an amount equal to the GO CVI Lifetime Cap, and (b) (1) September 15, 2043, in the event an SUT Outperformance Condition did not occur in the Fiscal Year ending on June 30, 2043, and (2) November 1, 2043, in the event an SUT Outperformance Condition did occur in the Fiscal Year ending on June 30, 2043, whether or not the Holders of all GO CVIs have been paid in the aggregate an amount equal to the GO CVI Lifetime Cap, and no further payments shall thereafter be payable to the Holders of the Notes. Also, the Clawback CVIs Final Maturity Date will occur on the earlier of (a) the date when the Holders of the Clawback CVIs have been paid in an amount equal to the Clawback CVI Lifetime Cap, and (b) (1) September 15, 2051, in the event an SUT Outperformance Condition [or a Rum Tax Outperformance Condition] did not occur in the Fiscal Year ending on June 30, 2051, and (2) November 1, 2051, in the event an SUT Outperformance Condition [or a Rum Tax Outperformance Condition] did occur in the Fiscal Year ending on June 30, 2051, whether or not the Holders of all Clawback CVIs have been paid in the aggregate an amount equal to the Clawback CVI Lifetime Cap, and no further payments shall thereafter be payable to the Holders of the Notes.

For further information on the GO CVIs and Clawback CVIs, refer to the final versions of the Commonwealth Plan of Adjustment, Commonwealth Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(e) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and a bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by PFC, a blended component unit of GDB, which serves only as a conduit for the issuance of the bonds. The Commonwealth has recognized a mirror effect of these refundings by PFC over the years in its own debt in proportion to the portion of the Commonwealth’s notes included in such PFC refundings. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

created in 2007 with the capacity to issue bonds to repay or refund advances from GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred to as the extra constitutional debt. There were no new activities of Commonwealth appropriation bonds during fiscal year 2022, other than the annual amortization of corresponding premiums and their related deferred inflows and outflows of resources in the form of deferred refunding gains and losses.

As of June 30, 2022, the outstanding balance of the Commonwealth appropriation bonds pertaining to the Primary Government (i.e., excluding the balance pertaining to discretely presented component units), consisted of the following obligations (in thousands):

Act. No. 164 restructuring	\$	444,526
PRMSA		<u>131,694</u>
Total Commonwealth		
appropriation bonds	\$	<u><u>576,220</u></u>

As discussed in Note 3, all laws enacted prior to June 30, 2016, to the extent they provide for transfers or other appropriations, including transfers from the Commonwealth or one of its instrumentalities to any agency or instrumentality, whether to enable such agency or instrumentality to pay or satisfy indebtedness or for any other purpose, are deemed preempted by the Commonwealth Plan of Adjustment and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment classifies all appropriation claims in class 63 of the Commonwealth Plan of Adjustment and discharges any and all claims related to budgetary appropriations.

Act No. 164 Restructuring – On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and component units to refund approximately \$2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed \$225 million. This refunding was originally executed with Commonwealth appropriation bonds through several bond series issued by PFC during the period between December 2001 and June 2002.

Subsequently, additional refundings (current and advance) and/or redemptions of Act No. 164-2001 restructuring have been executed through PFC and COFINA bond issuances.

Approximately \$444.5 million of the Commonwealth appropriation bonds outstanding as of June 30, 2022, belong to the Primary Government under Act No. 164-2001, consisting of the PRDOH (health reform financing and other costs), the DOT (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens), DRN, and PRIFA, a blended component unit of the Commonwealth. The outstanding balance of Commonwealth appropriation bonds related to Act No. 164-2001 bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements, subject to legislative appropriations, in future years were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 191,300	154,804	346,104
2024	7,932	14,831	22,763
2025	11,828	14,409	26,237
2026	11,828	13,698	25,526
2027–2031	<u>221,126</u>	<u>32,416</u>	<u>253,542</u>
Total	444,014	<u>230,158</u>	<u>674,172</u>
Plus unamortized premium	<u>512</u>		
Total	\$ <u><u>444,526</u></u>		

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects of the PFC Qualifying Modification for PFC Bonds.

PRMSA – A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds, 2003 Series B and 2004 Series B were issued to refund this liability, which were refunded most recently in June 2012 with the issuance of PFC 2012 Series A bonds. The bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:	\$		
2023	—	54,697	54,697
2024	27,999	5,647	33,646
2025	16,095	4,725	20,820
2026	18,420	3,806	22,226
2027	20,870	2,762	23,632
2028-2032	<u>48,310</u>	<u>10,769</u>	<u>59,079</u>
Total	\$ <u>131,694</u>	<u>82,406</u>	<u>214,100</u>

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects of the PFC Qualifying Modification for PFC Bonds.

(f) Bond Purchase Agreement with GDB

At various times during fiscal years ending in 2005 and 2006, the PA, a blended component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the PA from time to time certain bond principal advances up to a maximum aggregate principal amount of \$70 million (Port of the Americas Authority 2005 Series A Bond), \$40 million (Port of the Americas Authority 2005 Series B Bond), and \$140 million (Port of the Americas Authority 2005 Series C Bond). These bonds are guaranteed by the Commonwealth by Act No. 409-2004, which authorized the issuance of these financing arrangements. The Commonwealth had been paying for debt service on these bonds under its guarantee pursuant to Act No 409-2004. For additional detail, refer to Note 12(a).

The proceeds of the bonds were used to finance the cost of development and construction of the PA facilities. These bonds, having an original maturity of January 2015, were refinanced on December 31, 2014, into one single bond for a period of 30 years, with the first payment of principal and interest to commence on August 1, 2015, with interest rates based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest should never be less than 7% nor greater than 12%. The aggregate outstanding principal balance of the bond principal amount shall be payable in full on January 1, 2045.

The Port of the Americas Authority 2005 Series C Bonds were restructured as part of the Commonwealth Plan of Adjustment and are no longer outstanding resulting in a gain of approximately \$389.8 million presented as a special item. For more information about the Commonwealth Plan of Adjustment refer to Note 3 and the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(g) Advance Refunding, Defeasance and Refunding of Commonwealth Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. For the year ended June 30, 2022, the Commonwealth had no defeased obligations.

(h) Notes Payable to Discretely Presented Component Units and Financial Institution

The Commonwealth financed certain long-term liabilities through its discretely presented component units, within both Governmental and Business-type Activities. The outstanding balance as of June 30, 2022, on the financing provided by the discretely presented component units presented within notes payable in the statement of net position-Governmental Activities, comprises the following (in thousands):

Notes payable to DRA:	
DNR	50,237
	<u>50,237</u>
Notes payable to GDB:	
SCPT	234,692
UPRCCC	120,275
	<u>354,967</u>
Notes payable to component units:	
SIFC	100,000
AACA	2,000
	<u>102,000</u>

In previous years, the Commonwealth maintained several notes payable with the DRA amounting to approximately \$193.3 million and Financial Institutions amounting to approximately \$137.3 million. As a result of the Commonwealth Plan of Adjustment approximately \$330.6 million were extinguished. For more information on these extinguished debts, please refer to Note 11(a).

During the fiscal year 2022, there were no annual appropriations from the Commonwealth of Puerto Rico's budget to pay notes payables of the Commonwealth or any instrumentalities, including component units, and other governmental entities.

On January 4, 2000, the DNR entered into a loan agreement with GDB for a non-revolving line of credit in an amount not to exceed \$112,000,000 for the development of infrastructure projects. Infrastructure project costs incurred were historically disbursed by the GDB to the DNR. The interest, based on the lender's cost of funding for tax exempt variable rate loan transactions or the cost of any similar obligations to fund the loan, is payable quarterly. The credit line was due originally and payable on June 30, 2006. On December 4, 2007, the availability of the credit line was extended to June 30, 2009. On November 23, 2009, it was extended to June 30, 2012. On June 27, 2012, it was extended to June 30, 2040. The outstanding balance as of June 30, 2022, amounted to approximately \$19.5 million. On May 5, 2003, the DNR entered into a loan agreement related to another non-revolving line of credit in an amount not to exceed \$75,000,000 with GDB for the acquisition of building facilities. The credit line carries interest based on quarterly variable LIBOR rate plus 1.25% with a minimum annual interest rate of five percent (5%). On June 26, 2008, the availability of the credit line was extended to June 30, 2011. To temper the terms and conditions of the line of credit to economic facts of the Commonwealth of Puerto Rico, on January 29, 2010, the availability was extended to June 30, 2012. On June 19, 2012, it was extended to June 30, 2040. The outstanding balance as of June 30, 2022, amounted to approximately \$30.7 million.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

On November 21, 2002, Resolution No. 1028 from the Legislature authorized a line of credit financing for \$500 million to the SCPT for the construction and rehabilitation of housing, construction and improvements of electric, water and sewage systems; repair and improvements of streets and sidewalks; construction and improvement of recreational facilities, and to develop initiatives for economic self-sufficiency for the residents of a selected group of displaced and economically disadvantaged communities, all encompassed within the Special Communities Program initiated with the creation of the SCPT by Act No. 271-2002. This non-revolving line of credit, originally for a ten-year term, was extended on June 30, 2012, to a maturity date of June 30, 2040. Effective October 2009, the interest rate on this line was set at 7%. Annual payments on the line are determined using a 30-year amortization table based on the principal and interest balance as of December 31 of each year, and a 4% interest penalty is carried on late payments. Legislative Resolution No. 1762 of September 18, 2004, established that the principal plus accrued interest of this line would be repaid from Commonwealth's legislative appropriations as established by the PROMB. The outstanding balance of this line as of June 30, 2022, amounted to approximately \$234.7 million.

On August 22, 2007, UPRCCC entered into an \$18 million non-revolving line of credit to build the UPRCCC's administrative offices and research facilities. On May 29, 2008, the agreement was amended, mainly to increase the maximum borrowing amount to \$75 million, to extend the maturity date up to October 31, 2021, and to finance the construction of the hospital and radiotherapy facilities. The balance will be repaid commencing in fiscal year 2015. The non-revolving line bears interest at a fixed rate of 6%. As of June 30, 2022, approximately \$31.9 million was outstanding. On November 18, 2013, the UPRCCC entered into another non-revolving line of credit to an aggregate principal amount not to exceed \$196 million, for the construction and development of a ninety-six-bed hospital, a multi-disciplinary outpatient clinic, a diagnostic imaging center and a medical oncology infusion unit in a land lot property of the UPRCCC located in San Juan. The line of credit, including interest at a fixed rate of 6.5%, is payable in 28 consecutive annual installments, commencing on the last business day of December 2016. As of June 30, 2022, approximately \$88.4 million was outstanding. Both lines of credit for the aggregate outstanding balance of approximately \$120.3 million are payable from Commonwealth's legislative appropriations.

Notes Payable to Discretely Presented Component Units

Act No. 80-2015 was approved with the objective of addressing the Commonwealth's projected cash flow deficiencies for fiscal year 2015. This Act, among other provisions, specifically authorized the SIFC, PRTC, AACA, EDB, PRIDCO and the DEDC to grant loans and/or special contributions to the DOT, in the aggregate amount of \$125 million. On June 5 and 9, 2015, SIFC and AACA granted loans to the DOT under the provisions of this Act in the amounts of \$100 million and \$2 million, respectively, which are payable from the Commonwealth's legislative appropriations. These loans bear interest at a rate of 1%, and principal and interest will be payable on an annual basis, effective July 31, 2017. The loan granted by ACAA matures on July 31, 2022, and that granted by SIFC matures on July 31, 2032. As of June 30, 2022, approximately \$102 million remained outstanding.

Business-type Activities – As of June 30, 2022, the following comprised the notes payable to discretely presented component units (in thousands):

PRMeSA	\$	282,445
PRHIA		182,196
PPA		20,762
Total	\$	485,403

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

On October 14, 2010, the Legislature approved a new article 9A to Act No. 66-1978, by which it authorized PRMeSA, a blended component unit, to incur on an obligation of up to \$285 million to be deposited in a special GDB account and to be used for payment of debts to suppliers, agencies, and a reserve fund for self-insurance of PRMeSA, and to provide operational liquidity to ease PRMeSA's fiscal situation. GDB was named fiscal agent to administer and monitor the use of these funds. The Commonwealth is required to honor the payment of this obligation with future legislative appropriations to be made every year until fiscal year 2041–2042. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate. No legislative appropriations have been made since 2015 to cover the principal payments as they have become due. As of June 30, 2022, approximately \$282.4 million was outstanding.

On March 14, 2011, PRHIA, a blended component unit, entered into a credit agreement with GDB in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2010. The aggregate principal amount of the non-revolving line of credit was \$186 million. This line is payable in nine payments of \$20.7 million each due on March 14 of the years 2015 through 2023, through future Commonwealth annual legislative appropriations. Interest is accrued at a fluctuating annual rate of interest equal to the greater of 150 basis points over the prime rate or 6%. No legislative appropriations have been made since 2016 to cover the principal payments scheduled. As of June 30, 2022, the outstanding principal balance amounted to approximately \$182.2 million.

On August 29, 2014, the PPA, a blended component unit, entered into an \$60 million line of credit agreement with GDB (now owed to the DRA) to cover the operational, maintenance, equipment acquisition and permanent improvement costs of the Ports of the Americas Rafael Cordero Santiago, pursuant to the provisions of Act No. 240-2011, which created the PPA (assets are owned by PA as of June 30, 2017). Borrowings under this line of credit agreement bear interest based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest may never be less than 7% nor greater than 12%. Interest during fiscal year 2021 was 7.78%. The line of credit has a maturity of June 30, 2044, and its principal and interest payments are payable through annual legislative appropriations. As of June 30, 2022, the outstanding principal balance was approximately \$20.8 million, which is payable from future Commonwealth's legislative appropriations.

(i) Lease Liability

The Commonwealth's Governmental Activities are obligated under lease agreements with third parties that expire through 2042 for land, buildings, and equipment. These leases are accounted for under GASB Statement No. 87 and usually have terms of five years. Principal and interest requirements as of June 30, 2022, reported in the accompanying government-wide statement of net position was as follows (in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 63,086	9,116	72,202
2024	55,170	5,776	60,946
2025	41,308	3,025	44,333
2026	24,793	1,082	25,875
2027	6,021	214	6,235
2028-2032	1,407	99	1,506
2033-2037	63	27	90
2038-2042	80	10	90
Total	<u>\$ 191,928</u>	<u>19,349</u>	<u>211,277</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(j) Total Pension Liability

The amount reported as total pension liability in the government-wide financial statements of approximately \$41.8 billion of which approximately \$1.9 billion is due within one year as of June 30, 2022, represents the Primary Government's proportionate share of the ERS calculation of the total pension liability measured, plus the sum of the full TRS and JRS measure of its total pension liability (see Note 16).

(k) Total Other Postemployment Benefit Liability

The amount reported as total other postemployment benefit liability in the government-wide financial statements of approximately \$1.1 billion as of June 30, 2022, represents the Primary Government's proportionate share of the ERS calculation of the total other postemployment benefit liability, plus the sum of the full TRS and JRS measure of its total other postemployment benefit liability (see Note 17).

(l) Compensated Absences

Long-term liabilities include approximately \$548 million and \$16.2 million of accrued compensated absences recorded as Governmental and Business-type Activities, respectively, as of June 30, 2022.

(m) Obligation for Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lotteries as of June 30, 2022. The minimum annual payments related to unpaid awards of both lotteries were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 120,215	6,199	126,414
2024	6,595	5,532	12,127
2025	5,774	4,758	10,532
2026	5,075	4,107	9,182
2027	4,097	3,009	7,106
2028-2032	13,213	9,395	22,608
2033-2037	1,930	1,428	3,358
2038-2042	221	187	408
2043-2047	191	218	409
2048	35	46	81
Total	\$ <u>157,346</u>	<u>34,879</u>	<u>192,225</u>

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability (not lapsed) of approximately \$6.2 million as of June 30, 2022, which is reported as prizes payable – current portion.

The liability for unpaid lottery prizes is reported in Business-type Activities of the accompanying statement of net position and statement of net position of the proprietary funds.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(n) Voluntary Termination Benefits Payable

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70-2010 established that early retirement benefits (early retirement program) will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70-2010, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for 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.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and who have the age for retirement (incentivized retirement program). Economic incentives will consist of a lump sum payment ranging from one month to six months' salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same as provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five-year period.

On December 8, 2015, Act 211 was signed, called the "Voluntary Pre-Retirement Program" (the "Program"). It was created to establish a program that identifies eligible employees, who can be separated voluntarily and incentivized from their employment before they meet the requirements to retire.

The purpose of this program is to offer incentives for personnel who have been contributing to the Retirement System (the "System") before April 1, 1990, under the Act No. 447-1951 or who began to contribute at a later date, and have made all the corresponding payments before April 1, 1990, without having received a refund of their contributions and who at least have 20 years of service registered.

To ensure that this program does not affect the services to the citizenship or the operation of the agencies, only career employees who occupy positions which do not provide direct services, that are not essential for the operation of the agency or whose positions could be occupied by transfers within and between agencies may participate in the program. Essential service positions are those positions whose functions are specialized, essential, or indispensable to the effective operation of the agency, so that it can serve the public purpose for which it was created as a governmental body.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

As of June 30, 2022, unpaid long-term benefits granted in Act No. 70-2010 and Act. No. 211-2015 were discounted at interest rates that ranged from 0.05% to 2.73% at the Primary Government level and from 0.35% to 2.75% at the component units level.

(o) Other Long-Term Liabilities

The remaining long-term liabilities of Governmental Activities as of June 30, 2022, include (in thousands):

Liability for legal claims and judgments (note 15)	\$	321,979
Liability to U.S. Army Corps of Engineers (note 9)		183,299
Plan of adjustment unsecured claim debt		375,000
Financed purchase		252,255
Accrued employees' Christmas bonus		58,378
Liability for federal cost disallowances (note 15)		61,574
Other		<u>38,445</u>
Total	\$	<u><u>1,290,930</u></u>

As described in Note 9, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to \$214 million, excluding those costs for items built for recreational purposes. On October 10, 2012, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (th.3e Offset Program) until May 2013 (the month in which the Offset Program was stopped). On March 21, 2014, the U.S. Army Corps of Engineers granted certain concessions on this obligation of the Commonwealth by forgiving the balance already due and payable in the amount of \$35.4 million and approving a new payment plan proposed by the Secretary of the DOT for the remaining debt obligation. This new payment plan reduced the interest rate from 6.063% to 1.50% and waived all cumulative penalty interest and fees, which reduced the annual payment from approximately \$12.9 million to approximately \$7.1 million for the remaining term of the debt. The new payment plan consists of 33 annual payments of \$7.1 million, including interest, from June 7, 2014, until June 7, 2046. These concessions qualified as a troubled debt restructuring, where the total future cash payments specified by the new terms exceeded the carrying value of the old debt, including the accrued balance matured and payable of \$35.4 million. Under such circumstances, the effects of the new terms are accounted for prospectively without modifying the carrying amount of the debt in the statement of net position.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The unpaid allocated share of the construction costs associated with the Cerrillos Project amounted to approximately \$141.7 million as of June 30, 2022. Debt service requirements on this debt obligation as of June 30, 2022, were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2023	\$ 4,951	2,126	7,077
2024	5,025	2,052	7,077
2025	5,100	1,977	7,077
2026	5,177	1,900	7,077
2027	5,254	1,822	7,076
2028–2032	27,477	7,906	35,383
2033–2037	29,601	5,783	35,384
2038–2042	31,889	3,495	35,384
2043–2047	27,276	1,030	28,306
Total	\$ 141,750	28,091	169,841

In addition, the Commonwealth has a debt obligation of approximately \$21.4 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of approximately \$20.1 million, as of June 30, 2022. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable in annual installment payments over a 35-year period. However, the debt has been presented as a long-term liability payable after one year in the accompanying statement of net position since the commencement date of repayment has not yet been determined.

The Plan of adjustment unsecured debt consist of general unsecured creditors at the Commonwealth that will receive a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Commonwealth Effective Date and will be replenished with an additional aggregate total amount of \$375 million through December 31, 2025. As of June 30, 2022, \$375 million of the GUC Reserve was not funded.

The remaining other long-term liabilities within Business-type Activities on June 30, 2022, are composed of an accrued capital related liabilities and a self-insurance reserve for approximately \$4.1 million, corresponding to PRMeSA.

Discretely Presented Component Units

Appropriations bonds, bonds, and notes payable are those liabilities that are paid out of the discretely presented component units' own resources. These obligations do not constitute a liability or debt of the Primary Government.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(a) Commonwealth Appropriation Bonds

Commonwealth appropriation bonds payable outstanding as of June 30, 2022, were as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Amounts Due within one year</u>
Major component units:							
PRASA	3.10% – 6.50%	2032	\$ 414,835	—	383	414,452	—
GDB	6.00%	2032	3,347	2	—	3,349	653
Sub-total			418,182	2	383	417,801	653
Nonmajor component units	3.10% – 6.50%	2032	101,174	58	—	101,232	21,795
Total			\$ 519,356	60	383	519,033	22,448

Debt service requirements on the Commonwealth's appropriation bonds payable with fixed maturities as of June 30, 2022, were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2023	\$ 22,448	216,955	239,403
2024	57,183	25,505	82,688
2025	13,172	25,045	38,217
2026	13,172	24,255	37,427
2027	55,759	27,027	82,787
2028–2032	353,194	44,158	397,352
	514,929	\$ 362,946	877,874
Premium	4,153		
Discount	(49)		
Total	\$ 519,033		

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects of the PFC Qualifying Modification for PFC Bonds.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(b) Revenue Bonds

Revenue bonds outstanding as of June 30, 2022, were as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Due within one year</u>
Major component units:							
GDB	2.96%–6.56%	2031	\$ 32,114	2,334	6,454	27,994	9,762
PREPA	3.10%–10.00%	2043	8,325,307	120,530	127,980	8,317,857	2,313,599
PRHTA	2.25%–6.50%	2047	4,262,121	3,528	26,085	4,239,564	838,434
PRASA	3.35%–6.125%	2048	3,423,507	1,863,681	1,933,915	3,353,273	94,005
UPR	5.00%	2036	379,307	—	31,166	348,141	31,270
Sub-total			16,422,356	1,990,073	2,125,600	16,286,829	3,287,070
Nonmajor component units							
	3.00%–7.50%, Variable	2041	2,925,748	53,970	726,150	2,253,568	320,552
Total			\$ 19,348,104	2,044,043	2,851,750	18,540,397	3,607,622

PREPA, a major discretely presented component unit, and PRIDCO, a nonmajor discretely presented component unit, have bonds that may have acceleration provisions contained in the Trust Agreements. Due to the fact that PREPA is currently a debtor in a Title III proceeding under PROMESA any action that would be taken to accelerate the bonds is subject to the automatic stay in that proceeding. Therefore, the acceleration provision is not relevant despite the fact that an event of default arguably exists under the Trust Agreement. As for PRIDCO, the Trustee has not sent a default notice or declared the defaulted principal on all bonds outstanding due and payable immediately subject to the applicable acceleration provisions.

Debt service requirements on discretely presented component units' revenue bonds with fixed maturities as of June 30, 2022, were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2023	\$ 3,607,622	3,618,728	7,226,350
2024	653,043	665,592	1,318,635
2025	670,706	632,967	1,303,673
2026	686,189	602,387	1,288,576
2027	696,149	569,636	1,265,785
2028-2032	3,527,229	2,191,897	5,719,126
2033-2037	3,012,635	1,622,151	4,634,786
2038-2042	4,431,301	778,396	5,209,697
2043-2047	628,691	159,066	787,757
2048-2050	96,140	2,996	99,136
Total	18,009,705	\$ 10,843,816	28,853,521
Unaccreted interest	—		
Premium	533,627		
Discount	(2,935)		
	\$ 18,540,397		

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The above schedule has been presented in accordance with original terms of the revenue bonds and do not reflect the effects, if any, that may result from cases under PROMESA Title III or any other debt restructuring proceeding. Accordingly, the effects of PROMESA Title III, as the case may be, or any other debt restructuring proceeding may impact the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information.

Changes in deferred outflows of resources related to losses on the refunding of some of the bonds referred to in the table above follow (in thousands):

<u>Component unit</u>	<u>Balance at June 30, 2021</u>	<u>Additions (Reductions)</u>	<u>Balance at June 30, 2022</u>
Major component units:			
PRHTA	\$ —	58,315	58,315
PREPA	18,814	(4,426)	14,388
PRASA	25,736	22,396	48,132
UPR	951	(202)	749
GDB	1,261	(219)	1,042
Nonmajor component units	<u>1,315</u>	<u>(216)</u>	<u>1,099</u>
Total	\$ <u>48,077</u>	<u>75,648</u>	<u>123,725</u>

The table that follows presents debt service payments on PREPA's variable rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2022. Such variable rate bonds are included within bonds payable in the discretely presented component units column. Although interest rates on variable rate debt and the current reference rate of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument as of June 30, 2022, will remain the same for their term (in thousands).

	<u>Variable-Rate Bonds</u>		<u>Hedging derivative instruments, net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
Year(s) ending June 30:				
2023	\$ —	5,187	5,130	10,317
2024	—	5,187	5,130	10,317
2025	—	5,187	5,130	10,317
2026	—	5,187	5,130	10,317
2027	—	5,187	5,130	10,317
2028-2030	<u>252,875</u>	<u>10,373</u>	<u>10,262</u>	<u>273,510</u>
Total	\$ <u>252,875</u>	<u>36,308</u>	<u>35,912</u>	<u>325,095</u>

PRHTA, a discretely presented component unit, has defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net position. As of June 30, 2022, approximately \$25 million are considered defeased.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(c) Notes Payable to Financial Institutions

The outstanding balance of notes payable to financial institutions as of June 30, 2022, is as follows (in thousands):

<u>Component unit</u>	<u>Interest rates</u>	<u>Maturity through</u>	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Due within one year</u>
Major component units:							
GDB	6.95%-7%	2042	\$ 65,692	—	5,571	60,121	1,821
PREPA	1.96-9.47%	2027	724,506	45,291	18,384	751,413	711,705
UPR	0.00%-12.00%	2030	544	414	276	682	253
PRASA	2.00%	2060	399,496	—	2,959	396,537	2,061
Sub-total			1,190,238	45,705	27,190	1,208,753	715,840
Nonmajor component units	0.00%-7.50%, Variable	2047	92,850	40,097	42,716	90,231	29,046
Total			\$ 1,283,088	85,802	69,906	1,298,984	744,886

Debt service requirements on discretely presented component units' notes payable with fixed maturities as of June 30, 2022, were as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2023	744,886	373,148	1,118,034
2024	52,345	16,332	68,677
2025	18,333	14,844	33,177
2026	17,619	13,804	31,423
2027	6,742	5,251	11,993
2028-2032	49,483	57,241	106,724
2033-2037	68,653	46,574	115,227
2038-2042	76,687	34,011	110,698
2043-2047	65,504	23,860	89,364
2048-2052	67,768	16,970	84,738
Thereafter	130,964	12,184	143,148
Total	\$ 1,298,984	614,219	1,913,203

The above schedule has been presented in accordance with original terms of the notes payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceedings; however, the table above includes the GDB Qualifying Modification proceedings. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(12) Guaranteed and Appropriation Debt

(a) Guaranteed Debt

The Commonwealth provided guarantees for the repayment of certain borrowings of component units to carry out designated projects. The guarantees were backed by the full faith and credit of the Commonwealth. The Commonwealth guaranteed various obligations from several Blended Component Units including PBA, PRIFA and PA. These obligations were discharged under the Commonwealth's Plan of Adjustment effective date. For further information on the Commonwealth Plan of Adjustment, refer to Note 3 and the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(b) Debt Supported by Commonwealth Appropriations

As of June 30, 2022, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in Note 11(e), and notes payable to GDB and others, as described in Note 11(f)), which are included in the stand-alone basic financial statements of the following discretely presented component units, were as follows (in thousands):

	PFC bonds and notes	Notes payable to other component units	Total
Major Component Units:			
PRASA	\$ 411,229	—	411,229
GDB	3,398	—	3,398
Sub-total	414,627	—	414,627
Nonmajor Component Units	100,302	176,207	276,509
Total	\$ 514,929	176,207	691,136

(c) Other Guarantees

Mortgage Loan Insurance – The PRHFA, a blended component unit of GDB, provides mortgage credit insurance to low and moderate-income families through its mortgage loan insurance program. The Commonwealth guarantees up to \$75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2022, the mortgage loan insurance program covered loans aggregating to approximately \$418 million. PRHFA recorded a liability of approximately \$1.2 million as of June 30, 2022, and determined on the basis of the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the loan insurance guarantee. The regulations adopted by the PRHFA require the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance Fund. As of June 30, 2022, the PRHFA had an unrestricted net position for such purposes of approximately \$7.2 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees and there are no triggering events indicating that it is more likely than not that it will be required to make payments on these guarantees.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(13) Conduit Debt Obligations and No Commitment Debt

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to the citizens of Puerto Rico. These bonds are supported by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any of its political subdivisions or its component unit thereof is obligated in any manner for the repayment of these bonds. Accordingly, the bonds are not reported as long-term liabilities in the stand-alone audited basic financial statements of the issuing entities. As of June 30, 2022, conduit debt obligations consisted of the following bonds issued by several Commonwealth's discretely presented component units (in thousands):

Issuing entity	Issued since inception to date	Amount outstanding
Major component units:		
GDB	\$ 249,155	191,020
PRHTA	270,000	78,410
Sub-total	519,155	298,725
Nonmajor component units	1,176,858	365,292
Total	\$ 1,696,013	664,017

(a) GDB

In October 2020, the PRHFA issued approximately \$249.2 million of Capital Fund Modernization Program Refunding Bonds Series 2020 (Series 2020). The proceeds from the issuance were lent to PHA, which were used to redeem previous bond issuances, and pay certain costs of the Series 2020 issuance. The Series 2020 are limited obligations of the PRHFA, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD to PHA. The series 2020 has an outstanding balance of approximately \$191 million as of June 30, 2022.

(b) PRHTA

In March 1992, the PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B, and C for approximately \$117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by the PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. (Autopistas), pursuant to a signed concession agreement for the design, construction, operation, and maintenance of the bridge. On October 30, 2003, the PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately \$153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and the PRHTA. The bonds should be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and the PRHTA is then obligated to assume Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenue of the use and

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

operation of the bridge. The PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) as of June 30, 2022, amounted to approximately \$78.4 million.

(14) Risk Management

Primary Government

The risk management policies of the Primary Government are addressed on Note 1(w).

Discretely Presented Component Units

The following describes the risk management programs separately administered by certain discretely presented component units, including all the major discretely presented component units and certain nonmajor discretely presented component units carrying self-funded risk reserves:

(a) GDB

To minimize the risk of loss, GDB purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen's compensation insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury of the Commonwealth. Insurance coverage was updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(b) PRHTA

PRHTA carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. PRHTA has not settled any claims in excess of its insurance coverage for fiscal year 2022.

(c) PREPA

PREPA purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (excluding transmission and distribution lines), boiler and machinery, general liability, aviation, and financial lines programs. In addition, PREPA is self-insured in regard to damages related to its transmission and distribution lines.

PREPA has a cost-plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program (self-insurance risks) during fiscal year 2022 were as follows (in thousands):

Claims payable – July 1	\$	2,460
Incurred claims		5,228
Claim payments		<u>(7,073)</u>
Claims payable – June 30	\$	<u>615</u>

These claims payable is presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(d) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood, and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program under which commercial general liability, excess general liability, builder's risk, and contractors' pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage for fiscal year 2022.

(e) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

UPR was insured through January 1993 under claims-made insurance policies with respect to medical malpractice risks for \$250,000 per occurrence up to an annual aggregate of \$500,000. UPR has been a self-insured for such risks since that date. Under Law Number 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount, because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount for medical malpractice in fiscal year 2022 were as follows (in thousands):

Claims payable – July 1	\$	6,275
Incurred claims and changes in estimates		508
Payments for claims and adjustments expenses		<u>(243)</u>
Claims payable – June 30	\$	<u>6,540</u>

In addition, UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately \$301 thousands as of June 30, 2022, to cover claims and lawsuits that may be assessed against UPR. UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(f) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the fiscal year 2022 (in thousands):

Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	\$	713,471
Total incurred benefits		182,920
Total benefit payments		<u>(251,945)</u>
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	\$	<u><u>644,446</u></u>

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 5.5% in 2022. SIFC's management believes that discounting such liability results in a better matching of costs and revenue since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined as of June 30, 2022, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for insurance benefits in the accompanying combining statement of net position – discretely presented component units.

(15) Commitments and Contingencies

Primary Government

Legal Contingencies

(a) *Litigation Prior to Commencement of Title III Cases Related to Governmental Operations*

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104-1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9-1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments. To the extent claims arose prior to the commencement of the Commonwealth's Title III case, their status and priority may be affected by the Title III case.

With respect to pending and threatened litigation involving the Commonwealth's Governmental Activities, the Commonwealth reported approximately \$322 million as an amount to cover for awarded and anticipated unfavorable judgments as of June 30, 2022. This amount was included as other long-term liabilities in the accompanying statement of net position, and represents the amount estimated as a probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

Of the total liability for legal claims and judgments recognized in the Governmental Activities, approximately \$139.4 million is considered payable within one year, based on the payments made subsequent to June 30, 2022.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. On June 26, 2016, the court ordered the publication of a public edict that would describe in detail the process to be followed to submit claims for damages suffered. Such edict was published and opened a claims period effective August 14, 2016, through October 31, 2016. The Commonwealth plans to vigorously defend each individual case. The Commonwealth accrued in previous years approximately \$650 million for this legal contingency. However, this case was included as a part of the General Unsecured Claims (GUC) in the Commonwealth's Plan of Adjustment and no final payment amount has been established since these claims are still being evaluated. For additional information of the treatment of this claim refer to Note 11(o).

On December 21, 2012, the federal government, through the U.S. Department of Justice (USDOJ), filed a lawsuit in order to demand from the Commonwealth and its PRPOB, compliance with the action and remediation plan submitted on September 8, 2011, by the Civil Rights Division of the USDOJ pursuant to an investigation which revealed a pattern of civil rights violations by the PRPOB. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its PRPOB to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The federal government was seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its PRPOB to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and to prevent the police officers from depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately \$600 million, which is expected to be incurred over a period of 10 years, starting with fiscal year 2015. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the PRPOB in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the USDOJ and the Commonwealth. Under the settlement agreement, the court dismissed the claim, but retained

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

jurisdiction to ensure compliance with the agreement, through the appointment of a Technical Compliance Advisor. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs are incurred during the execution of the remediation plan, which began in fiscal year 2015.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Final Rule (Uniform Guidance), usually referred to as OMB "Super Circular" all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. As of June 30, 2022, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately \$61.6 million as other long-term liabilities in the accompanying statement of net position. Expenditures that are still subject to audit could be disallowed, but management believes any such future disallowances would not be material to the basic financial statements.

On June 28, 2019, the United States Department of Education (USDOE) issued a letter to the DOE imposing special conditions on all grants awarded to the DOE by the USDOE. The intent of these conditions was to guarantee the implementation of federal programs through appropriate fiscal management and accountability, while the DOE developed adequate internal controls that ensure the administrative requirements of the grants. In accordance with the above conditions, the DOE was asked to hire the services of a Third Fiduciary Party Agent (TPFA) who would assume the functions required in the conditions document, specifically regarding the processes that affect the management of federal funds.

Pursuant to the TPFA contract executed March 24, 2021 the third-party fiduciary agent is to provide support to the DOE in the performance of the following: (i) assist in the financial management of the grants funds awarded to the DOE by the USDOE; (ii) assist in any improvements needed in the processes and systems related to DOE's procurement, award and administration of contracts with funds awarded to DOE by the USDOE; (iii) assist in any improvements needed in DOE's grant management system and related processes and controls; (iv) assist in developing and implementing the Comprehensive Corrective Action Plan (CCAP); and, (v) assist and provide feedback on DOE's progress in meeting the objectives of its CCAP. The TPFA will remain executing the aforementioned responsibilities until the USDOE determines that the DOE is capable of managing the related federal programs in compliance with the guidelines imposed by the USDOE. The DOE has developed a CCAP and is complying with the plan to create the environment for an eventual exit of the TPFA.

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the economic distressed caused by the COVID-19 pandemic on March 27, 2020, the CARES Act was signed into law to provide stimulus to individuals, business, and hospitals. As a result of the enactment the Commonwealth received approximately \$10.9 billion; \$2.2 billion of the Corona Relief Fund (CRF), and \$8.7 billion for the Economic Impact Payment (EIP) to be distributed by the Commonwealth to eligible United States citizens residents of Puerto Rico. As of June 30, 2022, the Commonwealth spent approximately \$1.6 billion of the CRF and distributed approximately \$8.7 billion of EIP among its residents. Amounts received and unspent or undistributed have been presented as grant advances in the statement of net position.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(b) Civil Actions Filed by Several Bondholder Groups and Other Creditors Against the Commonwealth Prior to the Commencement of the Title III Cases.

Several groups of bondholders, monoline insurers, and indenture trustees filed claims contesting the constitutionality of the Moratorium Act, among other things. These lawsuits were stayed from June 30, 2016, through May 1, 2017, under the Title IV stay and re-stayed upon commencement of the Title III cases. As a result of the Commonwealth Effective Date (as discussed in Note 3), these cases have been resolved and dismissed.

(c) Key Civil Actions Filed Against the Commonwealth After the Commencement of the Title III Cases

A significant number of adversary proceedings have been initiated against the Commonwealth, COFINA, PRHTA, ERS, PREPA, and PBA after the commencement of their Title III Cases seeking judicial determinations regarding the scope of various creditor security interests in the Title III debtors' assets, among other relief that could impact creditor priorities in a Title III plan of adjustment. As a result of the Commonwealth Effective Date, PRHTA Effective Date and COFINA Effective Date (as discussed in Note 3), substantially all of those cases have been resolved and dismissed.

Commitments and Other Contingencies

On November 23, 1998, a global settlement agreement (the Global Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025, amount to approximately \$884 million. After 2025, the tobacco companies will continue making contributions in perpetuity. Pursuant to Act No. 173-1999, which created the Children's Trust (a blended component unit), the Commonwealth conditionally allocated and transferred to the Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2022, amounted to approximately \$82.5 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures is pledged as collateral for the Tobacco Settlement Asset Backed Bonds, Series 2002, 2005, and 2008. As of June 30, 2022, the approximate amount of the pledge is \$1.5 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenue is not available for other purposes.

The healthcare industry, under which PRMeSA operates, is subject to numerous laws and regulations, which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of PRMeSA believes its policies, procedures, and practices comply with governmental regulations, no assurance can be given that PRMeSA will not be subject to governmental inquiries or actions.

As of June 30, 2022, the Primary Government, including one of its blended component units, maintained various unspent construction and assistance commitments amounting to approximately \$103.7 million.

Environmental Commitments and Contingencies

The Commonwealth accounts for pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations,

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

Liability for Unemployment, Disability and Health Insurance

The Commonwealth provides unemployment compensation, occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the DLHR. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as a consequence of their employment.

Also, the Commonwealth, through PRHIA (a blended component unit), is responsible for implementing, administering, and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105-2002, which amends Act No. 72-1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006, through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro north region. As of June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, San Juan, the northeast, and the virtual regions under a new arrangement with a new insurance underwriter as third-party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of a disease management program for respiratory conditions, modification of provider fees, and better coordination of benefits for members of the population that have other medical insurance.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

PRHIA establishes a liability to cover the estimated amount to be paid to providers based on experience and accumulated statistical data. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments, and other relevant factors.

The liability for benefits claims is reported as a liability for unemployment, disability, and health insurance in the Business-type Activities of the accompanying statement of net position and in the statement of net position of the proprietary funds. The liability as of June 30, 2022, amounts to approximately \$356.4 million.

Discretely Presented Component Units

In the normal course of their operations, various discretely presented component units are also subject to guarantees and other actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the major discretely presented component units. With respect to commitments related to guarantees, these commitments and guarantees are summarized below:

(a) GDB

Other Risks Related to Mortgage Loans Servicing and Insurance Activities:

The PRHFA acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2022, the principal balance of the mortgage loans serviced for others is approximately as follows (in thousands):

<u>Entiy</u>	<u>Amount</u>
Puerto Rico Community Development Fund I	\$ 23,025
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	<u>7</u>
Total	<u>\$ 23,032</u>

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

Litigation Related to the Qualifying Modification

Cooperativa de Ahorro y Credito Abraham Rosa v. Commonwealth of Puerto Rico, Case No. 18-00028-LTS, First Circuit Case No. 22-1048. This complaint was filed on March 22, 2018, by several state-chartered credit unions against GDB, the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC), FAFAA, the Oversight Board, the Commonwealth, the public corporations that are in Title III proceedings, and other defendants. The plaintiffs allege that the defendants maliciously and under false pretenses offered and sold to the plaintiff's unsound bonds issued by the Commonwealth and its instrumentalities, including GDB. They allege that this sale resulted in an undue concentration of bonds in the cooperative's portfolios and created a systemic risk for the plaintiffs. Additionally, they allege

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

that GDB, as fiscal agent to the Commonwealth, exerted significant influence on COSSEC, the public corporation in charge of regulating the Commonwealth's credit unions, which resulted in the bonds being offered and sold to the plaintiffs in violation of statutory, fiduciary, and regulatory duties, causing them material losses. The plaintiffs request a determination that the plaintiffs' claims against all debtors in Title III proceedings are exempted from discharge in such proceedings, and the imposition of monetary damages and compensation for losses suffered for breach of contract, violations to securities laws, negligence, breach of fiduciary duties, fraud, misrepresentations, and unjust enrichment. The Issuer and its Trustees, in their official capacity, waived service of process on July 31, 2018, agreeing to answer the complaint or otherwise plead on or before October 1, 2018. On October 1, 2018, GDB filed a motion to dismiss this complaint. On December 27, 2021, the Title III Court issued a memorandum opinion granting the motion to dismiss.

On January 12, 2022, Plaintiffs filed a notice of appeal. On November 23, 2022, the First Circuit issued an opinion and judgment affirming the Title III Court's opinion dismissing the claims asserted by the credit unions.

(b) PRHTA

PRHTA is a defendant or codefendant in various lawsuits for alleged damages in cases principally related to construction projects. The contactors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless PRHTA from lawsuits brought on account of damages relating to the construction of the projects. As of June 30, 2022, PRHTA, based on legal advice, has recorded a liability of approximately \$67.7 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of \$22.6 million of legal cases related to construction projects and \$45.1 million related to expropriation and related costs. However, due to the estimation process, the amount accrued may change in the near term. Most of these losses may be treated as unsecured claims in the PRHTA Title III case. Other claims against PRHTA are principally related to the non-payment of PRHTA bonds and other long-term obligated that are fully recorded in the financial statements of PRHTA, including accrued interest. These liabilities have been resolved and dismissed pursuant to the PRHTA Plan of Adjustment; accordingly, no further accrual is necessary.

(c) PREPA

PREPA is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of PREPA and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of PREPA. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies that are approximately \$276 million as of June 30, 2022.

(d) PRASA

PRASA is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of PRASA and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of PRASA. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies that are approximately \$92.2 million as of June 30, 2022.

(e) UPR

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact, beyond any amount accrued as of June 30, 2022, will not be material to the University’s financial statements.

Since inception, Servicios Médicos Universitarios, Inc. (the Hospital), based on the opinion of its legal counsel, is considered an instrumentality of the Commonwealth. Under Law Number 98 of August 24, 1994, the responsibility of the Hospital for claim losses is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of these facts and circumstances, the Hospital’s management has recorded an accrual of approximately \$2.4 million as of June 30, 2022, to cover claims and lawsuits that may be assessed against the Hospital.

Medical malpractice claims have been asserted against the Hospital and are currently at various stages of litigation. It is the opinion of the Hospital’s legal counsel and the Hospital’s management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigation, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

Environmental Commitments and Contingencies

The following discretely presented component units’ operations are the ones carrying and involved in specific activities that are subject to state and federal environmental regulations:

(a) PREPA

The facilities and operations of PREPA are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPAV), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. PREPA monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. In February 1993, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA’s facilities and identified several alleged instances of noncompliance. PREPA and the EPA negotiated and signed a consent decree (the Consent Decree), to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. The Consent Decree requires that PREPA improve and implement compliance programs and operations to ensure compliance with environmental laws and regulations.

In 2004, the United States District Court for the District of Puerto Rico approved a modification to the Consent Decree in which PREPA reduced the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur, Aguirre, Palo Seco and San Juan Power Plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree.

PREPA believes it is in substantial compliance with the Consent Decree programs. On July 22, 2014, representatives from PREPA, EPA and United States Department of Justice (DOJ) met to discuss the termination of some of the Programs. As a result, the EPA and the DOJ requested PREPA to submit information regarding PREPA’s compliance with the Programs for their review and evaluation. On September 25, 2014, PREPA’s representatives met again with EPA and DOJ representatives and submitted the information requested, along with a letter where PREPA formally requested the EPA to review and approve the termination of those programs/provisions of the Consent Decree and its Modification of 2004 presented, as well as begin the process toward jointly filing in the Court a stipulation for Partial Termination of such programs. As of the date hereof, a draft of the partial termination

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

agreement is being reviewed by EPA and DOJ. Once the document is final it must go through a public process for its final approval.

In 2002, PREPA received a Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and six other entities as “potentially responsible parties,” as defined in the CERCLA.

On April 25, 2013, the Consent Decree civil action (No. 12-1988 (ADC)) was filed in the U.S. Court for the District of Puerto Rico. An Environmental Escrow Agreement (EEA) was entered into by and among the GDB, as the escrow agent, the Puerto Rico Land Authority (“PRLA”), the Puerto Rico Housing Department (PRHD), and PREPA and the EPA. The EEA was created to serve as financial assurance for the performance of the obligation under the Consent Decree. On June 24, 2013, PREPA deposited \$400 thousand into GDB escrow account as provided in the Consent Decree. Accounts and payments in GDB are retained due to the restructuring process. The escrow account is now deposited in a commercial bank. If the escrow account balance is reduced below \$250 thousand, PREPA, PRLA, and PRHD must establish and maintain a performance guarantee for the benefit of EPA equal to the difference of the escrow account balance and \$250 thousand. Public agencies may elect to satisfy this performance guarantee requirement either individually, by providing separate performance guarantees which total the amount required to be maintained as set forth above, or collectively.

PREPA, on behalf of PRLA and PRHD, has requested disbursements charged against this account and payments have been processed. All payments required to be charged against this account are to cover projects required by the Consent Decree. If payments are not fulfilled, services can be suspended by the contractors resulting in the application of fines for noncompliance as agreed by the parties.

This Consent Decree can be terminated upon motion by any party, provided that all public defendants have satisfied their obligations of payments of certain “Response Cost and Stipulated Penalties.” Termination of the Consent Decree shall not affect certain “Covenants Not to Sue” including all reservations pertaining to those covenants and shall not affect any continuing obligation of PREPA, PRLA and the PRDH (all referred in the Consent Decree as the Settling Defendants).

Currently, the appointment of a Supervisory Contractor is in progress. The inspection and reporting work required in the Agreement is being carried out by a project coordinator appointed by PREPA, in coordination with the representatives appointed by the PRLA and the PRDH. In September 2020, the EPA started a re-evaluation of the Preliminary Operation and Maintenance Plan (the Plan) implemented, as required by the AOC. As part of this review, the EPA contractor, inspected a number of properties that were not remedied because the lead concentration detected in the field was below 450 ppm. The information collected was evaluated by the EPA and it determined that PREPA, PRLA, and PRHD have not failed to operate and maintain the remedial action as required and no further response actions for the Site have to be undertaken at the moment. PREPA may be required to pay additional costs incurred by the EPA.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance media. This program has been and continues to be updated to conform to new regulatory requirements.

(b) PRASA

Prior to December 2006, the Water System had been subject to approximately 180 administrative orders arising from enforcement actions by PRDOH for violations of the SDWA and to three administrative consent agreements with PRDOH addressing monitoring and turbidity violations. On December 2006, PRASA entered into, a comprehensive settlement agreement with PRDOH resolving litigation brought against PRASA seeking enforcement of the administrative orders of PRDOH under the SDWA and the

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

violations by PRASA of two of the prior consent agreements (the 2006 Drinking Water Settlement Agreement). The 2006 Drinking Water Settlement Agreement which was filed on December 15, 2006, with the Court of First Instance, Superior Court of San Juan in Civil Action KPE 2006-0858, was approved on March 15, 2007, and subsequently amended on June 16, 2008, and continues in effect. The 2006 Drinking Water Settlement Agreement replaces and supersedes all prior PRDOH administrative orders and consent agreements.

The 2006 Drinking Water Settlement Agreement provides for remedial and compliance actions by PRASA in its water treatment plants in accordance with agreed-upon schedules and for the payment of stipulated penalties for non-compliance. It obligates PRASA to carry out approximately 210 long-term remedial measures over a 15-year period along with many other shorter-term remedial actions that will involve both capital expenditures and expenditures for operating, maintenance and training programs and evaluations and studies centered on ensuring that the quality of drinking water provided by PRASA to its customers meets all federal and Commonwealth regulatory standards. Additionally, PRASA paid a \$1 million civil penalty to the Commonwealth and is required to pay stipulated penalties for violations of the agreement. Certain stipulated penalties paid by PRASA may be returned to PRASA under certain circumstances to be used to finance any action directed at achieving or maintaining compliance with PRASA's obligations under the 2006 Drinking Water Settlement Agreement and under local and federal laws applicable to the Water System. PRASA submits quarterly progress reports to the PRDOH to inform on its compliance with the terms of the 2006 Drinking Water Settlement Agreement and self-assesses any applicable stipulated penalties.

The 2006 Drinking Water Settlement Agreement requires the implementation of remedial measures of the water treatment systems classified as short, mid, and long-term remedial measures. As of June 30, 2019, PRASA had completed all short-term and mid-term remedial measures related to the water treatment plants, made up of 540 short-term and 115 mid-term remedial measures.

The long-term remedial measures are divided into three terms: Term 1 measures were to be completed by December 31, 2011, Term 2 measures were to be completed by December 31, 2016, and Term 3 measures are to be completed by December 31, 2021. All long-term remedial measures under Term 1 have been completed. Term 2 measures have a total of 18 projects, of which 13 have already been completed. Regarding the remaining five remedial measures, PRASA and PRDOH filed a joint motion to move three projects to Term 3 category and to have the other two eliminated, which motion was granted by the court. Term 3 measures initially comprised a total of 13 projects, converted to 16 with the inclusion of the three projects moved from Term 2. Of these 16 projects, eight have been completed. The time frame for the completion of the remaining eight projects is December 31, 2021, but PRASA expects to negotiate with PRDOH an amendment to the 2006 Drinking Water Settlement Agreement to provide for revised project completion time frames consistent with agreements reached with EPA under the 2015 EPA Consent Decree, which revised time frames will provide for more flexibility to complete these projects based on a project prioritization system approved by EPA.

Before the 2017 hurricanes, PRASA had been in substantial compliance with the capital improvement project deadlines of the 2006 Drinking Water Settlement Agreement. After these hurricanes, PRASA submitted a notification to PRDOH invoking the force majeure provisions of the 2006 Drinking Water Act Settlement Agreement and indicated the possibility of some delays in projects and program due dates.

During the past year, PRASA has been required to pay stipulated penalties under the 2006 Drinking Water Settlement Agreement related to compliance issues in respect of primary standards (and mostly related to DBPs), which amounted to approximately \$31,000. PRASA has also been required to pay stipulated penalties because of certain missing or late deliverables, remedial measures, and mitigation measures.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

As of the date this financial statement was issued, as mentioned above, management believes PRASA has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement. PRASA anticipates, however, that it may have difficulties meeting future deadlines unless the PRDOH approves the prioritization system under that Settlement Agreement.

Construction Commitments

As of June 30, 2022, the following discretely presented component units maintained various unspent construction agreements as follows (in thousands):

	<u>Amount</u>
Major:	
PREPA	\$ 581,000
PRHTA	256,000
UPR	<u>24,600</u>
Sub-total	861,600
Nonmajor	<u>29,700</u>
	<u>\$ 891,300</u>

Service Concession Arrangements (SCA)

(c) PRHTA

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

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

PRHTA recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of \$1.136 million that is being amortized and recognized as revenue over the 40 years term of the agreement. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession agreements. As of June 30, 2022, the total aggregate amount of the Toll Roads capital assets was approximately \$144.6 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011, until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to PRHTA in their original or an enhanced condition.

On April 19, 2016, PRHTA entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bidirectional tolling points on the Toll Roads. PRHTA received an upfront concession fee payment of \$100 million, which was used to pay \$18.2 million of PRHTA current debt and \$79.8 million was transferred to the Commonwealth in fiscal year 2016. Also, in June 2017, PRHTA received an additional \$15 million payment concurrently with the commencement of the bidirectional system described above.

During the fiscal year ended June 30, 2022, PRHTA capitalized and considered as a deferred inflow of resources approximately \$2.8 million for improvements made by Metropistas to the Toll Roads.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Toll Roads and Bridge Concessions under the Service Concession Agreements, as of June 30, 2022, consisted of (in thousands):

Toll roads concession	\$	310,363
Toll roads concession improvements		53,933
Bridge concession		<u>109,500</u>
Total		473,796
Less accumulated depreciation		<u>(276,534)</u>
Total	\$	<u><u>197,262</u></u>

(16) Retirement Plans

The Commonwealth retirement systems includes ERS, JRS, and the TRS (collectively referred to as the Retirement Systems). ERS is a multi-employer, JRS and TRS are single-employer defined benefit pension plans administered by the Retirement System Board.

Membership as of July 1, 2020

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total</u>
Inactive employees currently receiving benefits payments	123,171	46,923	456	170,550
Inactive employees entitled to but not yet receiving benefits payments	-	1,302	51	1,353
Active employees	<u>90,139</u>	<u>23,514</u>	<u>339</u>	<u>113,992</u>
Total	<u><u>213,310</u></u>	<u><u>71,739</u></u>	<u><u>846</u></u>	<u><u>285,895</u></u>

The Commonwealth accounts for the pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2021). The Commonwealth retirement plans are not administered as trusts and follow the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. Defined benefit pension plan assets also are legally protected from creditors of the plan members.

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees at ERS, TRS, and JRS. However, upon the Effective Date of the Commonwealth Plan of Adjustment, pension benefits at TRS and JRS were frozen and cost-of-living adjustments eliminated, among other things. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(a) ERS

Plan Description – Prior to Act No. 106-2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (the Commonwealth, municipalities, and public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Act No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

Certain provisions are different for the three groups of members who entered ERS 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. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, participant employees of previous programs as of June 30, 2013, became part of the Contributory Hybrid Program on July 1, 2013. In addition, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013, under the defined benefit program and thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants. Pursuant to a settlement incorporated into the Commonwealth Plan of Adjustment, on the Effective Date of the Commonwealth Plan of Adjustment, all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017. Upon the payment of these refunds, all claims related to the System 2000 Program were discharged.

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

(i) Service Retirements

- (a) *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; (4) for Public Officers in High Risk Positions (the PRPOB and Commonwealth Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 55 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

members who would attain 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, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

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

- (b) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for public officers in high-risk positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for public officers in high-risk positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
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

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(ii) *Service Retirement Annuity Benefits*

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

(a) *Accrued Benefit* as of June 30, 2013, for Act No. 447-1951 Members: The accrued benefit as of June 30, 2013, was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, 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 the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 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 was recalculated 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 were considered pre- July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 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. Maximum benefit is 75% of average compensation. Except for the PRPOB policemen and Commonwealth Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated 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 up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-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 included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

- (b) *Accrued Benefit* as of June 30, 2013, for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013, is determined based on the average compensation for Act No. 1-1990 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 was determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 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 benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was 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 was not to 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 included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(iii) *Compulsory Retirement*

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to retire upon attainment of age 58 and 30 years of credited service. A two-year- extension may be requested by the member from the Superintendent of the PRPOB, the Chief of the Firefighter Corps, or supervising authority as applicable.

(iv) *Termination Benefits*

(a) *Lump Sum Withdrawal*

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is \$10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(b) *Deferred Retirement*

Eligibility: A Member was eligible upon termination of service with 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 had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

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 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.

(v) *Death Benefits*

(a) *Pre-retirement Death Benefit*

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the 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.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

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.

The cost of these benefits was paid by the Commonwealth.

(c) *Postretirement Death Benefit for Members Who Retired prior to July 1, 2013*

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

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

- i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in 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 nondisabled 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. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No. 158 of 2003.
- 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

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. ERS pays for the rest. See Article 2-113 of Act No. 447-1951, as amended by Act No. 524-2004.

(d) *Postretirement 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.

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 hybrid contribution account, plus the accumulated contributions 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 must 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.*

(vi) *Disability Benefits*

(a) *Disability*

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

Benefit: The balance of the hybrid contribution account payable as lump sum 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).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled 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 was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

(b) *Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013, continue to be eligible to receive such benefits.*

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(vii) *Special Benefits*

(a) *Minimum Benefits*

- i. *Past Ad hoc Increases*: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- ii. *Minimum Benefit for Members Who Retired before July 1, 2013* (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013): 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).
- iii. *Coordination Plan Minimum Benefit*: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

- (b) *Cost of Living Adjustments (COLA) to Pension Benefits*: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were 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).

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

(c) *Special "Bonus" Benefits*

- (i) *Christmas Bonus* (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.
- (ii) *Medication Bonus* (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(viii) *Early Retirement Programs*

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65 for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211-2015), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106-2017 repealed Act No. 211-2015, while creating an incentives, opportunities, and retraining program for public workers.

(b) *JRS*

Plan Description – JRS was a pension trust fund created by the Legislature under Act No 12-1954, as amended, to provide pension and other benefits to retirees judges of the Judiciary Branch of the Commonwealth of Puerto Rico. During this time, the Trust administered a single-employer defined-benefit pension plan and a hybrid defined contribution plan for its participants.

JRS consisted of two benefit structures pursuant to Act No. 12-1954, as amended by Act No. 162-2013. Benefit provisions vary depending on member's date of hire as follows:

- Judges hired on or before June 30, 2014, with certain distinctions for judges hired December 24, 2013, to June 30, 2014 (the defined benefit plan).
- Judges hired July 1, 2014, or later (contributory, hybrid program).

All judges of the Judiciary Branch of the Commonwealth are members of JRS. Members include all persons holding a position as Judge of the Puerto Rico Supreme Court, Judge of the Court of Appeals, Superior and Municipal Judges of the Court of First Instance in the Commonwealth.

The benefits provided to members of JRS are statutorily established by the Commonwealth and may be amended only by the Legislature with the Governor's approval.

The following summary of the JRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017. In addition, the Commonwealth Plan of Adjustment freezes pension benefits and eliminate all COLAs from and after of the Effective Date in accordance with the terms and provisions of the Commonwealth Plan of Adjustment. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Pension Plan Provisions Applicable to Judges Hired on or before June 30, 2014 (Pre-Act No. 162-2013 Members)

(1) *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) *Normal Retirement*

Basic Eligibility: Age 60 with 10 years of credited service.

Basic Benefit: 25% of highest salary, as defined, plus 5% of highest salary, as defined, for each year of credited service in excess of 10 years, subject to a maximum of 75% of highest salary if hired before December 24, 2013, and 60% of highest salary if hired between December 24, 2013, and June 30, 2014.

Eligibility for Judges who serve without a Fixed Tenure: 10 years of credited service. This enhanced eligibility is not available to judges who are appointed after June 28, 2007, to an unlimited term.

Benefit for Judges who serve without a Fixed Tenure: 25% of the salary corresponding to the office during the retirement period, plus 5% of such salary for each year of credited service in excess of 10 years, subject to a maximum of 100% of such salary. If the judge has served in a position without a fixed tenure for a total of at least 8 years, the 25% increases to 50% in the preceding formula. This enhanced benefit is not available to judges who are appointed after June 28, 2007, to an unlimited term.

Optional Eligibility: Age and credited service as shown in the table below, provided at least 8 years of credited service were earned in office as a judge.

<u>Age</u>	<u>Years of credited services</u>
Less than 60	30
62	20
61	21
60	22
59	23
58	24
57	25
56	26
55	27

Optional Benefit: 75% of highest salary if hired before December 24, 2013, and 60% of highest salary if hired between December 24, 2013, and June 30, 2014.

Enhanced Eligibility: Any judge who has served without a fixed tenure for at least 3 years and has at least 25 years of credited service. This enhanced benefit is not available to judges who are appointed after June 28, 2007, to an unlimited term.

Enhanced Benefit: 75% of the salary earned at the time of retirement.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 10 years of credited service, the judge can elect a refund of accumulated contributions, or a proportional part of the basic benefit based on completed years and months of credited service.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(b) *Early Retirement*

Basic Eligibility: 20 years of credited service before age 60.

Basic Benefit: The basic benefit payable under Normal Retirement, reduced on an actuarial equivalent basis for each month that early retirement date precedes age 60. However, no actuarial reduction is applied for judges who serve without a fixed tenure.

Optional Eligibility: 20 years of credited service, provided at least 8 years of credited service were earned in office as a judge.

Optional Benefit: 75% of highest salary if hired before December 24, 2013, and 60% of highest salary if hired between December 24, 2013, and June 30, 2014, reduced on an actuarial equivalent basis for each month that early retirement date precedes the age specified in the table under Optional Eligibility under Normal Retirement for the applicable years of credited service.

(2) *Termination Benefits*

(a) *Lump Sum Withdrawal*

Eligibility: A member is eligible upon termination of service.

Benefit: The benefit equals a refund of accumulated contributions.

(b) *Deferred Retirement*

Eligibility: A member is eligible upon termination of service prior to age 60 and after 10 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 60, is equal to the benefit payable upon Normal Retirement.

(3) *Death Benefits*

(a) *Occupational Death Benefit*

Eligibility: The beneficiaries of any active participant who dies from an employment related cause under the Workmen's Accident Compensation Act.

Spouse's Benefit: 50% of the participant's salary at date of death, payable as an annuity until death or remarriage.

Children's Benefit: \$10 (\$20 if full orphan) for each child payable monthly until child reaches age 18 or completion of studies, if later. The maximum family benefit is 75% of the participant's salary at date of death.

Benefit if No Spouse or Children: Refund of accumulated contributions, plus an amount equal to one year of compensation, as defined, in effect at the time of death.

(b) *Pre-retirement Death Benefit*

Eligibility: Any current non-retired member is eligible, provided they are not eligible for the Occupational Death Benefit.

Benefit:

(i) While in active service, the benefit equals a refund of accumulated contributions; plus, an amount equal to one year of compensation in effect at the time of death.

(ii) While not in active service, the benefit equals a refund of accumulated contributions.

(c) *Special Pre-retirement Death Benefit*

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Eligibility: An active participant who was eligible to retire at the date of death with a surviving spouse or dependent children.

Benefit: The post-retirement death benefits described below assuming the active participant retired the day before the date of death.

(d) *Post-retirement Death Benefit*

Eligibility: Any retiree or disabled member receiving a monthly benefit.

Benefit:

- (i) For those married or with dependent children at the time of death, an annual income equal to 60% of the retirement benefit at time of death, payable for life for a surviving spouse and/or disabled children, and payable until age 18 or completion of studies, if later, for non-disabled children.
- (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 may the benefit be less than \$1,000.

(4) *Disability Benefits*

(a) *Non-occupational Disability*

Eligibility: All members are eligible for non-occupational disability upon 10 years of credited service and the occurrence of disability.

Benefit: 30% of average compensation, plus 1% of average compensation for each year of credited service in excess of 10 years, payable as an annuity; subject to a maximum of 50% of average compensation.

(b) *Occupational Disability*

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act.

Benefit: 50% of salary at date of disability, payable as an annuity, reduced by any payments received from the State Insurance Fund Corporation under the Workmen's Accident Compensation Act.

(5) *Special Benefits*

(a) *Special "Bonus" Benefits*

- (i) *Christmas Bonus (Act No. 144-2005):* An annual bonus of \$600 for each retiree, beneficiary, and disabled member paid in December provided the judge was hired before December 24, 2013.
- (ii) *Summer Bonus (Act No. 37-2001):* An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid in July provided the judge was hired before December 24, 2013.
- (iii) *Medication Bonus (Act No. 155-2003):* An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the judge was hired before December 24, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Judges hired on December 24, 2013, and thereafter are not eligible for these special “bonus” benefits.

Before July 1, 2017, the Commonwealth made contributions to the JRS for the special benefits granted by special laws. The funding of the special benefits was provided to the JRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 12-1954 participants are being paid by the Commonwealth as they become due since July 1, 2017.

Pension Plan Provisions Applicable to Judges Hired on or after July 1, 2014 (Act No. 162-2013 Members)

Prior to August 23, 2017, members hired on or after July 1, 2014, were covered by a contributory, hybrid plan with defined benefit and defined contribution components as follows:

(1) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) Normal Retirement

Eligibility: Age 65 with 12 years of credited service.

Basic Benefit: 1.5% of average compensation, as defined, for each year of credited service, plus the annualized value of the balance in the hybrid program contribution account at the time of retirement. The benefit is payable for the member's lifetime.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 12 years of credited service, the judge will receive a refund of the hybrid program contribution account.

(b) Early Retirement

Basic Eligibility: Age 55 with 12 years of credited service before age 65.

Basic Benefit: 1.5% of average compensation, as defined, for each year of credited service, reduced by 1/180 for each for the first 60 months and by 1/360 for each of the next 60 months by which the early retirement date precedes age 65, plus the annualized value of the balance in the hybrid program contribution account at time of retirement.

(2) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A member is eligible upon termination of service with less than 12 years of credited service.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service prior to age 65 and after 12 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 65, is equal to the benefit payable upon Normal Retirement. The benefit may commence as early as age 55, subject to the reductions described under early retirement.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(3) Death Benefits

(a) Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) Post-retirement Death Benefit

Eligibility: Any retiree or disabled member.

Benefit: If a 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 benefits.

For all members, the excess, if any, of the hybrid program contribution account at the time of retirement over the total hybrid program annuity payments paid to the member and any beneficiary per the terms of the optional form of payment is payable to a beneficiary or the member's estate.

(4) Disability Benefits

Eligibility: All members are eligible upon 5 years of credited service and the occurrence of disability prior to age 65.

Benefit: 1.5% of average compensation, as defined, for each year of credited service plus the annuitized value of the balance in the hybrid program contribution account at the time of disability, payable as an annuity; subject to a maximum of 33% of average compensation, as defined.

(c) TRS

Plan Description – TRS administered two benefit structures pursuant to Act No. 160-2013 (which amended Act 91-2004), as modified by the April 11, 2014, decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on a member's date of hire as follows:

- Members hired on or before July 31, 2014, with certain distinctions for members who retired August 1, 2014, or later (the Defined Benefits Plan).
- Members hired August 1, 2014, or later (the Contributory Hybrid Program).

All active teachers of the Department of Education and the employees of TRS became plan members of TRS at their date of employment. Licensed teachers working in private schools or other educational organizations had the option to become members of TRS so long as the required employer and employee contributions were satisfied.

The benefits provided to members of TRS were statutorily established by the Commonwealth and could be amended only through legislation.

The following of the TRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017.

As part of the plan description information, the most important aspects of Act No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows: (i) active participants as of July 31, 2014 continued to participate in the Defined Benefit Program; (ii) starting August 1, 2014, the Defined Benefit Program was closed to future participants, who enrolled and contributed to the Contributory Hybrid Program; (iii) the retirement age for new employees hired on or after August 1, 2014

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

was increased to age 62; (iv) the employee contributions for new employees hired on or after August 1, 2014 was increased to 10% from August 1, 2014 to June 30, 2017, 13.12% from July 1, 2017 to June 30, 2020, and 14.02% from July 2020 and thereafter; (v) Special benefits payable to active participants that retired on or before July 31, 2014 was reduced, and (vi) special benefits postemployment were eliminated for future retirees.

In addition, the Commonwealth Plan of Adjustment implemented a pension benefit freeze as of the Effective Date for any additional pension benefits for service on or after May 4, 2017 (excluding teachers hired on or after August 1, 2014, who will not be subject to any freeze or benefit reduction) in accordance with the terms and provisions of the Commonwealth Plan of Adjustment. For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

Defined Benefit Pension Program

Effective July 1, 2017, TRS implemented Act 106-2017, under which the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers. As of July 1, 2017, the TRS stopped making pension payments to retirees. Since July 1, 2017, the TRS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned benefits under the Defined Benefit Program and Contributory Hybrid Program had been paid by the TRS until June 30, 2017. The following section describes the Defined Benefit Program that continues in effect after the implementation of Act 106-2017 for certain beneficiaries who have not opted into the New Defined Contribution Plan.

The members of the TRS hired on or before July 31, 2014, are eligible for the benefits described below under the Defined Benefit Program:

(1) Retirement Annuity

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by TRS. The monthly annuity for which a member is eligible is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

Members are eligible for retirement annuity benefits upon complying with the following:

<u>Age</u>	<u>Years of creditable services</u>	<u>Retirement annuity compensation</u>
55	30 or more	75% of average compensation
50	30 or more	75% of average compensation(1)
Under 50	30 or more	65% of average compensation
50	At least 25, but less than 30	1.8% of average compensation times years of service
47, but less than 50	At least 25, but less than 30	95% of 1.8% of average compensation times years of service
60 or more	At least 10, but less than 25	1.8% of average compensation times years of service

(1) Refer to subsection (g) under Early Retirement Program.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(2) *Deferred Retirement Annuity*

A participating employee who terminated service before age 60, after having accumulated a minimum of 10 years of creditable service, qualified for a deferred retirement annuity payable beginning at age 60. A participating employee who completed 25 or more years of creditable service and is under the age of 47 at termination qualified for a deferred retirement annuity payable beginning at age 47. The vested rights described above were provided if his or her contributions to TRS are left within TRS until the attainment of the respective retirement age.

(3) *Occupational Disability Annuity*

A participating employee, who as a direct result of the performance of his or her occupation became disabled, was eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable service, if less than 5 years, recognized by TRS, times years of creditable service, but not less than \$400 per month.

(4) *Nonoccupational Disability Annuity*

A participating employee disabled for causes not related to his or her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than \$400 per month.

(5) *Death Benefits*

Pre-retirement – The beneficiaries receive the member contributions made plus 2% interest accumulated as of the date of death (after reducing debts with TRS). Additionally, for beneficiaries of members who died on or before July 31, 2014, they will receive an amount equal to the annual compensation of the member at the time of death.

Post-retirement – For members who retire on or before July 31, 2014: The surviving spouse receives 50% of the member's pension and the other 50% is shared among the members' children (if any) and only if such children are under 22 years of age or disabled (until disability ceases). If there is no surviving spouse or qualifying children, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death. The benefit includes the full pension for the month in which the pensioner died plus an additional fifteen-day pay period payable to the member's eligible beneficiaries, but in no case, may the benefit be less than \$1,000 per month (prior to discounting any debts with TRS).

Post-retirement – For members who retire on or after August 1, 2014: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent option form of payment, the applicable survivor benefit will be granted. Otherwise, the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death is payable to the beneficiaries or to the member's estate.

(6) *Refunds*

A participating employee who ceases his or her employment with the Commonwealth on or before July 31, 2014, without the right to a retirement annuity has the right to a refund of the employee contributions paid to TRS, plus any interest earned thereon.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(7) Early Retirement Program

On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, members were eligible for early retirement upon attaining the age of 50 and 28 years of service in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who selected early retirement under these conditions receive monthly benefits equal to 75% of their average compensation, which was computed based on the highest 36 months of compensation recognized by TRS. Effective July 31, 2001, the option for early retirement was closed. On January 27, 2001, Act No. 45 was approved, that established 50 years as the minimum age requirement to obtain a pension benefit equal to 75% of average compensation with 30 years of service. In these cases, the retiree pays the participating employee contribution until attaining 55 years of age. Act No. 160-2013 imposed the same obligation on the employer.

Special Benefits *(previous Act 106-2017)*

The following section represents the special benefits program that TRS administered prior to July 1, 2017.

Act No. 160-2013 provides for a reduction in the special laws for pensioners as of July 31, 2014, and the elimination of special laws for future pensioners who retire on or after August 1, 2014. Special benefits include the following:

(1) Christmas Bonus

An annual bonus of \$600 for each retiree and disabled member paid each December. TRS paid \$150 per retiree and disabled member and the remaining bonus was paid by the Commonwealth. After August 1, 2014, for active participants that were retired on or before July 31, 2014, the bonus was \$200 and paid by the Commonwealth.

(2) Medication Bonus

An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid each July to cover health costs; evidence of coverage was not required. This benefit was paid by the Commonwealth. Act No. 160-2013 kept this benefit for active participants that were retired on or before July 31, 2014.

(3) Death Benefit

Act No. 272 of March 29, 2004, increased the death benefit from \$500 to \$1,000. This \$500 increase was paid by the Commonwealth. As per Act No. 160-2013, this benefit only applied to pensioners as of July 31, 2014, that eventually died.

Before July 1, 2017, the Commonwealth made contributions to the TRS for the special benefits granted by special laws. The funding of the special benefits was provided to the TRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 91-2004 participants are being paid by the Commonwealth as they become due since July 1, 2017.

(d) New Defined Contribution Plan

The Commonwealth, through Act No. 106-2017, created a "New Defined Contribution Plan" that consisted of a trust fund, not subject to the provisions of Act No. 219-2012, known as "*The Trusts Act*", that will maintain an individual account for each participant of the Retirement Systems that becomes a participant of the plan.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The following employees will participate in the New Defined Contribution Plan:

- All active participants of the Retirement Systems as of July 1, 2017; except for members of TRS and JRS that will keep vesting benefits under the provisions of Act No. 91-2004, as amended and Act No. 12-1954, as amended.
- New hires entering the public service workforce after July, 1 2017
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan.

Enrollment in the New Defined Contribution Plan is optional for the Governor, secretaries and chiefs of agencies and public corporations; assistants and advisors of the Governor; members of commissions and boards appointed by the Governor; members of the Legislature; and employees and officials of the Legislature, the Office of Legislative Services, the Superintendence of the Capitol Building and the Office of the Comptroller of Puerto Rico. Also, enrollment will be optional for employees of departments, divisions, bureaus, offices, dependencies, public corporations, and instrumentalities of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

(i) Contributions

Contributions by members consists, as a minimum, of an 8.5% of their compensation directly deposited by the DOT in the individual member accounts under the New Defined Contribution Plan created pursuant to Act No. 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS. However, Act 71-2019 states that in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447-1951, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

(e) Total Pension Liability

The Commonwealth's total pension liability as of June 30, 2022, was measured as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2020, that was updated to roll forward the total pension liability to June 30, 2021, assuming no gains or losses.

(i) Actuarial Methods and Assumptions

The total pension liabilities in the June 30, 2021, actuarial valuations were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Actuarial assumptions:			
Inflation	Not applicable	Not applicable	Not applicable
Projected salary increases per annum	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	2.5% per annum general wage inflation plus service-based merit increases. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66-2014 and the current general economy.
Cost-of-living adjustments	None assumed.	None assumed.	None assumed.

The mortality tables used in the June 30, 2021; actuarial valuations were as follows:

- Pre-Retirement Mortality:** For ERS 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 ERS members covered under Act No. 127-1958, PubS-2010 employees rates for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

For TRS members, the PubG2010(A) employee rates, adjusted by 104% and 90% for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

For JRS members, PubG-2010(A) employee rates, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

For ERS, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127-1958. For JRS, among deaths while in active service, 50% are assumed to be occupational and 50% are assumed to be nonoccupational.
- Post-Retirement Healthy Mortality:** For ERS, 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.

For TRS, the PubG-2010(A) healthy retiree rates, adjusted by 104% and 90% for males and females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

For JRS, the PubG-2010(A) healthy rates, adjusted by 100% for males and 90% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-Retirement Disabled Mortality:** For ERS, the PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

For TRS, the PubG2010 disable retiree rates, setback 5 years, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Based on a study of plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

For JRS, the pubG-2010 disable retiree rates, set back 5 years, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

(ii) *Discount Rate*

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

(iii) *Changes in Total Pension Liability*

Changes in the Commonwealth's total pension liability of ERS, TRS, and JRS, as of June 30, 2022 (using a June 30, 2021, measurement date) were as follows (in thousands):

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total Pension liability as restated</u>
	<u>Total Pension liability as restated</u>	<u>Total Pension liability</u>	<u>Total Pension liability</u>	<u>Total Pension liability as restated</u>
Balance at July 1, 2020	\$ 28,017,201	20,296,753	720,164	49,034,118
Changes for the year:				
Service cost	72,910	273,922	28,231	375,063
Interest on total pension liability	544,699	444,563	16,230	1,005,492
Effect of plan changes	—	—	—	—
Effect of economic/demographics gains or losses	(464,419)	300,075	10,978	(153,366)
Changes in assumptions	227,436	205,834	7,338	440,608
Benefit payments	(1,264,700)	(914,383)	(28,196)	(2,207,279)
Net changes	<u>(884,074)</u>	<u>310,011</u>	<u>34,581</u>	<u>(539,482)</u>
Balance at June 30, 2021	\$ <u>27,133,127</u>	<u>20,606,764</u>	<u>754,745</u>	<u>48,494,636</u>

(iv) *Sensitivity of Total Pension Liability to Changes in Discount Rate*

The following presents the liability as of June 30, 2021, calculated using the discount rate of 2.16%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than current rate (in thousands):

		<u>At 1% decrease (1.16%)</u>	<u>At current discount rate (2.16%)</u>	<u>At 1% increase (3.16%)</u>
ERS	\$	31,000,689	27,133,127	23,999,114
TRS		23,707,347	20,606,764	18,081,988
JRS		871,890	754,745	660,352

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(v) *Changes in Assumptions*

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

The discount rate decreased from 2.21% as of June 30, 2020, to 2.16% as of June 30, 2021.

The projected mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.

(f) ***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities***

Pension expense and total pension liability recognized by the Commonwealth for the year ended June 30, 2022, related to the Retirement Systems were as follows (in thousands):

	Governmental activities		Business-type		Discretely presented component units		Total	
	Liability	Expense	Liability	Expense	Liability	Expense	Liability	Expense
ERS	19,863,498	838,751	616,518	28,050	6,653,111	322,605	27,133,127	1,189,406
TRS	20,606,764	1,818,591	-	-	-	-	20,606,764	1,818,591
JRS	754,745	63,779	-	-	-	-	754,745	63,779
	<u>41,225,007</u>	<u>2,721,121</u>	<u>616,518</u>	<u>28,050</u>	<u>6,653,111</u>	<u>322,605</u>	<u>48,494,636</u>	<u>3,071,776</u>

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Commonwealth in the statement of net position as of June 30, 2022, for each of the Retirement Systems were as follows (in thousands):

Retirement system	Source	Governmental activities		Business-type activities		Discretely presented component units	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
ERS	Differences between expected and actual experience in measuring total pension liability	\$ 31,729	591,776	984	18,368	10,580	198,208
	Changes in assumptions	2,033,383	234,718	63,112	7,285	677,662	78,618
	Changes in proportion	36,084	119,126	7,766	4,170	124,281	44,720
	Benefits payments made subsequent to the measurement date	968,882	—	29,018	—	313,945	—
	Total ERS	<u>3,070,078</u>	<u>945,620</u>	<u>100,880</u>	<u>29,823</u>	<u>1,126,468</u>	<u>321,546</u>
TRS	Differences between expected and actual experience in measuring total pension liability	415,696	—	—	—	—	—
	Changes in assumptions	2,121,040	111,803	—	—	—	—
	Benefits payments made subsequent to the measurement date	911,403	—	—	—	—	—
Total TRS	<u>3,448,139</u>	<u>111,803</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	
JRS	Differences between expected and actual experience in measuring total pension liability	8,233	6,844	—	—	—	—
	Changes in assumptions	69,707	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	29,359	—	—	—	—	—
Total JRS	<u>107,299</u>	<u>6,844</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

Retirement system	Source	Governmental activities		Business-type activities		Discretely presented component units	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Total	Differences between expected and actual experience	455,658	598,620	984	18,368	10,580	198,208
	Changes in assumptions	4,224,130	346,521	63,112	7,285	677,662	78,618
	Changes in proportion and differences between actual contributions and proportionate share	36,084	119,126	7,766	4,170	124,281	44,720
	Benefits payments made subsequent to the measurement date	1,909,644	—	29,018	—	313,945	—
	Total	\$ 6,625,516	1,064,267	100,880	29,823	1,126,468	321,546

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date were approximately \$1.3 billion, \$911.4 million, and \$29.4 million as of June 30, 2022, for the corresponding proportionate share of ERS, for TRS and for JRS, respectively, and will be recognized as a reduction of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows/inflows of resources from pension activities are schedule to be recognized in pension expense as follow (in thousands):

	ERS	TRS	JRS
Year ended June 30:			
2023	\$ 506,582	1,100,106	34,583
2024	506,582	1,198,350	31,934
2025	675,428	126,477	4,579
Total	\$ 1,688,592	2,424,933	71,096

(g) Net Pension Liability Information for Discretely Presented Component Units

(i) Plan Description and Membership

University of Puerto Rico Retirement System

The University of Puerto Rico Retirement System (UPR Retirement System) is a single-employer, defined benefit pension plan that covers all employees of UPR with the exception of hourly, temporary, part-time, contract, and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The UPR Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

Puerto Rico Electric Power Authority Retirement System

The Puerto Rico Electric Power Authority Retirement System (PREPA Retirement System) is a single-employer, defined benefit pension plan that covers all permanent full-time employees of PREPA administered by Employees' Retirement System of the Puerto Rico Electric Power Authority. It is qualified and exempt from Puerto Rico and United States income taxes. The PREPA Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The PREPA Retirement System issues a publicly available financial report that includes

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the Retirement System of the Puerto Rico Electric Power Authority, PO Box 13978, San Juan, Puerto Rico 00908-3978.

(17) Other Postemployment Benefits

As further described in Note 1(r), the Commonwealth provides postemployment healthcare benefits through the following defined benefit plans:

- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement Plan (ERS-OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Judiciary's Retirement Plan (JRS-OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Teachers' Retirement Plan (TRS-OPEB)

(a) Plans Descriptions

ERS-OPEB, TRS-OPEB, and JRS-OPEB are unfunded single employer defined benefit other postemployment (OPEB) plans sponsored by the Commonwealth that are administered on a pay-as-you-go basis. Accordingly, there are no assets accumulated in a qualifying trust for these OPEB plans (collectively referred to as the "OPEB Plans") that meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*. The OPEB Plans were created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS-OPEB covers substantially all full-time employees of (1) the Primary Government and (2) those component units of the Commonwealth not having their own postemployment benefit plans. JRS-OPEB covers all judges of the Judiciary Branch of the Commonwealth. TRS-OPEB covers all active teachers of the DOE and employees of the TRS Administration.

For ERS-OPEB and TRS-OPEB, Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS-OPEB members retired after June 30, 2013. Act No. 160-2013 eliminated this healthcare benefit to TRS-OPEB members retired after July 31, 2014.

For JRS-OPEB, judges of the Judiciary Branch of the Commonwealth become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the age of 60 with 10 years of service.

Funding Policy – The contribution requirement of the OPEB Plans is established by Act No. 95-1963. The OPEB benefit consists of a maximum of \$100 per month per retiree or disabled member. Each of the OPEB Plans is financed by the Commonwealth and its public corporations on a pay-as-you-go basis. The funding of the OPEB benefits are provided through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made for the healthcare benefits throughout the year. There is no contribution requirement for plan members during active employment.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(b) Membership as of July 1, 2020

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total</u>
Inactive employees currently receiving benefits payments	90,003	34,007	401	124,411
Inactive employees entitled to but not yet receiving benefits payments	-	-	39	39
Active employees	-	-	339	339
Total	<u>90,003</u>	<u>34,007</u>	<u>779</u>	<u>124,789</u>

(c) Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2022, was determined by the actuarial valuation as of July 1, 2020, which was updated to roll forward the total OPEB liability to June 30, 2021.

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

ERS-OPEB

Measurement Date	June 30, 2021
Actuarial cost method	Entry age normal
Discount rate	2.16%
Mortality Assumption	<p>Pre-retirement Mortality: For general employees not covered under Act 127-1958, the PubG-2010 employees rate, adjusted by 100% for males and 110% for females, projected using MP-2021 on generational basis. For members covered under Act 127-1958 the PubS-2010 employee rates for males and females using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.</p> <p>Post-retirement Healthy 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.</p> <p>Post-retirement Disabled Mortality: The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for female, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

JRS-OPEB and TRS-OPEB

Measurement Date	June 30, 2021
Actuarial cost method	Entry age normal
Discount rate	2.16%
Mortality Assumption	Pre-retirement Mortality: PubG-2010(A) employee rates, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Healthy Mortality: The PubG-2010(A) healthy retiree, adjusted by 104% for males and 90% for females, projected using MP-2021 on a generational basis. As a general table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: The PubG-2010 disable retiree rates, set back 5 years, projected using MP-2021. As generational table, it reflects mortality improvements both before and after the measurement date.

The discount rate for June 30, 2021, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index.

(d) Changes in Total OPEB Liability of OPEB Plans

Changes in the Commonwealth's total OPEB liability of ERS-OPEB, TRS-OPEB, JRS-OPEB, and Other-OPEB plans as of June 30, 2022 (using a June 30, 2021, measurement date) were as follows (in thousands):

	<u>ERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Other</u>	<u>Total OPEB</u>
	<u>Total OPEB</u>	<u>Total OPEB</u>	<u>Total OPEB</u>	<u>Total OPEB</u>	<u>Total OPEB</u>
	<u>liability</u>	<u>liability</u>	<u>liability</u>	<u>liability</u>	<u>liability</u>
	<u>as restated</u>				<u>as restated</u>
Balance at July 1, 2020, as restated	\$ 873,279	477,835	7,788	693,035	2,051,937
Changes for the year:					
Service cost	—	—	317	9,615	9,932
Interest on total OPEB liability	19,372	10,207	175	17,760	47,514
Difference between expected and actual experience	—	—	—	(58,109)	(58,109)
Effect of economic/demographics gains or losses	(37,318)	(3,133)	(32)	—	(40,483)
Changes in assumptions	6,768	3,985	70	32,024	42,847
Benefit payments	(65,175)	(32,180)	(341)	(21,215)	(118,911)
Net changes	<u>(76,353)</u>	<u>(21,121)</u>	<u>189</u>	<u>(19,925)</u>	<u>(117,210)</u>
Balance at June 30, 2021	\$ <u>796,926</u>	<u>456,714</u>	<u>7,977</u>	<u>673,110</u>	<u>1,934,727</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(e) Retiree Healthcare OPEB Liability, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

As of June 30, 2022, the OPEB liability and expense for the year ended June 30, 2022, amounted to (in thousands):

	Governmental activities		Business-type		Discretely presented component units		Total	
	Liability	Expense	Liability	Expense	Liability	Expense	Liability	Expense
ERS-OPEB	648,969	(11,104)	17,806	69	130,151	2,301	796,926	(8,734)
TRS-OPEB	456,714	11,058	-	-	-	-	456,714	11,058
JRS-OPEB	7,977	606	-	-	-	-	7,977	606
Other-OPEB	12,420	194	-	-	660,690	16,337	673,110	16,531
	<u>1,126,080</u>	<u>754</u>	<u>17,806</u>	<u>69</u>	<u>790,841</u>	<u>18,638</u>	<u>1,934,727</u>	<u>19,461</u>

Because all participants of ERS-OPEB are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

As of June 30, 2022, OPEB Plans reported deferred outflows of resources and the deferred inflows of resources related to OPEB from the following sources (in thousands):

OPEB	Source	Governmental activities		Business-type activities		Discretely presented component units	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
ERS	Benefits payments made subsequent to the measurement date	\$ 52,786	—	1,430	—	10,541	—
	Total ERS	<u>52,786</u>	<u>—</u>	<u>1,430</u>	<u>—</u>	<u>10,541</u>	<u>—</u>
TRS	Benefits payments made subsequent to the measurement date	32,372	—	—	—	—	—
	Total TRS	<u>32,372</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
JRS	Differences between expected and actual experience in measuring total OPEB liability	—	66	—	—	—	—
	Changes in assumptions	700	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	363	—	—	—	—	—
	Total JRS	<u>1,063</u>	<u>66</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other	Differences between expected and actual experience in measuring total OPEB liability	713	5,085	—	—	5,025	47,878
	Changes in assumptions	2,183	3,116	—	—	42,777	18,536
	Benefits payments made subsequent to the measurement date	—	—	—	—	16,131	—
	Total JRS	<u>2,896</u>	<u>8,201</u>	<u>—</u>	<u>—</u>	<u>63,933</u>	<u>66,414</u>
Total	Differences between expected and actual experience	713	5,151	—	—	5,025	47,878
	Changes in assumptions	2,883	3,116	—	—	42,777	18,536
	Net difference between projected and actual earnings on OPEB plan investments	—	—	—	—	—	—
	Benefits payments made subsequent to the measurement date	85,521	—	1,430	—	26,672	—
	Total	<u>\$ 89,117</u>	<u>8,267</u>	<u>1,430</u>	<u>—</u>	<u>74,474</u>	<u>66,414</u>

Deferred outflows of resources related to OPEB resulting from the payment of benefits subsequent to the measurement date were approximately \$64.8 million, \$32.4 million, \$363 thousand, and \$16.1 million, as of June 30, 2022 for the ERS-OPEB, for TRS-OPEB, for JRS-OPEB, and Other-OPEB,

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

respectively, and will be recognized as a reduction of the total other postemployment benefits liability in the year ended June 30, 2023. Other amounts currently reported by JRS-OPEB and Other-OPEB as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits are schedule to be recognized in OPEB expense as follows (in thousands):

	<u>JRS-OPEB</u>	<u>Other-OPEB</u>
Year ended June 30:		
2023	\$ 325	(11,270)
2024	299	(5,911)
2025	10	2,362
2026	-	627
2027	-	(758)
Thereafter*	-	(8,967)
	<hr/>	<hr/>
Total	\$ <u>634</u>	<u>(23,917)</u>

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

The following presents the OPEB liability as of June 30, 2022, calculated using the discount rate of 2.16%, as well as what the OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than current rate (in thousands):

	<u>At 1% decrease (1.16%)</u>	<u>At current discount rate (2.16%)</u>	<u>At 1% increase (3.16%)</u>
ERS-OPEB	\$ 874,766	796,926	730,642
TRS-OPEB	505,647	456,714	415,408
JRS-OPEB	9,065	7,977	7,086

The following presents the Other-OPEB liability as of June 30, 2022, calculated using a discount rate range of 2.18% to 3.54%, as well as what the Other-OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.18% - 2.54%) or 1-percentage point higher (3.18% - 4.54%) than current rate (in thousands):

	<u>At 1% decrease (1.18% - 2.54%)</u>	<u>At current discount rate (2.18% - 3.54%)</u>	<u>At 1% increase (3.18% - 4.54%)</u>
PBA	\$ 14,367	12,420	10,806
PREPA	390,754	343,767	305,423
PRASA	72,179	63,904	56,891
PRHTA	2,901	2,632	2,386
UPR	285,424	250,387	221,495

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(g) Total Other Postemployment Benefits Liability for Blended and Discretely Presented Component Units Other-OPEB

(i) Plan Description and Membership

Public Buildings Authority

PBA provides retirement healthcare benefits covered by a collective bargain agreement and is considered a single-employer plan. The benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Participants groups covered are (i) employees under a Collective Labor Agreement with the “Union Independiente de Empleados de la Autoridad de Edificios Públicos” (UIEAEP), and (ii) PBA’s management employees.

Puerto Rico Electric Power Authority Other Postemployment Benefits Plan

The Puerto Rico Electric Power Authority Retired Employees Healthcare Plan is a single-employer defined benefit healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” and which is administered by PREPA. Benefit provisions under the OPEB Plan are established and may be amended by PREPA’s Governing Board.

Puerto Rico Aqueduct and Sewer Authority Other Postemployment Benefits Plan

PRASA provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees pursuant to collective bargain agreements. The Plan is administered by PRASA. The benefit consists of a fixed maximum monthly payment (annuity) to cover medical expenses. Based on the Plan’s features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single-employer defined benefit healthcare plan. Participants groups covered are employees under the Collective Labor Agreement with “Unión Independiente Auténtica” (“UIA”), employees under the Collective Labor Agreement with “Hermandad Independiente de Empleados Profesionales de la Autoridad de Acueductos y Alcantarillados” (“HIEPAAA”) and employees under the Managers’ Regulation, all of which are PRASA’s employees. All employees with more than twenty (20) years of rendered service within PRASA are eligible for the healthcare benefit upon retirement age. Act No.3 of April 4, 2013, an amendment to Act No. 447, established a new retirement age.

University of Puerto Rico Retirement System

UPR provides postemployment benefits other than pension for its retired employees. Substantially all of the employees may become eligible for these benefits if they are eligible to retire under the University of Puerto Rico Retirement System (30 years of service, age 58 with 10 years of service or age 55 with 25 years of service). Employees are also eligible on disability with 10 years of service. The cost of providing such benefits is recognized when paid. The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

Puerto Rico Highways and Transportation Authority

PRHTA provides retirement healthcare benefits under the OPEB Program to eligible retirees, its spouses, and dependents, for a period of one year after retirement for union employees and for the remainder calendar year for management employees as a single employer defined benefit. The OPEB Plan can be amended by action of the PRHTA subject to applicable collective bargaining and employment

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

agreements. The Plan does not issue a stand-alone financial report because there are no assets legally segregated for the sole purpose of paying benefits under the OPEB plan.

(ii) Recognition of Total Other Postemployment Liability Amounts

For those discretely presented component units that administer Other-OPEB plans, the following consists of the Total Other Postemployment Benefits Liability and Other Postemployment Benefits Expense recognized in their audited basic financial statements within the discretely presented component units (in thousands):

	<u>Total OPEB liability</u>	<u>OPEB expense</u>
Blended component units:		
PBA	\$ 12,420	194
Major component units:		
PREPA	343,767	346
PRASA	63,904	992
PRHTA	2,632	70
UPR	<u>250,387</u>	<u>14,929</u>
	<u>\$ 673,110</u>	<u>16,531</u>

The following consists of the deferred outflows and deferred inflows of resources from other postemployment benefits activities by source reported as of June 30, 2022, by those discretely presented component units referred to above (in thousands):

<u>Other OPEB plans</u>	<u>Source</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
PBA	Differences between expected and actual experience in measuring the total pension liability	\$ 713	5,085
	Changes in assumptions	<u>2,183</u>	<u>3,116</u>
	Total GDB	<u>2,896</u>	<u>8,201</u>
PREPA	Benefits payments made subsequent to the measurement date	5,446	—
	Differences between expected and actual experience in measuring the total OPEB liability	—	37,237
	Changes in assumptions	<u>15,199</u>	<u>—</u>
	Total PREPA	<u>20,645</u>	<u>37,237</u>
PRASA	Differences between expected and actual experience in measuring the total OPEB liability	5,024	6,689
	Changes in assumptions	<u>5,901</u>	<u>18,536</u>
	Total PRASA	<u>10,925</u>	<u>25,225</u>
PRHTA	Differences between expected and actual experience in measuring the total OPEB liability	1	504
	Changes in assumptions	<u>207</u>	<u>—</u>
	Total PRHTA	<u>208</u>	<u>504</u>

COMMONWEALTH OF PUERTO RICO
Notes to Basic Financial Statements
June 30, 2022

Other OPEB plans	Source	Deferred outflows of resources	Deferred inflows of resources
UPR	Benefits payments made subsequent to the measurement date	10,685	—
	Differences between expected and actual experience in measuring the total pension liability	—	3,448
	Changes in assumptions	21,470	—
	Total UPR	<u>32,155</u>	<u>3,448</u>
Total	Benefits payments made subsequent to the measurement date	16,131	—
	Differences between expected and actual experience in measuring the total OPEB liability	5,738	52,963
	Changes in assumptions	44,960	21,652
	Total	<u>\$ 66,829</u>	<u>74,615</u>

(18) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds as of June 30, 2022 (in thousands):

	General	Debt service	ERS Special revenue	COFINA Special revenue	COFINA Debt service	Nonmajor governmental	Total governmental
Spendable:							
Restricted for:							
General government	\$ 267,407	—	413,137	—	—	—	680,544
Public housing and welfare	120,940	—	—	—	—	—	120,940
Education	—	—	—	—	—	125,924	125,924
Economic development	24,078	—	—	—	—	—	24,078
Public safety	—	—	—	—	—	164	164
Capital projects	—	—	—	—	—	15,390	15,390
Debt service	—	125,220	—	—	182,758	105,969	413,947
Subtotal	<u>412,425</u>	<u>125,220</u>	<u>413,137</u>	<u>—</u>	<u>182,758</u>	<u>247,447</u>	<u>1,380,987</u>
Committed to:							
Public housing and welfare	—	—	—	—	—	10,085	10,085
Capital projects	—	—	—	—	—	2,756	2,756
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,841</u>	<u>12,841</u>
Assigned to:							
General government	—	—	—	—	—	99,639	99,639
Public housing and welfare	5,553	—	—	—	—	—	5,553
Capital Project	—	—	—	—	—	179,611	179,611
Debt service	—	—	—	16,070	—	—	16,070
Subtotal	<u>5,553</u>	<u>—</u>	<u>—</u>	<u>16,070</u>	<u>—</u>	<u>279,250</u>	<u>300,873</u>
Unassigned	<u>7,235,773</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(78,201)</u>	<u>7,157,572</u>
Total fund balance (deficit)	<u>\$ 7,653,751</u>	<u>125,220</u>	<u>413,137</u>	<u>16,070</u>	<u>182,758</u>	<u>461,337</u>	<u>8,852,273</u>

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

The following table presents individual information of deficit fund balance and net position of nonmajor governmental and proprietary funds (in thousands):

<u>Nonmajor governmental</u>	<u>Fund balance</u>	<u>Nonmajor proprietary</u>	<u>Net position</u>
PA Special Revenue Fund	\$ (5,550)	Lotteries	\$ <u>(27,590)</u>
SCPT Special Revenue Fund	(18,853)		
UPRCC Special Revenue Fund	(1,176)		
PRIFA Debt Service Fund	(1,991)		
PRMSA Debt Service Fund	<u>(47,875)</u>		
Total	<u>\$ (75,445)</u>		

(19) Subsequent Events

Subsequent events were evaluated through March 28, 2024, to determine if any such events should either be recognized or disclosed in the 2022 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events, other revenue and/or budget related matters and fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

Primary Government

(i) *Hurricane Fiona*

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

(ii) *Subordinated Loan to PRHTA*

The Commonwealth Plan of Adjustment included a \$360 million loan to the PRHTA for liquidity which was repaid as part of the commercial close of the PPPA concession granted by PRHTA to Spanish infrastructure operator Abertis Infraestructuras, as further detailed below.

Discretely Presented Component Units

Further specific subsequent events for major discretely presented component units follow:

(a) PRHTA

On October 17, 2023, the PRHTA announced the selection of a private entity for the management, maintenance, improvements, and financing of various toll roads. The public-partnership agreement contemplated an initial payment of approximately \$2.9 billion to the PRHTA that will allow for the payments of the PRHTA debts. In addition, the agreement includes a private capital investment of approximately \$2.4 billion to modernize and improve the infrastructure, quality, and safety of the toll roads.

On December 1, 2023, the Oversight Board approved a fiscal plan (the PRHTA Fiscal Plan) to provide a roadmap for transforming not only PRHTA, but also infrastructure across Puerto Rico to catalyze economic growth. PRHTA has four objectives aligned with this goal: (a) transit security and safety

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

projects; (b) improvement of existing transportation infrastructure; (c) completing highway systems; and (d) traffic reduction.

On December 14, 2023, the PPPA reached financial close (PPPA transaction) with respect to a long-term concession granted by PRHTA to Spanish infrastructure operator Abertis Infraestructuras, S.A (Abertis), pursuant to a concession agreement under which Abertis will have the responsibility for operating, maintaining, and improving four existing toll roads extending across the Commonwealth for the next 40 years and, in exchange, Abertis will have the right to retain most toll revenues generated by the public usage of the roads over the same period (subject to toll rate caps prescribed under the concession agreement). The roads, known as PR-20, PR-52, PR-53, and PR-66, cover an aggregate of 119 miles and were previously developed and operated by the PRHTA.

Abertis' winning bid includes an upfront payment to the PRHTA of approximately \$2.9 billion. The PRHTA applied approximately \$1.7 billion of such payment to pay off all its outstanding debt and to establish certain reserves, and the balance will be available to the Commonwealth for other governmental purposes. Further, it is expected that Abertis will also invest an additional \$2.3 billion over the first twelve years of the concession, in order to upgrade and maintain the roads at standards established by the concession agreement.

(b) PREPA

(i) Fiscal Plan

On June 23, 2023, the Oversight Board approved the Certified 2023 Fiscal Plan for PREPA. On April 3, 2023, Oversight Board certified the Commonwealth Fiscal Plan. Even though PREPA has its own fiscal plan, the Commonwealth Fiscal Plan includes a discussion of energy reform relevant to PREPA's transformation. The Commonwealth Fiscal Plan provides that, over the next five years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from fiscal plan projects. Pursuant to the Commonwealth Fiscal Plan, the successful transformation of Puerto Rico's power sector depends on: (i) implementing regulatory reform supported by the Puerto Rico Energy Bureau, (ii) transitioning the PREPA's electricity grid operation and generation assets to private operators through private public partnerships, while moving the energy system to 100% renewables, and (ii) restructuring the PREPA's legacy debt obligations to be able to access capital markets and support the modernization of the power grid.

On February 16, 2024, the Oversight Board filed the current PREPA Plan of Adjustment (as discussed in Note 3). The confirmation hearing took place from March 4–18, 2024. Upon its conclusion, the Title III Court took the matter under advisement. There is no certainty that the Title III Court will confirm the PREPA Plan of Adjustment, or that, if confirmed, the PREPA Plan of Adjustment will be fully implemented.

(ii) Loan for PREPA Obligations

Since July 1, 2023, Genera PR has been responsible for the management and operation of the Legacy Generation Assets pursuant to the Generation Contract. The Generation Contract requires PREPA to maintain several restricted operational reserve accounts. These accounts were initially funded on June 20, 2023, with a loan of approximately \$447.4 million from the Commonwealth.

On December 19, 2023, the Puerto Rico Treasury Department (PRTD) completed a first disbursement to PREPA for approximately \$115 million as part of a \$300 million loan by the PRTD to PREPA. The loan proceeds will be strictly used to fund the: (i) PREPA Pension Obligations through

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

the end of the third fiscal quarter of FY2024, and (ii) a reserve for certain rollover requests from former employees that have moved to LUMA or Genera.

(iii) *Lien Challenge*

On July 1, 2019, PREPA, the Oversight Board, and FAFAA filed a complaint against the 1974 Trustee asking the Title III Court to (a)(i) declare that the 1974 Trustee's security interest in the PREPA's property is limited to funds deposited to the credit of the "Sinking Fund" and certain other funds under the 1974 Agreement; (ii) declare the 1974 Trustee has not perfected any security interest in any of PREPA's property other than cash deposited to the credit of the Sinking Fund; (iii) avoid any security interest granted to the 1974 Trustee in any of PREPA's property other than cash deposited to the credit of the Sinking Fund, preserving all avoided liens for the benefit of PREPA; (b)(i) declare that contractual covenants and remedies set forth in the 1974 Agreement are obligations of PREPA, not PREPA's property, and do not and cannot constitute collateral in which PREPA has granted a security interest to secure PREPA's bonds; (ii) declare the 1974 Trustee has not perfected any security interest in any such covenants and remedies and that PREPA's interest in such is entitled to priority over any interest of the 1974 Trustee under Puerto Rico law; (iii) avoid any security interest in such covenants and remedies, preserving all avoided liens for the benefit of PREPA; and (c) disallow all claims asserting security interests either not granted under the 1974 Agreement or that are unperfected. On July 16, 2019, the Title III Court entered an order staying this proceeding.

On September 17, 2022, the Oversight Board, on behalf of PREPA, filed a motion requesting the Court lift the stay on this proceeding and approve a proposed litigation schedule. After the matter was fully briefed, on September 29, 2022, the Court entered an order terminating the stay and entering a litigation schedule for the adversary proceeding. On October 2, 2022, the Oversight Board filed an amended complaint. The amended complaint asserts seven counts and broadly requests disallowance of the bondholders' claims to the extent it: (i) seeks to assert a security interest in property other than the revenues actually deposited to the credit of the Sinking Fund and subordinating the trustee's security interest against that property to PREPA's interest; (ii) asserts a security interest in the covenants and remedies; and (iii) asserts an unsecured claim against PREPA. While the Amended Complaint eliminated FAFAA as a plaintiff, on October 17, 2022, the Court approved a stipulation between the Oversight Board and FAFAA to allow FAFAA to intervene as a plaintiff. The Court approved numerous stipulations allowing parties on both plaintiff and defendant side to intervene. PREPA's bondholders and monoline insurers intervened as defendants.

On October 24, 2022, both the Oversight Board and the defendants filed cross-motions for summary judgment. The cross-motions for summary judgment were fully briefed as of December 20, 2022.

On March 22, 2023, the Court ruled on the Oversight Board and the Bondholders' pending motions for summary judgment. The Court held that: (i) the Trust Agreement granted the Bondholders security interests only in moneys actually deposited to the Sinking Fund, Self-insurance Fund, Capital Improvement Fund, Reserve Maintenance Fund, and Construction Fund (as defined in the Trust Agreement); (ii) Bondholders have perfected their liens in the Sinking Fund, Self-insurance Fund, and Reserve Maintenance Fund, over which the Trustee has established control; (iii) Bondholders have no security interest in the covenants and remedies provided for by the Trust Agreement; and (iv) based on PREPA's payment and equitable relief covenants in the Trust Agreement, Bondholders have an unsecured claim to be liquidated by reference to the value of future Net Revenues (as defined in the Trust Agreement) that would, under the waterfall provisions of the Trust Agreement and applicable nonbankruptcy law, have become collateral upon being deposited in the specified

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

funds and payable to the Bondholders over the remainder of the term of the Bonds (the Unsecured Net Revenue Claim).

Thereafter, the Court ruled that it would hold an estimation hearing for the Bondholders' Unsecured Net Revenue Claim the week of June 5, 2023. On May 9, 2023, the Oversight Board, FAFAA, the Unsecured Creditors' Committee, PREPA ERS, UTIER, and the PREPA's bondholders filed their opening briefs regarding the estimation. On May 22, 2023, the same parties, along with the Fuel Line Lenders, filed responsive briefs.

After the Title III Court held the estimation hearing, on June 26, 2023, the Court issued its opinion rejecting PREPA's bondholders' contention that their Unsecured Net Revenue Claim should be valued at the face value of the bonds (roughly \$8.5 billion) and, instead, valued the claim at \$2.4 billion.

On November 29, 2023, the Title III Court dismissed the remaining counterclaims asserted by the PREPA bondholders. Thereafter, the Oversight Board, multiple PREPA bondholder parties, FAFAA, and the Unsecured Creditors' Committee filed cross appeals of certain provisions of the dismissal order, judgment, or the interlocutory orders merged into the judgment (e.g., the summary judgment order and the estimation order). The matter has been fully briefed and argued and is currently under submission before the United States Court of Appeals for the First Circuit.

(c) PRASA

(i) Fiscal Plan

On June 23, 2023, the Oversight Board approved its latest fiscal plan for PRASA (the PRASA Fiscal Plan) pursuant to PROMESA and the requirements imposed by the Oversight Board. The PRASA Fiscal Plan includes a series of new initiatives, including, among others, rate increases, a Public Private Partnership project for improving commercial services, increases in government account collections, reductions in physical water losses, and new federal funding. Please refer to the PRASA Fiscal Plan published in the Oversight Board webpage.

(ii) State Revolving Funds Loan

After the July 2019 successful debt modification of PRASA's outstanding loans with the State Revolving Funds (SRF), in collaboration and agreement with the EPA, PRASA regained access to funds from the SRFs. Since then, PRASA entered into various financial agreements with the SRFs as follows:

- On September 22, 2022, PRASA signed a \$11.8 million financial agreement for PRSDWTRLF funding for drinking water projects.
- On January 24, 2023, a new financial agreement for PRWPCRF funding for \$24.2 million was executed.
- On June 12, 2023, a new financial agreement for PRSDWTRLF funding for \$62 million was executed, including \$54.5 million of loans and \$7.5 million in grants.

The loan portion of these agreements provide for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans are designated as Senior Indebtness under PRASA's Master Agreement of Trust.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2022

(d) Qualifying Modifications approved

The following Qualifying Modifications agreements were made effective after June 30, 2022:

<u>Entity</u>	<u>Effective Date</u>
PFC	January 12, 2023
TDF	December 4, 2023
PRIDCO	December 28, 2023
Ports-DRA	January 23, 2024

Refer to Note 3 for further information about each qualifying modification.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2022:

	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:				
Service cost	\$ 273,922	202,116	176,718	240,453
Interest	444,563	580,092	608,212	581,585
Effect of plan changes	—	—	—	(23,125)
Effect of economic/demographic gains(losses)	300,075	203,512	188,311	67,795
Effect of assumptions changes or inputs	205,834	3,376,117	696,516	(559,013)
Benefit payments	<u>(914,383)</u>	<u>(866,614)</u>	<u>(807,473)</u>	<u>(786,093)</u>
Net change in total pension liability	310,011	3,495,223	862,284	(478,398)
Total pension liability – beginning	<u>20,296,753</u>	<u>16,801,530</u>	<u>15,939,246</u>	<u>16,417,644</u>
Total pension liability – ending (a)	\$ <u>20,606,764</u>	<u>20,296,753</u>	<u>16,801,530</u>	<u>15,939,246</u>
Covered-employee payroll	724,584	783,529	771,280	933,331
Employer's total pension liability as a percentage of covered-employee payroll	2843.94%	2590.43%	2178.40%	1707.78%

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2022:

	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:				
Service cost	\$ 28,231	22,700	17,866	20,652
Interest	16,230	21,131	22,266	22,292
Effect of plan changes	—	—	—	(408)
Effect of economic/demographic gains(losses)	10,978	(6,700)	(13,977)	(38,268)
Effect of assumptions changes or inputs	7,338	116,119	24,574	(22,787)
Benefit payments	<u>(28,196)</u>	<u>(28,022)</u>	<u>(26,297)</u>	<u>(26,581)</u>
Net change in total pension liability	34,581	125,228	24,432	(45,100)
Total pension liability – beginning	<u>720,164</u>	<u>594,936</u>	<u>570,504</u>	<u>615,604</u>
Total pension liability – ending (a)	\$ <u>754,745</u>	<u>720,164</u>	<u>594,936</u>	<u>570,504</u>
Covered-employee payroll	29,628	30,193	31,335	33,343
Employer's total pension liability as a percentage of covered-employee payroll	2547.40%	2385.20%	1898.63%	1711.02%

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Pension Liability and Related Ratios for Single-Employer Pension Plans – ERS

(Amounts in thousands)

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) at June 30, 2022:

	<u>2022*</u>	<u>2021*</u> <u>as restated</u>	<u>2020*</u>	<u>2019*</u>
Total pension liability:				
Service cost	\$ 72,910	73,609	65,264	72,938
Interest	544,699	846,587	922,462	933,698
Effect of plan changes	—	(99,730)	—	(1,537,286)
Effect of economic/demographic gains(losses)	(464,419)	72,136	(311,625)	(891,346)
Effect of assumptions changes or inputs	227,436	3,636,383	1,006,069	(966,406)
Benefit payments	<u>(1,264,700)</u>	<u>(1,321,794)</u>	<u>(1,323,448)</u>	<u>(1,321,140)</u>
Net change in total pension liability	(884,074)	3,207,190	358,721	(3,709,542)
Total pension liability – beginning	<u>28,017,201</u>	<u>24,810,011</u>	<u>24,451,290</u>	<u>28,160,832</u>
Total pension liability – ending (a)	\$ <u>27,133,127</u>	<u>28,017,201</u>	<u>24,810,011</u>	<u>24,451,290</u>
Covered-employee payroll	2,355,084	2,419,975	2,551,657	2,777,507
Employer's total pension liability as a percentage of covered-employee payroll	1152%	1158%	972%	880%

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2022:

	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>
Total other postemployment benefits liability:					
Service cost	\$ —	—	—	—	—
Interest	10,207	14,616	16,409	16,166	14,621
Effect of plan changes	—	—	—	—	—
Effect of economic/demographic gains(losses)	(3,133)	(359)	(1,882)	3,914	(750)
Effect of assumptions changes or inputs	3,985	62,812	12,794	(13,242)	(39,718)
Benefit payments	<u>(32,180)</u>	<u>(33,405)</u>	<u>(33,984)</u>	<u>(34,814)</u>	<u>(36,493)</u>
Net change in total other postemployment benefits liability	(21,121)	43,664	(6,663)	(27,976)	(62,340)
Total other postemployment benefit liability – beginning	<u>477,835</u>	<u>434,171</u>	<u>440,834</u>	<u>468,810</u>	<u>531,150</u>
Total other postemployment benefits liability – ending (a)	\$ <u>456,714</u>	<u>477,835</u>	<u>434,171</u>	<u>440,834</u>	<u>468,810</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2022:

	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>
Total other postemployment benefits liability:					
Service cost	\$ 317	257	207	238	290
Interest	175	230	244	252	217
Effect of plan changes	—	—	—	—	—
Effect of economic/demographic gains(losses)	(32)	(21)	(128)	(622)	(48)
Effect of assumptions changes or inputs	70	1,177	234	(223)	(665)
Benefit payments	<u>(341)</u>	<u>(343)</u>	<u>(332)</u>	<u>(337)</u>	<u>(336)</u>
Net change in total other postemployment benefits liability	189	1,300	225	(692)	(542)
Total other postemployment benefits liability – beginning	<u>7,788</u>	<u>6,488</u>	<u>6,263</u>	<u>6,955</u>	<u>7,497</u>
Total other postemployment benefits liability – ending (a)	\$ <u>7,977</u>	<u>7,788</u>	<u>6,488</u>	<u>6,263</u>	<u>6,955</u>
Covered-employee payroll	29,628	30,193	31,335	33,343	31,829
Employer's other postemployment benefits liability as a percentage of covered-employee payroll	26.90%	25.80%	20.71%	18.78%	21.85%

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – ERS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) at June 30, 2022:

	2022*	2021* as restated	2020*	2019*	2018*
Total other postemployment benefits liability:					
Service cost	\$ —	—	—	—	—
Interest	19,372	27,865	31,271	33,689	31,158
Effect of plan changes	—	—	—	—	—
Effect of economic/demographic gains(losses)	(37,318)	(5,821)	4,817	(16,420)	(11,374)
Effect of assumptions changes or inputs	6,768	88,213	22,997	(26,209)	(197,793)
Benefit payments	<u>(65,175)</u>	<u>(68,078)</u>	<u>(68,893)</u>	<u>(69,577)</u>	<u>(73,482)</u>
Net change in total other postemployment benefits liability	(76,353)	42,178	(9,808)	(78,518)	(251,491)
Total other postemployment benefit liability – beginning	<u>873,279</u>	<u>831,101</u>	<u>840,909</u>	<u>919,427</u>	<u>1,170,918</u>
Total other postemployment benefits liability – ending (a)	\$ <u>796,926</u>	<u>873,279</u>	<u>831,101</u>	<u>840,909</u>	<u>919,427</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

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

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information – Unaudited

Schedule of Revenue and Expenditures – Budget and Actual –

Budgetary Basis – General Fund

Year ended June 30, 2022

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Revenue:			
Income taxes	\$ 4,687,382	5,430,694	6,370,872
Sales and use taxes	2,239,004	2,451,865	2,682,580
Excise taxes	2,798,964	2,920,243	2,828,833
Property taxes	3,043	3,277	201
Other taxes	14,472	15,586	7,411
Charges for services	69,856	75,231	113,775
Revenue from component units	9,309	10,025	24,842
Intergovernmental	208,569	230,098	429,519
Other	141,057	151,911	153,733
	<u>10,171,656</u>	<u>11,288,930</u>	<u>12,611,766</u>
Total revenue			
Expenditures – current:			
General government	1,888,706	15,610,556	15,297,179
Public safety	2,052,479	2,120,901	2,090,963
Health	2,131,454	1,285,084	1,230,817
Public housing and welfare	471,117	512,879	513,165
Education	3,002,683	3,049,269	3,055,911
Economic development	478,059	775,924	641,946
Intergovernmental	87,892	87,892	93,310
	<u>10,112,390</u>	<u>23,442,505</u>	<u>22,923,291</u>
Total expenditures			
Excess (deficiency) of revenue			
over expenditures	<u>59,266</u>	<u>(12,153,575)</u>	<u>(10,311,525)</u>
Other financing sources:			
Transfer in from Lotteries Fund	35,525	38,259	200,614
	<u>35,525</u>	<u>38,259</u>	<u>200,614</u>
Total other financing sources			
Excess (deficiency) of revenue and other financing sources			
over expenditures.	<u>\$ 94,791</u>	<u>(12,115,316)</u>	<u>(10,110,911)</u>

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2022

(1) Changes of Benefit Terms and Assumptions

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017, for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

Changes in assumptions

In the revised June 30, 2021, actuarial valuation, there was a decrease relating to the discount rate from 2.21% in 2020 to 2.16% in 2021.

In the revised June 30, 2020, actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019, actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

In the revised June 30, 2018, actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017, actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2017 to 3.58% in 2017.

(2) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the PROMB and takes into consideration the advice provided by the PRPB (annual economic growth forecasts and four-year capital improvements plan), the DOT (revenue estimates, accounting records, and the comprehensive annual financial report), FAFAA (the fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law."

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four -year capital improvements plan adopted by the PRPB.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2022 (including other financing sources) amounted to approximately \$10.1 billion, including several special budget appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately \$1.6 billion.

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2022

The PROMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

PROMESA has significantly changed the approval process for the Commonwealth's general fund budget. After fiscal year 2017 the process to approve the budget is controlled by the Oversight Board. The Oversight Board submits to the Governor a notice delineating a schedule for the development, submission, approval, and certification of proposed budgets to be submitted by the Governor and the Legislature to the Oversight Board for its approval. The Oversight Board, at its discretion, is responsible for determining the number of fiscal years to be covered by the budget submission.

The Oversight Board is responsible for submitting revenue estimates for the period covered by the proposed budgets to the Governor and Legislature for use by the Governor in developing budgets to be submitted for review and approval to the Oversight Board. The bill outlines three means by which a proposed budget could be approved.

- **Budget Submission by Governor.** If the Oversight Board determines that the proposed budget is compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to approve the proposed budget and submit it to the Legislature for approval. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to issue a "notice of violation" which would include recommendations to correct the deficiencies.
- **Oversight Board Budget.** Should the Governor fail to submit a compliant budget then the bill would permit the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory, and only to the Governor in the case of a territorial instrumentality.
- **Budget Adopted by Legislature.** The bill would direct the Legislature to adopt a proposed budget for submission to the Oversight Board. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the Oversight Board may issue a "notice of violation" which includes recommendations to correct the deficiencies.
- **Oversight Board Budget.** Should the Legislature fail to submit a compliant budget then the bill would allow the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory.
- **Certification of Budget as Compliant.** Under provisions of the bill, if the Governor and Legislature approve a territorial budget that is compliant, or if the Governor develops a budget for the Commonwealth that is compliant with the applicable fiscal plan, then the Oversight Board could issue a certificate of compliance. If the Governor and Legislature fail to develop and approve a budget that would be compliant, then the Oversight Board could develop and submit a budget to the Governor and Legislature and such budget would be deemed approved by the Governor and the Legislature. In the case of a territorial instrumentality, only the Governor could submit a proposed budget for review by the Oversight Board.
- **Budget jointly developed by the Oversight Board, the Governor, and Legislature.** The bill would allow the Oversight Board, the Governor, and the Legislature to work collaboratively to develop a consensus budget for the territorial government. In the case of a territorial instrumentality, the bill would allow the Oversight Board and the Governor to work collaboratively to develop a budget.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For U.S. GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a U.S. GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2022

any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenue is recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments must give effect to the “priority norms” established by law for the disbursement of public funds in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth’s guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit, and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare, and retirement systems; and (iv) all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the General Fund.

For these funds, a schedule of revenue and expenditures – budget and actual budgetary basis – General Fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The PROMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The PROMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department’s total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for General Fund expenditures, principal, and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

Notwithstanding the foregoing, the enactment of PROMESA (as discussed in Note 3) created an Oversight Board with the power to review and approve budgets for the Commonwealth and its instrumentalities. Under PROMESA, a fiscal plan for each covered entity must be certified by the Oversight Board before the Commonwealth can propose any fiscal year budgets. All budgets proposed after the enactment of PROMESA must be certified by the Oversight Board as being consistent with the applicable certified fiscal plan. For additional information on the budget certification process under PROMESA, refer to Note 3.

(3) Statutory (Budgetary) Accounting

The Commonwealth’s budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with U.S. GAAP. Revenue is generally recognized when cash is received. Income tax revenues are reduced for the amount of income tax refunds paid during the year and claimed but unpaid at year end. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2022

established, as established by Act No. 123-2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. For a reconciliation of the statement of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenue, expenditures, and changes in fund balances (deficit) for the General Fund, refer to Note 4 to Required Supplemental Information. The Special Revenue Funds do not have a legally mandated budget.

(4) Budget/U.S. GAAP Reconciliation

Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2022, is presented below for the General Fund (in thousands):

Excess of revenue and other financing sources under expenditures and other financing uses – budgetary basis	\$ (10,110,911)
Entity differences—excess of revenues and other financing sources over expenditures and other financing uses for:	
Nonbudgeted funds	973,589
Inclusion of agencies with independent treasuries	(3,215)
Timing differences:	
Adjustment for encumbrances	347,080
Current year expenditures against prior year encumbrances	(312,115)
Basis of accounting differences:	
Revenue accrual adjustment	524,975
Expenditures accrual adjustments	<u>5,297,366</u>
Excess of revenue and other financing sources over expenditures, other financing uses and extraordinary item – U.S. GAAP basis	\$ <u><u>(3,283,231)</u></u>

See accompanying independent auditors' report.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2022

(In thousands)

The General Fund is the primary operating fund of the Commonwealth. The General Fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures – budget and actual – General Fund (budgetary basis).

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2022

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Expenditures – Current:			
General government:			
Senate of Puerto Rico	\$ 26,921	30,909	30,909
House of Representatives of Puerto Rico	31,590	37,169	37,169
Comptroller's Office	44,651	44,651	44,651
Governor's Office	15,807	19,492	17,598
Office of Management and Budget (1)	595,013	100,218	253,431
Planning Board	11,295	22,597	12,424
Department of State	14,349	14,897	14,056
Department of the Treasury (1)	861,388	14,722,060	14,317,578
Office of the Administration and Transformation of Human Resources	6,660	7,238	7,824
Commonwealth Elections Commission	24,506	21,986	31,468
Federal Affairs Administration	2,827	2,935	2,696
General Services Administration	23,095	23,175	21,067
Civil Rights Commission	806	806	738
Office of the Citizen's Ombudsman	3,512	3,512	3,904
Government Ethics Board	9,123	9,204	9,204
Legislative Affairs Office	7,474	7,555	7,542
Office of the Superintendent of the Capitol	12,022	22,132	22,132
Legislative Donation Commission	21,316	21,316	21,245
Corporation "Enlace" Caño Martín Peña	29,825	29,825	3,752
Puerto Rico Statistics Institute	1,816	2,258	2,258
Office of the Governmental's Integrity and Efficiency	9,351	9,854	9,854
Public Service Commission	—	—	205
Retirement Board of the Government of Puerto Rico	62,610	344,832	320,267
Financial Oversight and Management Board for Puerto Rico	59,582	59,582	59,582
Public Buildings Authority	—	39,003	33,003
Office of Elections Comptroller	2,386	2,452	2,423
Public Service Regulatory Board	8,253	8,329	7,727
Appellative Board of the Personnel System Administration	2,528	2,569	2,472
Total general government	<u>1,888,706</u>	<u>15,610,556</u>	<u>15,297,179</u>
Public safety:			
Puerto Rico General Court of Justice	335,533	352,288	355,762
Civil Defense	—	6,900	2,856
Commission of Investigation, Processing and Appeals Board	499	499	436
Department of Justice	116,959	120,399	120,337
Puerto Rico Police Bureau	—	842,371	826,648
Puerto Rico Firefighters Bureau	—	35,141	32,212
Special Investigations Bureau	—	4,917	4,671
Puerto Rico National Guard	16,627	18,836	30,225
Consumer Affairs Department	11,810	12,950	12,452
Puerto Rico Public Safety Bureau	1,145,643	266,725	248,147
Automobile Accidents Compensation Administration	—	69	69
Department of Correction and Rehabilitation	361,604	366,002	364,583
Parole Board	2,597	2,624	2,360
Forensic Sciences Institute	16,716	18,462	17,367
Special Prosecutor Panel	3,086	3,113	3,113
Correctional Health	41,405	49,775	50,951
Medical Emergencies Service	—	19,830	18,774
Total public safety	<u>2,052,479</u>	<u>2,120,901</u>	<u>2,090,963</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2022

(In thousands)

	Original budget	Amended budget	Actual
Health:			
Department of Health	\$ 412,561	516,000	471,103
Puerto Rico Medical Services Administration	43,924	73,452	47,833
Mental Health and Drug Addiction Services Administration	117,164	122,699	124,699
Puerto Rico Diabetes Center	295	2,819	566
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	—	8,211	6,100
State Insurance Fund Corporation	—	1,748	1,748
Puerto Rico Health Insurance Administration	1,537,245	534,928	558,503
University of Puerto Rico Comprehensive Cancer Center	20,265	25,227	20,265
	<u>2,131,454</u>	<u>1,285,084</u>	<u>1,230,817</u>
Public housing and welfare:			
Puerto Rico Office for Socioeconomic and Community Development	2,539	5,320	4,148
Department of Labor and Human Resources	53,455	56,850	65,268
Labor Relations Board	876	926	919
Department of Housing	23,589	30,788	13,014
Department of Recreation and Sports	30,069	32,069	42,667
Administration for the Horse Racing Sport and Industry	—	—	19
Women's Affairs Commission	2,864	5,100	4,014
Public Housing Administration	3,161	5,317	5,215
Office of the Veteran's Ombudsman	2,305	2,314	1,986
Department of Family	45,525	47,963	47,110
Family and Children Administration	171,494	179,798	183,342
Minors Support Administration	11,171	19,037	20,399
Vocational Rehabilitation Administration	22,543	23,709	23,651
Social Economic Development Administration	88,111	89,530	87,763
Office of the Disabled Persons Ombudsman	1,647	1,922	1,756
Office for Elderly Affairs	2,635	2,691	2,660
Company for the Integral Development of the Peninsula de Cantera	574	574	574
Patient Ombudsman	1,535	1,752	1,742
Administration for the Care and Development of the Childhood	7,024	7,219	6,918
	<u>471,117</u>	<u>512,879</u>	<u>513,165</u>
Education:			
Department of Education	2,342,589	2,383,835	2,388,243
Institute of Puerto Rican Culture	14,825	16,533	16,707
Puerto Rico School of Plastics Arts	2,512	2,554	2,554
State Office for Historic Preservation	1,894	2,125	1,783
University of Puerto Rico	628,510	628,510	631,908
Musical Arts Corporation	4,913	5,064	5,064
Fine Arts Center Corporation	3,049	4,684	3,984
Puerto Rico Public Broadcasting Corporation	—	591	591
Puerto Rico Conservatory of Music Corporation	4,391	5,373	4,986
Puerto Rico Council on Education	—	—	91
	<u>3,002,683</u>	<u>3,049,269</u>	<u>3,055,911</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2022

(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>
Economic development:			
Department of Transportation and Public Works	\$ 134,236	267,115	115,295
Department of Natural and Environmental Resources	95,303	116,796	113,542
Department of Agriculture	35,739	38,454	36,985
Cooperative Enterprises Development Administration	2,558	2,710	2,291
Department of Economic Development and Commerce	18,984	32,102	24,607
Agricultural Enterprises Development Administration	6,462	7,730	7,737
Environmental Quality Board	—	—	148
Energy Affairs Administration	—	—	16
Information and Technology Communication Office	38,634	40,838	49,481
Ponce Ports Authority	684	991	991
Puerto Rico Gaming Commission	2,152	2,234	2,549
Puerto Rico Electric Power Authority	—	—	—
Puerto Rico Infrastructure Financing Authority	1,717	41,439	5,029
Puerto Rico Highway and Transportation Authority	—	14,708	72,411
Puerto Rico Industrial Commission	—	119	—
Puerto Rico Housing Finance Authority	7,880	7,880	7,880
Puerto Rico Integrated Transportation Authority	30,330	71,587	80,612
Puerto Rico Land Administration	—	39	39
Puerto Rico Land Authority	—	80	80
Permits Management Office	—	—	1,263
Puerto Rico Ports Authority	—	6,154	6,161
Puerto Rico Fiscal Agency and Financial Advisory Authority	83,978	104,317	100,357
Puerto Rico Public Partnership Authority	15,365	16,230	11,560
Culebra Conservation and Development Authority	231	231	231
Ports of Americas Authority	1,521	1,521	1,521
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	2,285	2,649	1,160
Total economic development	<u>478,059</u>	<u>775,924</u>	<u>641,946</u>
Intergovernmental – Municipal Services Administration	87,892	87,892	93,310
Total expenditures	<u>\$ 10,112,390</u>	<u>23,442,505</u>	<u>22,923,291</u>

(1) As a department and a fiscal agent.

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2022

(In thousands)

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

(1) Public Buildings Authority Special Revenue Fund

The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's Primary Government agencies.

(2) Puerto Rico Fiscal Agency and Finance Advisory Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Fiscal Agency and Finance Advisory Authority, a blended component unit, is used to account for the moneys received from the Commonwealth for the purpose of overseeing compliance with the certified budget and fiscal plan pursuant to the PROMESA Act of 2016; revise matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Commonwealth; enter into a creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body.

(3) Puerto Rico Infrastructure Financing Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to \$117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which are collected by the U.S. Treasury and returned to the Commonwealth. Under Act No. 44-1988, as amended, the Commonwealth conditionally allocates to this fund the first \$117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds.

(4) Ponce Authority's Special Revenue Fund

The special revenue fund of Ponce Authority, a blended component unit, is used to account for its remaining legal and certain other administrative requirements resulting after the transfer of all rights and duties to Ponce Ports Authority. The main purpose of the Ponce Authority was the planning, development, and construction of a large-scale container terminal in the city of Ponce, Puerto Rico.

(5) Special Communities Perpetual Trust's Special Revenue Fund

The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain under privileged communities.

(6) Puerto Rico System of Annuities and Pension for Teachers

The special revenue fund of the Puerto Rico System of Annuities and Pension for Teachers, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2022

(In thousands)

(7) Retirement System of the Judiciary of the Commonwealth of Puerto Rico

The special revenue fund of the Retirement System of the Judiciary of the Commonwealth of Puerto Rico, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(8) The Children's Trust Special Revenue Fund

The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998, between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

(9) University of Puerto Rico Comprehensive Cancer Center's Special Revenue Fund

The special revenue fund of the University of Puerto Rico Comprehensive Cancer Center, a blended component unit, is used to account for the moneys received from the Commonwealth and certain other grants from both the private sector and the Federal government, to execute public policy related to the prevention, orientation, investigation, and treatment of cancer in Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

(1) Public Buildings Authority Debt Service Fund

A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Primary Government agencies. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

(2) Puerto Rico Infrastructure Financing Authority's Debt Service Fund

The debt service fund of the Puerto Rico Infrastructure Financing Authority accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its special tax revenue bonds. These resources are received from operating transfers from the Puerto Rico Infrastructure Financing Authority Special Revenue Fund.

(3) Puerto Rico Maritime Shipping Authority Debt Service Fund

This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized by appropriations and operating transfers from the General Fund.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2022

(In thousands)

(4) The Children's Trust Debt Service Fund

The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, the Puerto Rico Infrastructure Financing Authority's Capital Project Fund, proprietary fund types, pension trust funds, and discretely presented component units.

(1) Commonwealth of Puerto Rico Capital Project Fund

These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

(2) Public Buildings Authority's Capital Projects Fund

The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

(3) Puerto Rico Infrastructure Financing Authority's Capital Projects Fund

The Puerto Rico Infrastructure Financing Authority's capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned for the acquisition or construction of capital assets and capital improvements, not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2021
(In thousands)

					Special Revenue				
	Public Buildings Authority	Puerto Rico Fiscal Agency and Financial Advisory Authority	Puerto Rico Infrastructure Financing Authority	Ponce Authority	Puerto Rico Systems of Annuities and Pensions for Teachers	Retirement System of the Judiciary of the Commonwealth of Puerto Rico	Special Communities Perpetual Trust	The Children's Trust	University of Puerto Rico Comprehensive Cancer Center
Assets:									
Cash and cash equivalents in commercial banks	\$ 38,961	129,149	12,368	639	10,336	11	—	10,490	6,028
Investments	—	—	—	—	5,357	—	—	—	—
Receivables – net:									
Intergovernmental	—	—	—	—	—	—	—	—	2,254
Accounts	—	30	67	—	—	—	—	—	3,169
Loans	—	—	—	—	113,972	85	—	—	—
Accrued interest	1	—	—	—	—	—	—	—	—
Leases	2	—	—	—	—	—	—	—	—
Other	—	—	—	—	1,252	—	—	—	95
Due from:									
Other funds	42,756	—	22,565	435	—	—	—	—	6,100
Other governmental entities	—	1,226	302	63	—	—	—	—	—
Restricted assets:									
Cash and cash equivalents in commercial banks	64,038	8,786	140,167	—	—	146	1,260	—	40,916
Investments	—	—	—	—	—	—	—	—	—
Due from other funds	—	—	—	—	—	—	720	—	—
Other	—	—	382	—	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—	—	—
Total assets	\$ 145,758	139,191	175,851	1,137	130,917	242	1,980	10,490	58,562
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	\$ 9,233	31,715	100,755	937	4,279	78	20,788	122	4,586
Due to:									
Other funds	—	1,457	15,466	4,022	—	—	20	—	—
Component units	—	—	4,556	—	—	—	—	—	3,701
Other governmental entities	7,439	—	3,201	28	714	—	25	—	1,587
Interest payable	—	—	—	—	—	—	—	—	49,864
Unearned revenue	1,348	6,663	—	—	—	—	—	—	—
Notes payable to GDB	—	—	—	1,700	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—	—	—	—
Total liabilities	18,020	39,835	123,978	6,687	4,993	78	20,833	122	59,738
Deferred inflow of resources:									
Global tobacco settlement agreement	—	—	—	—	—	—	—	—	—
Total deferred inflow of resources	—	—	—	—	—	—	—	—	—
Fund balances:									
Restricted for:									
Education	—	—	—	—	125,924	—	—	—	—
Public Safety	—	—	—	—	—	164	—	—	—
Debt service	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—
Committed to:									
Public housing and welfare	—	—	—	—	—	—	—	10,085	—
Capital projects	—	—	—	—	—	—	—	—	2,756
Assigned to:									
Public housing and welfare	—	—	—	—	—	—	—	—	—
Capital projects	127,738	—	51,873	—	—	—	—	—	—
General Government	—	99,356	—	—	—	—	—	283	—
Unassigned (deficit)	—	—	—	(5,550)	—	—	(18,853)	—	(3,932)
Total fund balances (deficit)	127,738	99,356	51,873	(5,550)	125,924	164	(18,853)	10,368	(1,176)
Total liabilities, deferred inflow of resources, and fund balances (deficit)	\$ 145,758	139,191	175,851	1,137	130,917	242	1,980	10,490	58,562

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2021
(In thousands)

	Debt Service				Capital Projects			Eliminations	Total Nonmajor Governmental Funds
	The Children's Trust	Public Buildings Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Infrastructure Financing Authority		
Assets:									
Cash and cash equivalents in commercial banks	\$	—	—	—	—	—	—	—	207,982
Investments		—	—	—	—	—	—	—	5,357
Receivables – net:									
Intergovernmental		—	—	—	—	—	—	—	2,254
Accounts		—	—	—	710	—	—	—	3,976
Loans		—	—	—	—	—	—	—	114,057
Accrued interest		—	—	—	—	—	—	—	1
Leases		—	—	—	—	—	—	—	2
Other		37,229	—	—	—	—	—	—	38,576
Due from:									
Other funds		—	—	—	—	—	(8,154)	—	63,702
Other governmental entities		—	—	—	—	—	—	—	1,591
Restricted assets:									
Cash and cash equivalents in commercial banks		—	1	—	13,166	—	—	—	268,480
Investments		105,499	—	—	—	—	—	—	105,499
Due from other funds		—	—	—	—	—	—	—	720
Other		470	—	—	—	—	—	—	852
Real estate held for sale or future development		—	—	—	1,854	—	—	—	1,854
Total assets	\$	143,198	1	—	15,730	—	(8,154)	—	814,903
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	\$	—	—	8	340	—	—	—	172,841
Due to:									
Other funds		—	—	—	—	—	(8,154)	—	12,811
Component units		—	—	—	—	—	—	—	8,257
Other governmental entities		—	—	7	—	—	—	—	13,001
Interest payable		—	1,317	47,860	—	—	—	—	99,041
Unearned revenue		—	—	—	—	—	—	—	8,011
Notes payable to GDB		—	—	—	—	—	—	—	1,700
Commonwealth appropriation bonds		—	675	—	—	—	—	—	675
Total liabilities		—	1,992	47,875	340	—	(8,154)	—	316,337
Deferred inflow of resources:									
Global tobacco settlement agreement		37,229	—	—	—	—	—	—	37,229
Total deferred inflow of resources		37,229	—	—	—	—	—	—	37,229
Fund balances:									
Restricted for:									
Education		—	—	—	—	—	—	—	125,924
Public safety		—	—	—	—	—	—	—	164
Debt service		105,969	—	—	—	—	—	—	105,969
Capital projects		—	—	—	15,390	—	—	—	15,390
Committed to:									
Public housing and welfare		—	—	—	—	—	—	—	10,085
Capital projects		—	—	—	—	—	—	—	2,756
Assigned to:									
Capital projects		—	—	—	—	—	—	—	179,611
General Government		—	—	—	—	—	—	—	99,639
Unassigned (deficit)		—	(1,991)	(47,875)	—	—	—	—	(78,201)
Total fund balances (deficit)		105,969	(1,991)	(47,875)	15,390	—	—	—	461,337
Total liabilities, deferred inflow of resources, and fund balances (deficit)	\$	143,198	1	—	15,730	—	(8,154)	—	814,903

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2022

(In thousands)

				Special Revenue					
	Public Buildings Authority	Puerto Rico Fiscal Agency and Financial Advisory Authority	Puerto Rico Infrastructure Financing Authority	Ponce Authority	Puerto Rico Systems of Annuities and Pensions for Teachers	Retirement System of the Judiciary of the Commonwealth of Puerto Rico	Special Communities Perpetual Trust	The Children's Trust	University of Puerto Rico Comprehensive Cancer Center
Revenue:									
Intergovernmental	\$ 2,514	10,656	112,302	—	—	—	—	—	5,292
Interest and investment earnings	27	66	—	—	—	—	—	—	—
Other	1,665	4,130	988	—	1,088	—	153	—	12,333
Total revenue	4,206	14,852	113,290	—	1,088	—	153	—	17,625
Expenditures:									
Current:									
General government	231,624	83,202	91,289	—	—	—	—	—	—
Health	—	—	—	—	—	—	—	114	50,799
Public housing and welfare	—	—	—	—	—	—	871	—	—
Education	—	—	—	—	3,406	—	—	—	—
Economic development	—	—	—	12	—	—	—	—	—
Capital outlays	—	894	1,635	—	—	—	—	—	12,845
Debt service:									
Principal	—	54	148	—	—	—	—	—	—
Interest and other	—	37	—	—	—	—	—	—	6,727
Total expenditures	231,624	84,187	93,072	12	3,406	—	871	114	70,371
Excess (deficiency) of revenue over (under) expenditures	(227,418)	(69,335)	20,218	(12)	(2,318)	—	(718)	(114)	(52,746)
Other financing sources (uses):									
Transfers in	419,685	93,931	—	198	—	—	714	28	20,849
Transfers out	(69,455)	—	(61,752)	—	(136,822)	(34,936)	—	—	—
Proceeds from long term debt issued	—	705	209	—	—	—	—	—	887
Total other financing sources	350,230	94,636	(61,543)	198	(136,822)	(34,936)	714	28	21,736
Extraordinary item:									
Gain (loss) on PROMESA Tittle III transaction	—	—	—	—	—	—	—	—	—
Total extraordinary item	—	—	—	—	—	—	—	—	—
Net change in fund balances	122,812	25,301	(41,325)	186	(139,140)	(34,936)	(4)	(86)	(31,010)
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	4,926	74,055	93,198	(5,736)	265,064	35,100	(18,849)	10,454	29,834
Fund balances (deficit) – end of year	\$ 127,738	99,356	51,873	(5,550)	125,924	164	(18,853)	10,368	(1,176)

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2022

(In thousands)

	Debt Service				Capital Projects			Eliminations	Total Nonmajor Governmental Funds
	The Children's Trust	Public Buildings Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Infrastructure Financing Authority		
Revenue:									
Intergovernmental	\$ —	—	—	—	—	—	—	—	130,764
Interest and investment earnings	3,434	—	—	—	—	—	—	—	3,527
Other	—	—	—	—	—	—	—	—	20,357
Total revenue	3,434	—	—	—	—	—	—	—	154,648
Expenditures:									
Current:									
General government	—	—	—	—	(2)	—	—	—	406,113
Health	—	—	—	—	—	—	—	—	50,913
Public housing and welfare	—	—	—	—	—	—	—	—	871
Education	—	—	—	—	—	—	—	—	3,406
Economic development	—	—	—	8	—	—	—	—	20
Capital outlays	—	—	—	—	1,761	3,002	—	—	20,137
Debt service:									
Principal	50,650	—	193,500	—	—	—	—	—	244,352
Interest and other	36,770	—	30,288	6,837	—	—	—	—	80,659
Total expenditures	87,420	—	223,788	6,845	1,759	3,002	—	—	806,471
Excess (deficiency) of revenue over (under) expenditures	(83,986)	—	(223,788)	(6,845)	(1,759)	(3,002)	—	—	(651,823)
Other financing sources (uses):									
Transfers in	82,492	1,232,897	258,459	7	1,712	—	—	(137,706)	1,973,266
Transfers out	(28)	—	—	—	(33,998)	(75,926)	—	137,706	(275,211)
Proceeds from long term debt issued	—	—	—	—	49	—	—	—	1,850
Total other financing sources	82,464	1,232,897	258,459	7	(32,237)	(75,926)	—	—	1,699,905
Extraordinary item:									
Gain (loss) on PROMESA Tittle III transaction	—	—	662,435	—	—	—	—	—	662,435
Total extraordinary item	—	—	662,435	—	—	—	—	—	662,435
Net change in fund balances	(1,522)	1,232,897	697,106	(6,838)	(33,996)	(78,928)	—	—	1,710,517
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	107,491	(1,232,897)	(699,097)	(41,037)	49,386	78,928	—	—	(1,249,180)
Fund balances (deficit) – end of year	\$ 105,969	—	(1,991)	(47,875)	15,390	—	—	—	461,337

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Proprietary Funds

Year ended June 30, 2022

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Bureau of Emergency Services 9-1-1

This fund was created by Act No. 144-1994. The Bureau of Emergency Services 9-1-1 is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number and transferring these to the appropriate response agencies.

Disability Insurance

This fund was created by Act No. 139-1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to employment.

Drivers' Insurance

This fund was created by Act No. 428-1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Lotteries Fund

This fund accounts for the assets and operations of the two lottery systems administered by the Commonwealth.

Ponce Ports Authority

This fund was created by Act No. 240-2011. It is used to account for the development of the container terminal formerly undertaken by Ponce Authority and handle such facilities future operations.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund

This fund was created by Act No. 32-1997. It is administered, pursuant to Act No. 9-1970, as amended, by the PRDOH. Pursuant to such act, the PRDOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

Puerto Rico Water Pollution Control Revolving Fund

This fund, administered by the EQB, is authorized to enter into operating agreements and capitalization grant agreements with the EPA, mostly for water infrastructure projects, under a joint cooperation agreement between the EQB, PRIFA, PRASA, and the FAFAA, where each entity has agreed to assume their corresponding responsibilities.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Nonmajor Proprietary Funds

June 30, 2022

(In thousands)

Business-Type Activities – Nonmajor Enterprise Funds								
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	Total
Assets:								
Current assets:								
Cash and cash equivalents in commercial banks	\$ 51,568	46,269	6,962	135,951	1,530	—	—	242,280
Receivables - net:								
Insurance premiums	—	4,120	1,071	—	—	—	—	5,191
Intergovernmental	—	—	—	—	8	—	—	8
Accounts	2,387	—	—	2,760	34	—	—	5,181
Accrued interest	—	161	—	—	—	—	—	161
Other	357	137	—	—	119	—	—	613
Due from other funds	—	—	—	52,057	4,022	—	—	56,079
Other assets	14	—	—	680	—	—	—	694
Restricted assets:								
Cash and cash equivalents in commercial banks	—	2,870	9,433	—	481	61,956	176,237	250,977
Receivables - net:								
Accounts	—	—	—	—	—	—	18	18
Accrued interest	—	—	—	—	—	44	401	445
Loans from component units	—	—	—	—	—	3,300	6,700	10,000
Total current assets	54,326	53,557	17,466	191,448	6,194	65,300	183,356	571,647
Noncurrent assets:								
Receivables - net:								
Loans from component units – restricted	—	—	—	—	—	179,887	424,387	604,274
Restricted investments	—	28,255	—	—	—	—	—	28,255
Other restricted assets	—	—	—	12,362	—	—	37	12,399
Land and other nondepreciable assets	490	—	—	—	28,643	—	—	29,133
Capital assets, net of depreciation/amortization	6,631	520	641	229	14	—	—	8,035
Total assets	61,447	82,332	18,107	204,039	34,851	245,187	607,780	1,253,743
Deferred outflows of resources:								
Other postemployment benefits related	4	98	46	139	—	—	—	287
Pension related	525	5,473	2,562	8,562	—	—	—	17,122
Total deferred outflows of resources	529	5,571	2,608	8,701	—	—	—	17,409
Liabilities and net position:								
Current liabilities:								
Accounts payable and accrued liabilities	1,404	260	249	8,530	1,095	278	783	12,599
Due to other funds	9,235	—	—	—	63	—	—	9,298
Interest payable	—	1	1	—	11,331	—	—	11,333
Unearned revenue	—	1,587	16	13,565	—	—	—	15,168
Lease liability	552	129	158	—	—	—	—	839
Compensated absences	264	155	69	96	—	—	—	584
Obligation for unpaid lottery prizes	—	—	—	120,215	—	—	—	120,215
Voluntary termination benefits payable	—	—	—	256	—	—	—	256
Liability for insurance benefits	—	466	95	—	—	—	—	561
Total pension liability	525	1,760	824	8,538	—	—	—	11,647
Total other postemployment benefits liability	4	97	46	139	—	—	—	286
Total current liabilities	11,984	4,455	1,458	151,339	12,489	278	783	182,786
Noncurrent liabilities:								
Notes payable to component units	—	—	—	—	20,762	—	—	20,762
Lease liability	1,398	393	485	—	—	—	—	2,276
Compensated absences	1,057	343	132	949	—	—	—	2,481
Obligation for unpaid lottery prizes	—	—	—	37,131	—	—	—	37,131
Voluntary termination benefits payable	—	—	—	1,073	—	—	—	1,073
Total pension liability	2,468	33,840	15,838	45,357	—	—	—	97,503
Total other postemployment benefits liability	38	1,149	538	1,543	—	—	—	3,268
Total liabilities	16,945	40,180	18,451	237,392	33,251	278	783	347,280
Deferred inflows of resources:								
Pension related	125	1,684	788	2,938	—	—	—	5,535
Net position:								
Net investment in capital assets	7,121	—	—	229	3,577	—	—	10,927
Restricted for emergency services	6,269	—	—	—	—	—	—	6,269
Restricted for lending activities	—	—	—	—	—	244,909	606,997	851,906
Restricted for payment of insurance benefits	—	30,659	9,433	—	—	—	—	40,092
Unrestricted	31,516	15,380	(7,957)	(27,819)	(1,977)	—	—	9,143
Total net position	\$ 44,906	46,039	1,476	(27,590)	1,600	244,909	606,997	918,337

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenses, and Changes in Fund Net Position – Nonmajor Proprietary Funds

Year ended June 30, 2022

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	Total
Operating revenue:								
Insurance premiums	\$ —	19,782	5,402	—	—	—	—	25,184
Emergency telephone service charges	23,122	—	—	—	—	—	—	23,122
Lottery ticket sales	—	—	—	804,045	—	—	—	804,045
Interest	—	—	—	—	—	—	516	516
Other	—	—	—	46	115	—	—	161
Total operating revenue	23,122	19,782	5,402	804,091	115	—	516	853,028
Operating expenses:								
Insurance benefits	—	1,235	567	—	—	—	—	1,802
Lottery prizes	—	—	—	521,238	—	—	—	521,238
General, administrative, and other operating expenses	11,213	3,627	2,065	78,277	1,534	687	785	98,188
Total operating expenses	11,213	4,862	2,632	599,515	1,534	687	785	621,228
Operating income (loss)	11,909	14,920	2,770	204,576	(1,419)	(687)	(269)	231,800
Nonoperating revenue (expenses):								
U.S. government grants	—	—	—	—	1,002	10,227	19,200	30,429
Contributions to component units	—	—	—	—	—	(9,674)	(1,496)	(11,170)
Interest and investment earnings	16	(4,089)	—	76	—	134	377	(3,486)
Interest expense	(109)	—	—	—	(1,490)	—	—	(1,599)
Other	101	—	4	—	(397)	—	—	(292)
Total nonoperating revenue (expenses)	8	(4,089)	4	76	(885)	687	18,081	13,882
Income (loss) before transfers	11,917	10,831	2,774	204,652	(2,304)	—	17,812	245,682
Transfers from other funds	—	—	—	—	627	—	—	627
Transfers to other funds	(5,787)	—	—	(204,652)	—	—	—	(210,439)
Net change in net position	6,130	10,831	2,774	—	(1,677)	—	17,812	35,870
Net position (deficit) – beginning of year, as restated (see note 4 to financial statement)	38,776	35,208	(1,298)	(27,590)	3,277	244,909	589,185	882,467
Net position (deficit) – end of year	\$ 44,906	46,039	1,476	(27,590)	1,600	244,909	606,997	918,337

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Nonmajor Proprietary Funds

Year ended June 30, 2022

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							Total
	Bureau of Emergency Services 9-1-1	Disability Insurance	Drivers' Insurance	Lotteries	Ponce Ports Authority	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Water Pollution Control Revolving Fund	
Cash flows from operating activities:								
Receipts from customers and users	\$ 23,618	18,984	5,692	803,871	88	—	—	852,253
Other receipts	—	—	—	46	—	—	—	46
Payments to suppliers	(2,049)	(1,271)	(495)	(68,975)	(991)	(896)	(628)	(75,305)
Payments to employees	(7,455)	(2,774)	(1,511)	(6,065)	(118)	—	—	(17,923)
Loans originated	—	—	—	—	—	(1,536)	(18,033)	(19,569)
Principal collected on loans	—	—	—	—	—	3,300	6,718	10,018
Interest received on loans	—	—	—	—	—	—	878	878
Payments of lottery prizes	—	—	—	(522,855)	—	—	—	(522,855)
Payments of insurance benefits	—	(1,253)	(578)	—	—	—	—	(1,831)
Net cash provided by (used in) operating activities	14,114	13,686	3,108	206,022	(1,021)	868	(11,065)	225,712
Cash flows from noncapital financing activities:								
U.S. government grants	—	—	—	—	1,109	10,228	20,157	31,494
Contributions to component units	—	—	—	—	—	(9,675)	(1,496)	(11,171)
Transfers from other funds	—	—	15	—	817	—	—	832
Transfers to other funds	(2,967)	—	—	(274,064)	—	—	—	(277,031)
Net cash provided by (used in) noncapital financing activities	(2,967)	—	15	(274,064)	1,926	553	18,661	(255,876)
Cash flows from capital and related financing activities:								
Principal and interest payments	(635)	(129)	(267)	—	—	—	—	(1,031)
Capital expenditures	(108)	—	—	(135)	(14)	—	—	(257)
Net cash provided by (used in) by capital and related financing activities	(743)	(129)	(267)	(135)	(14)	—	—	(1,288)
Cash flows from investing activities:								
Interest collected on deposits, and investments	124	—	—	76	—	94	377	671
Proceeds from sales and maturities of investments	—	774	—	—	—	—	—	774
Net cash provided by (used in) investing activities	124	774	—	76	—	94	377	1,445
Net increase (decrease) in cash and cash equivalents	10,528	14,331	2,856	(68,101)	891	1,515	7,973	(30,007)
Cash and cash equivalents – beginning of year, as restated	41,040	34,808	13,539	204,052	1,120	60,441	168,264	523,264
Cash and cash equivalents – end of year	\$ 51,568	49,139	16,395	135,951	2,011	61,956	176,237	493,257
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ 11,909	14,920	2,770	204,576	(1,419)	(687)	(269)	231,800
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	1,105	95	116	91	1	—	—	1,408
Changes in operating assets and liabilities:								
Decrease (increase) in accounts receivable	496	(801)	255	(825)	(29)	—	362	(542)
Increase (decrease) in due from component units	—	—	—	—	—	1,764	(11,315)	(9,551)
Decrease (increase) in other assets	—	—	—	534	—	—	—	534
Decrease (increase) in deferred outflow of resources	108	994	465	1,813	—	—	—	3,380
Increase (decrease) in accounts payable and accrued liabilities	139	219	303	3,713	426	(209)	157	4,748
Increase (decrease) in unearned revenue	—	2	3	117	—	—	—	122
Increase (decrease) in compensated absences	450	14	35	(118)	—	—	—	381
Decrease in deferred inflow of resources	3	26	12	(200)	—	—	—	(159)
Decrease in total pension liability	(92)	(1,693)	(808)	(1,820)	—	—	—	(4,413)
Increase (decrease) in otherpostemployment benefits liability	(4)	(71)	(33)	(169)	—	—	—	(277)
Increase in obligation for unpaid lottery prizes	—	—	—	(1,617)	—	—	—	(1,617)
Decrease in voluntary termination benefits payable	—	—	—	(73)	—	—	—	(73)
Increase (decrease) in liability for disability benefits payable	—	(19)	(10)	—	—	—	—	(29)
Total adjustments	2,205	(1,234)	338	1,446	398	1,555	(10,796)	(6,088)
Net cash provided by (used in) operating activities	\$ 14,114	13,686	3,108	206,022	(1,021)	868	(11,065)	225,712

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2022

These entities, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statement No. 39 and No. 61, are discretely presented in a separate column of the basic financial statements of the Primary Government principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because these discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority and the Puerto Rico Science, Technology and Research Trust, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These entities have been classified as nonmajor discretely presented component units because management believes they do not meet the following factors for inclusion as major: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. The accounting principles followed by each of the discretely presented component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements.

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Center of Diabetes for Puerto Rico	Company for the Integral Development of the "Peninsula de Cantera"	Corporation for the "Caño Martin Peña" ENLACE Project
Assets:						
Cash and cash equivalents in commercial banks	\$ 84,769	49,428	38,189	338	1,802	6,919
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	145,354	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	133	—
Accounts	28	14,770	10,998	1	—	—
Loans and advances	—	—	—	—	5,527	—
Accrued interest	—	385	—	—	—	—
Lease receivable	579	1,085	4,410	—	—	—
Other	4,261	52	567	89	4	—
Due from – net:						
Primary government	—	—	—	—	—	—
Component units	3,413	—	—	—	—	—
Other governmental entities	407	776	757	—	—	53
Inventories	3,178	—	1,121	1	—	—
Prepaid expenses	956	—	1,801	—	39	—
Other assets	—	374	—	—	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	252	12,617	—	—	—
Investments	—	—	—	—	—	—
Other restricted assets	—	—	—	—	497	—
Real estate held for sale or future development	—	—	—	—	1,061	—
Capital assets:						
Land and other nondepreciable	3,739	901	1,971	—	80	2,112
Other capital assets, net of depreciation/amortization	16,019	6,090	18,289	358	983	156
Total assets	<u>117,349</u>	<u>219,467</u>	<u>90,720</u>	<u>787</u>	<u>10,126</u>	<u>9,240</u>
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	—	—
Other postemployment benefits related	555	393	57	—	—	—
Pension related	33,156	42,942	7,480	—	—	—
Total deferred outflows of resources	<u>33,711</u>	<u>43,335</u>	<u>7,537</u>	<u>—</u>	<u>—</u>	<u>—</u>
Liabilities:						
Accounts payable and accrued liabilities	33,183	4,551	18,585	81	1,310	2,894
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	1,389	11,881	9,715	—	—	—
Component units	2,638	—	6,912	—	37,791	—
Other governmental entities	843	—	1,953	218	—	—
Interest payable	203	—	—	—	20,589	—
Unearned revenue	—	43,333	20,623	—	50	—
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	31	607	48	—	—	—
Compensated absences	1,032	2,068	1,686	44	41	1
Voluntary termination benefits payable	1,749	635	—	—	—	—
Liability for insurance benefit	—	59,289	—	—	—	—
Total pension liability	9,766	12,323	1,612	—	—	—
Total other postemployment benefits liability	555	393	57	—	—	—
Other long-term liabilities	—	—	65	—	—	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	121	2,079	83	—	—	—
Compensated absences	442	—	—	1	—	254
Voluntary termination benefits payable	5,798	4,975	—	—	—	—
Net pension obligation	—	—	—	—	—	—
Total pension liability	194,264	242,628	29,683	—	—	—
Total other postemployment benefits liability	6,246	4,275	613	—	—	—
Other long-term liabilities	674	2,000	35	—	—	—
Total liabilities	<u>258,934</u>	<u>391,037</u>	<u>91,670</u>	<u>344</u>	<u>59,781</u>	<u>3,149</u>
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Leases	560	1,985	4,320	—	—	—
Pension related	10,916	12,500	1,302	—	—	—
Total deferred inflows of resources	<u>11,476</u>	<u>13,585</u>	<u>5,622</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net position:						
Net investment in capital assets	19,558	6,991	20,128	357	1,063	2,268
Restricted for:						
Capital projects	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	—	—	—	497	—
Unrestricted (deficit)	<u>(138,908)</u>	<u>(148,811)</u>	<u>(19,163)</u>	<u>86</u>	<u>(51,215)</u>	<u>3,823</u>
Total net position (deficit)	<u>\$ (119,350)</u>	<u>(141,820)</u>	<u>965</u>	<u>443</u>	<u>(49,655)</u>	<u>6,091</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Government Development Bank Debt Restructuring Authority	Institute of Puerto Rican Culture
Assets:						
Cash and cash equivalents in commercial banks	\$ 590	105,847	10,585	793	—	37,314
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	40,970	—	—	—	—
Receivables – net:						
Intergovernmental	—	—	—	—	—	—
Accounts	—	—	—	732	—	534
Loans and advances	—	12,034	—	—	—	—
Accrued interest	—	96	—	—	25,093	—
Lease receivable	—	—	—	506	—	—
Other	—	—	146	—	4,942	—
Due from – net:						
Primary government	—	7,174	—	—	—	—
Component units	—	—	2,638	—	45,256	—
Other governmental entities	—	—	660	—	1,018,572	—
Inventories	—	—	—	—	—	1,890
Prepaid expenses	—	—	7	1,568	—	—
Other assets	—	187	—	—	200	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	—	11,845	55,862	662
Investments	—	—	—	—	86,992	—
Other restricted assets	—	—	—	—	—	—
Real estate held for sale or future development	—	231	—	—	3,599	—
Capital assets:						
Land and other nondepreciable	640	2,735	—	3,164	—	55
Other capital assets, net of depreciation/amortization	566	4,421	73	8,013	—	31,588
Total assets	<u>1,796</u>	<u>173,695</u>	<u>14,109</u>	<u>26,621</u>	<u>1,240,516</u>	<u>72,043</u>
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	—	—
Other postemployment benefits related	—	35	5	8	—	168
Pension related	19	8,107	471	1,424	—	9,664
Total deferred outflows of resources	<u>19</u>	<u>8,142</u>	<u>476</u>	<u>1,432</u>	<u>—</u>	<u>9,832</u>
Liabilities:						
Accounts payable and accrued liabilities	138	1,396	862	852	9,163	4,593
Deposits and escrow liabilities	—	145,517	—	337	—	—
Due to:						
Primary government	—	—	—	—	—	—
Component units	—	6,788	3,413	—	—	—
Other governmental entities	—	1,762	4,692	—	—	—
Interest payable	—	40	—	—	50,021	—
Unearned revenue	—	—	5,307	—	—	26,973
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	197,614	—
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	—	—	—	—	—	—
Compensated absences	15	246	147	101	—	18
Voluntary termination benefits payable	11	461	—	146	—	222
Liability for insurance benefits	—	—	—	—	—	—
Total pension liability	4	1,412	125	321	—	2,965
Total other postemployment benefits liability	1	36	5	8	—	168
Other long-term liabilities	—	416	50	—	—	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	1,649,301	—
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	—	—	—	—	—	—
Compensated absences	6	372	343	101	—	350
Voluntary termination benefits payable	12	377	—	705	—	915
Net pension obligation	—	—	—	—	—	—
Total pension liability	127	27,392	2,231	6,386	—	58,140
Total other postemployment benefits liability	13	395	52	91	—	1,890
Other long-term liabilities	—	—	238	—	—	—
Total liabilities	<u>327</u>	<u>186,610</u>	<u>17,465</u>	<u>9,048</u>	<u>1,906,099</u>	<u>96,234</u>
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Leases	—	—	—	485	—	—
Pension related	8	1,199	145	670	—	5,044
Total deferred inflows of resources	<u>8</u>	<u>1,199</u>	<u>145</u>	<u>1,155</u>	<u>—</u>	<u>5,044</u>
Net position:						
Net investment in capital assets	1,206	3,469	73	11,178	—	31,643
Restricted for:						
Capital projects	—	—	—	—	—	662
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	4,328	—	11,845	—	—
Unrestricted (deficit)	274	(13,769)	(3,098)	(5,173)	(665,583)	(51,708)
Total net position (deficit)	<u>\$ 1,480</u>	<u>(5,972)</u>	<u>(3,025)</u>	<u>17,850</u>	<u>(665,583)</u>	<u>(19,403)</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	Musical Arts Corporation	Public Corporation for the Supervision and Deposit Insurance of P.R. Cooperatives
Assets:					
Cash and cash equivalents in commercial banks	\$ 11,223	42,155	1,126	6,017	33,683
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	—	—	—	—	295,183
Receivables – net:					
Intergovernmental	—	390	594	—	—
Accounts	199	33,212	1,369	13	—
Loans and advances	—	—	—	—	3,731
Accrued interest	208	1,753	—	—	2,528
Lease receivable	1,648	50,821	17,422	—	—
Other	—	—	26	1	66
Due from – net:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	1,384	—	141	—
Inventories	—	—	—	—	—
Prepaid expenses	187	—	113	—	—
Other assets	—	2,989	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	37,538	51	1,378	—
Investments	40,938	—	—	—	—
Other restricted assets	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—
Capital assets:					
Land and other nondepreciable	8,887	88,128	12,098	568	35
Other capital assets, net of depreciation/amortization	5,321	5,240	3,976	338	718
Total assets	68,611	263,610	36,775	8,456	335,944
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	—	121	—	18	—
Pension related	158	11,894	—	1,334	1,833
Total deferred outflows of resources	158	12,015	—	1,352	1,833
Liabilities:					
Accounts payable and accrued liabilities	2,032	15,055	531	270	113,953
Deposits and escrow liabilities	—	2,393	401	—	—
Due to:					
Primary government	—	3,421	—	—	—
Component units	—	8,670	—	—	—
Other governmental entities	—	41,491	17,022	165	—
Interest payable	—	451	—	—	—
Unearned revenue	—	44,094	—	1,328	—
Liabilities payable within one year:					
Commonwealth appropriation bonds	—	12,129	—	—	—
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	21,445
Lease liability	—	—	—	10	—
Compensated absences	56	67	—	706	—
Voluntary termination benefits payable	—	723	—	35	—
Liability for insurance benefits	—	—	—	—	—
Total pension liability	—	3,054	—	386	544
Total other postemployment benefits liability	—	129	—	18	—
Other long-term liabilities	—	714	—	—	—
Liabilities payable after one year:					
Commonwealth appropriation bonds	—	43,689	—	—	—
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	23,058
Lease liability	—	—	—	10	—
Compensated absences	—	1,464	141	26	979
Voluntary termination benefits payable	—	1,354	—	244	—
Net pension obligation	—	—	—	12,095	—
Total pension liability	955	64,650	—	7,445	8,731
Total other postemployment benefits liability	—	1,429	—	199	—
Other long-term liabilities	—	39,699	—	—	—
Total liabilities	3,043	284,676	18,095	22,937	168,710
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Leases	1,674	48,423	17,269	—	—
Pension related	39	3,200	—	380	1,238
Total deferred inflows of resources	1,713	51,623	17,269	380	1,238
Net position:					
Net investment in capital assets	14,208	93,368	271	886	753
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	51	—	—
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	44,115	—	—	1,328	111,548
Unrestricted (deficit)	5,690	(154,042)	1,089	(15,723)	55,528
Total net position (deficit)	\$ 64,013	(60,674)	1,411	(13,509)	167,829

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Destination Marketing Corporation	Puerto Rico Industrial Development Company
Assets:				
Cash and cash equivalents in commercial banks	\$ 3,594	42,960	21,128	66,214
Cash and cash equivalents in governmental banks	—	—	—	—
Investments	—	6,624	118	—
Receivables – net:				
Intergovernmental	—	—	—	735
Accounts	—	9,464	318	2,226
Loans and advances	—	266	—	—
Accrued interest	—	—	—	—
Lease receivable	—	33,167	—	441,878
Other	495	—	13	3,817
Due from – net:				
Primary government	—	—	1,508	5,600
Component units	—	—	5,000	2,093
Other governmental entities	—	854	—	298
Inventories	—	—	—	—
Prepaid expenses	495	139	1,744	3,258
Other assets	—	546	—	—
Restricted assets:				
Cash and cash equivalents in commercial banks	4,786	26,259	—	1,663
Investments	—	—	—	1,800
Other restricted assets	—	—	—	—
Real estate held for sale or future development	—	—	—	—
Capital assets:				
Land and other nondepreciable	5,157	266,574	—	214,872
Other capital assets, net of depreciation/amortization	59,573	331,817	114	307,327
Total assets	<u>74,100</u>	<u>718,670</u>	<u>29,943</u>	<u>1,051,781</u>
Deferred outflows of resources:				
Loss on bonds refunding	—	—	—	335
Other postemployment benefits related	—	—	—	462
Pension related	2,398	—	—	49,793
Total deferred outflows of resources	<u>2,398</u>	<u>—</u>	<u>—</u>	<u>50,590</u>
Liabilities:				
Accounts payable and accrued liabilities	996	10,918	6,426	8,751
Deposits and escrow liabilities	—	26,259	—	8,836
Due to:				
Primary government	—	—	—	28,639
Component units	—	140,807	—	55,210
Other governmental entities	—	1,560	—	8,650
Interest payable	—	76,974	—	61,382
Unearned revenue	1,697	16,313	1,477	11,257
Liabilities payable within one year:				
Commonwealth appropriation bonds	—	—	—	—
Revenue bonds	—	—	—	64,333
Notes payable to financial institutions	—	—	—	2,809
Lease liability	—	—	—	—
Compensated absences	54	—	—	173
Voluntary termination benefits payable	—	—	—	1,108
Liability for insurance benefits	—	—	—	—
Total pension liability	491	—	—	14,407
Total other postemployment benefits liability	14	—	—	440
Other long-term liabilities	—	—	2,226	—
Liabilities payable after one year:				
Commonwealth appropriation bonds	—	—	—	—
Revenue bonds	—	—	—	85,543
Notes payable to financial institutions	—	—	—	26,994
Lease liability	—	—	—	—
Compensated absences	84	—	—	265
Voluntary termination benefits payable	—	—	—	3,914
Net pension obligation	—	—	—	—
Total pension liability	9,998	—	—	281,695
Total other postemployment benefits liability	155	—	—	4,895
Other long-term liabilities	—	—	634	10,026
Total liabilities	<u>13,489</u>	<u>272,831</u>	<u>10,763</u>	<u>679,327</u>
Deferred inflows of resources:				
Service concession arrangements	—	—	—	—
Leases	—	33,167	—	426,129
Pension related	1,222	—	—	16,685
Total deferred inflows of resources	<u>1,222</u>	<u>33,167</u>	<u>—</u>	<u>442,814</u>
Net position:				
Net investment in capital assets	64,730	383,000	114	342,520
Restricted for:				
Capital projects	—	—	—	—
Debt service	—	—	—	3,463
Student loans and other educational purpose	1,653	—	—	—
Other specified purposes	3,133	129	1,463	—
Unrestricted (deficit)	(7,729)	29,543	17,603	(365,753)
Total net position (deficit)	<u>\$ 61,787</u>	<u>412,672</u>	<u>19,180</u>	<u>(19,770)</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Integrated Transit Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
Assets:						
Cash and cash equivalents in commercial banks	\$ 548	10,819	27,987	4,296	6,951	—
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Receivables – net:						
Intergovernmental	—	—	—	—	—	—
Accounts	—	—	—	259	2,054	—
Loans and advances	—	—	—	—	—	—
Accrued interest	—	—	484	—	—	—
Lease receivable	—	—	87,076	18	130	—
Other	—	—	245	1,621	—	20
Due from – net:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	1,101	1,702	—
Other governmental entities	—	—	548	143	11	—
Inventories	—	—	—	124	6,301	—
Prepaid expenses	—	—	192	8,839	—	652
Other assets	—	—	—	53	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	—	—	—	55,619
Investments	—	—	—	—	—	287,217
Other restricted assets	—	—	—	—	—	5,853
Real estate held for sale or future development	—	—	187,333	—	—	—
Capital assets:						
Land and other nondepreciable	—	—	14,509	93	2,500	—
Other capital assets, net of depreciation/amortization	—	145	7,085	46,235	23,198	—
Total assets	<u>548</u>	<u>10,964</u>	<u>325,459</u>	<u>62,782</u>	<u>42,847</u>	<u>349,361</u>
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	—	21
Other postemployment benefits related	1	—	74	12	598	—
Pension related	120	—	7,414	6,178	40,906	—
Total deferred outflows of resources	<u>121</u>	<u>—</u>	<u>7,488</u>	<u>6,190</u>	<u>41,504</u>	<u>21</u>
Liabilities:						
Accounts payable and accrued liabilities	7	227	1,851	8,055	5,313	225
Deposits and escrow liabilities	—	—	33,001	—	—	24,409
Due to:						
Primary government	—	—	1,250	—	48,054	—
Component units	—	2,803	—	70,497	8,604	—
Other governmental entities	203	—	407	5,073	11,577	—
Interest payable	—	—	—	—	—	5,086
Unearned revenue	—	—	299	193	—	—
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	45,140
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	—	—	—	151	54	—
Compensated absences	—	149	128	31	1,019	—
Voluntary termination benefits payable	—	—	209	530	1,112	—
Liability for insurance benefits	—	—	—	—	—	—
Total pension liability	32	—	2,094	951	12,112	—
Total other postemployment benefits liability	1	—	74	12	598	—
Other long-term liabilities	—	—	—	20	—	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	198,172
Notes payable to financial institutions	—	—	—	—	—	—
Lease liability	—	—	—	3,702	210	—
Compensated absences	—	99	320	55	1,227	—
Voluntary termination benefits payable	—	—	832	1,868	3,667	—
Net pension obligation	—	—	—	—	—	—
Total pension liability	621	—	40,613	17,336	250,616	—
Total other postemployment benefits liability	12	—	863	151	7,350	—
Other long-term liabilities	—	—	—	945	2,497	—
Total liabilities	<u>876</u>	<u>3,278</u>	<u>81,941</u>	<u>109,570</u>	<u>354,010</u>	<u>273,032</u>
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Leases	—	—	86,201	15	64	—
Pension related	130	—	2,720	1,043	19,292	—
Total deferred inflows of resources	<u>130</u>	<u>—</u>	<u>88,921</u>	<u>1,058</u>	<u>19,356</u>	<u>—</u>
Net position:						
Net investment in capital assets	—	145	21,594	46,328	25,698	—
Restricted for:						
Capital projects	—	—	—	—	—	—
Debt service	—	—	—	—	—	100,291
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	—	—	—	—	—
Unrestricted (deficit)	(337)	7,541	140,491	(87,984)	(314,713)	(23,941)
Total net position (deficit)	<u>\$ (337)</u>	<u>7,686</u>	<u>162,085</u>	<u>(41,656)</u>	<u>(289,015)</u>	<u>76,350</u>

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Puerto Rico Municipal Finance Corporation	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts
Assets:					
Cash and cash equivalents in commercial banks	\$ 41,402	40,402	5,256	21,738	2,535
Cash and cash equivalents in governmental banks	—	544	—	—	—
Investments	—	—	—	—	—
Receivables – net:					
Intergovernmental	16,468	—	—	62,146	—
Accounts	15	23,469	336	551	1,033
Loans and advances	—	—	—	—	—
Accrued interest	—	—	—	—	—
Lease receivable	—	162,455	508	—	—
Other	—	—	26	3,022	—
Due from – net:					
Primary government	—	5,507	—	—	—
Component units	—	—	—	9,896	—
Other governmental entities	—	1,090	275	—	—
Inventories	—	—	—	—	—
Prepaid expenses	—	5,054	—	2	—
Other assets	—	—	13	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	92,406	2,549	9,872	—
Investments	—	—	—	—	2,653
Other restricted assets	—	25,351	—	—	—
Real estate held for sale or future development	—	—	—	—	—
Capital assets:					
Land and other nondepreciable	—	359,557	83	—	—
Other capital assets, net of depreciation/amortization	—	897,777	8,783	1,738	7,709
Total assets	57,885	1,613,612	17,829	108,965	13,930
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemployment benefits related	—	722	37	—	10
Pension related	—	75,062	5,582	—	845
Total deferred outflows of resources	—	75,784	5,619	—	855
Liabilities:					
Accounts payable and accrued liabilities	83	50,444	2,654	59,592	162
Deposits and escrow liabilities	—	1,375	—	—	—
Due to:					
Primary government	—	82,527	—	—	—
Component units	—	300,379	—	6,262	—
Other governmental entities	22,808	1,128	—	2,981	—
Interest payable	—	143,548	—	—	—
Unearned revenue	—	39,726	—	2,805	—
Liabilities payable within one year:					
Commonwealth appropriation bonds	—	—	—	—	—
Revenue bonds	—	13,465	—	—	—
Notes payable to financial institutions	—	4,792	—	—	—
Lease liability	—	—	27	896	—
Compensated absences	—	2,563	494	294	47
Voluntary termination benefits payable	—	786	194	—	—
Liability for insurance benefits	—	—	—	—	—
Total pension liability	—	22,683	1,203	—	—
Total other postemployment benefits liability	—	723	37	—	—
Other long-term liabilities	—	—	—	—	—
Liabilities payable after one year:					
Commonwealth appropriation bonds	—	—	—	—	—
revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	11,133	—	—	—
Lease liability	—	—	95	—	—
Compensated absences	—	—	302	1,269	76
Voluntary termination benefits payable	—	4,506	1,175	—	—
Net pension obligation	—	—	—	—	—
Total pension liability	—	465,679	23,322	—	4,754
Total other postemployment benefits liability	—	8,170	405	—	114
Other long-term liabilities	—	—	1,680	—	—
Total liabilities	22,691	1,153,627	31,588	74,099	5,153
Deferred inflows of resources:					
Service concession arrangements	—	638,144	—	—	—
Leases	—	159,063	497	—	—
Pension related	—	29,151	1,509	—	232
Total deferred inflows of resources	—	826,358	2,006	—	232
Net position:					
Net investment in capital assets	—	654,661	8,865	841	7,709
Restricted for:					
Capital projects	—	117,757	—	—	—
Debt service	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	2,653
Other specified purposes	—	—	2,506	9,872	—
Unrestricted (deficit)	35,194	(1,063,007)	(21,517)	24,153	(962)
Total net position (deficit)	\$ 35,194	(290,589)	(10,146)	34,866	9,400

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2022
(In thousands)

	Puerto Rico Science, Technology and Research Trust	Puerto Rico Tourism Company	Nonmajor Component Units Total
Assets:			
Cash and cash equivalents in commercial banks	\$ 31,854	113,843	872,305
Cash and cash equivalents in governmental banks	—	—	544
Investments	4,168	—	492,417
Receivables – net:			
Intergovernmental	—	—	80,466
Accounts	—	13,449	115,030
Loans and advances	—	9,580	31,138
Accrued interest	—	—	30,547
Lease receivable	—	40,696	842,399
Other	1,422	97	20,932
Due from – net:			
Primary government	—	—	19,789
Component units	—	—	71,099
Other governmental entities	1,003	—	1,026,972
Inventories	—	—	12,615
Prepaid expenses	—	—	25,046
Other assets	42	28	4,432
Restricted assets:			
Cash and cash equivalents in commercial banks	—	14,301	327,660
Investments	—	—	419,600
Other restricted assets	44,793	—	76,494
Real estate held for sale or future development	—	2,600	194,824
Capital assets:			
Land and other nondepreciable	40,589	5,066	1,034,113
Other capital assets, net of depreciation/amortization	14,098	13,944	1,821,692
Total assets	137,969	213,604	7,520,114
Deferred outflows of resources:			
Loss on bonds refunding	—	743	1,099
Other postemployment benefits related	—	170	3,446
Pension related	—	18,476	325,256
Total deferred outflows of resources	—	19,389	329,801
Liabilities:			
Accounts payable and accrued liabilities	9,183	10,403	384,739
Deposits and escrow liabilities	—	—	242,528
Due to:			
Primary government	—	12,310	199,186
Component units	—	5,000	655,774
Other governmental entities	—	388	122,721
Interest payable	—	18,299	376,593
Unearned revenue	—	5,200	220,675
Liabilities payable within one year:			
Commonwealth appropriation bonds	—	9,666	21,795
Revenue bonds	—	—	320,552
Notes payable to financial institutions	—	—	29,046
Lease liability	—	—	1,824
Compensated absences	—	440	11,620
Voluntary termination benefits payable	—	579	8,500
Liability for insurance benefits	—	—	59,289
Total pension liability	—	5,496	91,981
Total other postemployment benefits liability	—	170	3,439
Other long-term liabilities	180	—	3,671
Liabilities payable after one year:			
Commonwealth appropriation bonds	—	35,748	79,437
Revenue bonds	—	—	1,933,016
Notes payable to financial institutions	—	—	61,185
Lease liability	—	—	6,300
Compensated absences	—	752	8,928
Voluntary termination benefits payable	—	1,773	32,115
Net pension obligation	—	—	12,095
Total pension liability	—	111,764	1,849,030
Total other postemployment benefits liability	—	1,972	39,290
Other long-term liabilities	—	1,050	59,478
Total liabilities	9,363	221,010	6,834,807
Deferred inflows of resources:			
Service concession arrangements	—	—	638,144
Leases	—	40,465	819,417
Pension related	—	5,225	113,850
Total deferred inflows of resources	—	45,690	1,571,411
Net position:			
Net investment in capital assets	54,687	19,010	1,837,322
Restricted for:			
Capital projects	—	—	118,419
Debt service	—	—	103,805
Student loans and other educational purpose	—	—	4,306
Other specified purposes	—	—	190,764
Unrestricted (deficit)	73,919	(52,717)	(2,810,919)
Total net position (deficit)	\$ 128,606	(33,707)	(556,303)

COMMONWEALTH OF PUERTO RICO
 Nonmajor Discretely Presented Component Units
 Combining Statement of Activities
 Year ended June 30, 2022
 (In thousands)

	General revenue and transfers															
	Program revenue			Net revenues (expenses) and changes in net position	Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Interest and investment earnings	Excise taxes and others	Extraordinary Gain	Change in net position	Net position (deficit) beginning of year as previously reported	Correction of errors, change in reporting entity and adoption of new pronouncements (note 4 to financial statements)	Net position (deficit)-beginning of year, as restated	Net position (deficit) end of year	
	Expenses	Charges for services	Operating grants and contributions													Capital grants and contributions
Agricultural Enterprises Development Administration	\$ 145,840	60,663	—	—	(85,177)	10,227	—	—	56	3,232	—	(71,662)	(51,289)	3,601	(47,688)	(119,350)
Automobile Accidents Compensation Administration	93,607	94,987	—	—	1,380	(2,200)	—	—	3,991	—	—	3,171	(144,291)	—	(144,291)	(141,820)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	78,392	78,013	—	—	(379)	599	6,047	—	—	23,974	—	30,241	(45,457)	16,181	(29,276)	965
Center of Diabetes for Puerto Rico	774	208	—	—	(566)	566	—	—	—	13	—	13	430	—	430	443
Company for the Integral Development of the "Península de Cantera" Corporation for the "Café Martín Peña" Enlace Protect	4,199	—	1,273	—	(2,926)	—	—	—	1	30	—	(2,895)	(46,760)	—	(46,760)	(49,555)
Culebra Conservation and Development Authority	10,158	—	4,126	—	(6,032)	—	—	—	—	32	—	(6,000)	12,091	—	12,091	6,091
Economic Development Bank for Puerto Rico	318	351	—	—	33	196	—	—	—	—	—	229	1,251	—	1,251	1,480
Farm Insurance Corporation of Puerto Rico	76,006	1,773	—	67,493	(6,740)	—	—	—	3,637	1,935	—	(1,168)	(4,804)	—	(4,804)	(5,972)
Fine Arts Center Corporation	2,448	6,551	—	—	4,103	—	—	—	—	4	—	4,107	(7,466)	—	(7,466)	(3,026)
Government Development Bank Debt Restructuring Authority	6,558	2,270	—	6,095	1,807	3,984	—	—	—	—	—	5,792	12,798	(740)	12,058	17,850
Institute of Puerto Rican Culture	169,884	49,311	—	—	(120,573)	—	—	—	1,241	116,839	—	(2,493)	(863,090)	—	(863,090)	(865,583)
Institutional Trust of the National Guard of Puerto Rico	15,581	—	4,330	—	(12,251)	12,710	—	—	—	—	—	459	(18,870)	(992)	(19,862)	(19,403)
Land Authority of Puerto Rico	7,417	6,661	—	—	(756)	—	—	—	—	852	—	96	63,917	—	63,917	64,013
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	12,054	11,873	593	—	412	—	—	—	—	7,072	—	7,484	(69,824)	1,666	(68,158)	(60,674)
Musical Arts Corporation	4,212	1,791	1,009	—	(1,412)	1,178	—	—	—	—	—	(234)	1,645	—	1,645	1,411
Musical Arts Corporation	(7,990)	289	—	916	9,195	5,679	—	—	3	747	—	15,624	(29,133)	—	(29,133)	(13,509)
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	16,775	28,484	10,170	—	21,879	—	—	—	—	—	—	32,607	135,222	—	135,222	167,829
Puerto Rico Conservatory of Music Corporation	11,069	3,080	—	40	(7,949)	5,815	—	—	504	2	85	(1,543)	63,089	241	63,330	61,787
Puerto Rico Convention Center District Authority	68,871	32,517	—	18,878	(17,476)	110,870	5,923	—	3	1,222	347,738	448,280	(36,608)	—	(36,608)	412,672
Puerto Rico Destination Marketing Corporation	57,754	1,830	—	—	(55,924)	52,498	—	—	75	824	—	(2,527)	21,707	—	21,707	19,180
Puerto Rico Industrial Development Company	74,951	68,486	1,794	—	(4,671)	—	—	—	—	201	—	(2,570)	(17,935)	735	(17,200)	(19,770)
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	16	287	—	—	271	—	—	—	—	1	—	272	(609)	—	(609)	(337)
Puerto Rico Integrated Transit Authority	3,191	—	2,124	—	(1,067)	—	—	—	—	1	—	(1,066)	8,752	—	8,752	7,686
Puerto Rico Land Administration	7,814	14,724	—	—	6,910	—	—	—	9	—	—	6,919	155,166	—	155,166	162,085
Puerto Rico and Municipal Islands Maritime Transport Authority	70,917	5,166	3,997	—	(61,754)	67,428	—	—	—	—	—	5,674	(47,380)	650	(47,330)	(41,656)
Puerto Rico Metropolitan Bus Authority	56,008	1,816	20,175	—	(34,017)	76,577	—	—	—	—	—	43,433	(332,448)	—	(332,448)	(289,015)
Puerto Rico Municipal Finance Agency	12,495	—	—	—	(12,495)	—	—	—	—	9,195	—	(3,300)	79,650	—	79,650	76,350
Puerto Rico Municipal Finance Corporation	193,916	—	193,059	—	(857)	—	—	—	—	1,381	24	548	34,646	—	34,646	35,194
Puerto Rico Pests Authority	145,771	114,329	38,172	—	3,720	6,318	—	—	—	81	1,769	11,898	(92,487)	—	(92,487)	(290,589)
Puerto Rico Public Broadcasting Corporation	15,873	8,197	—	—	(7,676)	650	—	2,774	—	—	—	(4,232)	(5,914)	—	(5,914)	(10,146)
Puerto Rico Public Private Partnerships Authority	709,825	13,134	692,156	—	(4,535)	17,561	—	—	—	25	—	13,051	21,816	—	21,816	34,867
Puerto Rico School of Plastic Arts	7,155	1,293	3,508	—	(2,354)	2,855	—	—	—	143	—	644	8,762	(6)	8,756	9,400
Puerto Rico Science, Technology and Research Trust	43,998	95	36,784	—	(7,119)	—	—	—	—	719	—	(5,818)	134,423	—	134,423	128,605
Puerto Rico Tourism Company	116,542	5,081	1,992	—	(109,469)	—	(5,923)	—	—	74	183,796	68,478	(106,496)	4,311	(102,185)	(33,707)
Total nonmajor component units	\$ 2,237,399	613,260	1,016,262	93,422	(514,455)	373,511	—	9,326	32,504	344,888	347,738	593,512	(1,175,796)	25,981	(1,149,815)	(556,303)

See accompanying independent auditors' report.