

**PUERTO RICO INDUSTRIAL, TOURIST,
EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES
FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)**

*BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION*

Year Ended June 30, 2023

(With Independent Auditors' Report Thereon)

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023

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To the Board of Directors of
Puerto Rico Industrial, Tourist,
Educational, Medical and Environmental
Control Facilities Financing Authority:

Opinion

We have audited the accompanying financial statements of the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (the "Authority" or "AFICA"), which comprise the statement of net position as of June 30, 2023 and the statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States America. Our responsibilities under those standards are further described on the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, misrepresentation, of the override of internal control, misstatements are considered material if these is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- We exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk material misstatement of the financial statements, whether due to frauds 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 entity's preparation and fair presentation of the financial statements 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 Company's internal control. Accordingly, we express no such opinion.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating 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 Company'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, if any.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8, and the Schedules of Proportionate Share of Collective Total Pension Liability and Related Ratios and of Proportionate Share of Collective Total Other Postemployment Benefit Liability and Related Ratios on pages 34 and 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with enough evidence to express an opinion or provide any assurance.

Guzmán & Co., CPA LLC.

Certified Public Accountants
May 21, 2024
San Juan, Puerto Rico



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ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2023**

This management's discussion and analysis section ("MD&A") provides a narrative overview and analysis of the financial activities of Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") for the fiscal year ended June 30, 2023. The MD&A is intended to serve as an introduction to the Authority's basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities, (c) identify changes in the Authority's financial position, and (d) identify individual issues or concerns. The following presentation is by necessity highly summarized and, therefore, to gain a thorough understanding of the Authority's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in their entirety.

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

1. Financial Highlights

- The Authority's total assets were approximately \$580 thousand as of June 30, 2023, an increase of \$33 thousand or 6% when compared to the prior year. The Authority's assets consist of its cash balance. The increase in assets of approximately \$33 thousand is related to the cash provided by operating activities. Cash received on deposits during the year of \$51 thousand exceeded cash payments for operating expenses of approximately \$18 thousand, for a net increase in cash and assets of \$33 thousand as of June 30, 2023.
- During the fiscal year ended June 30, 2023, the Authority recognized its proportionate share of the total pension and total other postemployment benefits liabilities, deferred outflows of resources, deferred inflows of resources and pension and other postemployment benefits expenses. The Authority's total liabilities were approximately \$718 thousand as of June 30, 2023, a decrease of approximately \$157 thousand or 18% when compared to previous year. The decrease was principally due to the Authority recognizing a net reduction in its proportionate share of the total pension and total other postemployment benefit liabilities. Refer to note 10 for further information.
- Net deficit was reduced by approximately \$137 thousand or 50%, from \$337 thousand in fiscal year 2022 to \$200 thousand in fiscal year 2023. The Authority's change in net position for the year ended June 30, 2023, was positively impacted by a net benefit in total operating expenses of approximately \$86 thousand. The benefit mainly represents a reduction in the Authority's proportionate share of the pension and other postemployment benefits expenses. Refer to note 10 for further information. Also, the Authority generated interest income on cash deposits of approximately \$51 thousand, for a change in net position of \$137 thousand for the year ended June 30, 2023.
- There were no conduit financing transactions during the year ended June 30, 2023. However, the Authority was authorized to issue bonds on several conduit financing

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YEAR ENDED JUNE 30, 2023**

transactions subsequent to year end. Refer to subsequent events in the notes to basic financial statements.

2. Overview of the Financial Statements

The financial statements include the MD&A, the independent auditors' report, and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

3. Required Financial Statements

The basic financial statements of the Authority report information using accounting methods similar to those used by private sector entities. These statements offer short and long-term financial information about the activities of the Authority.

The first required financial statement is the statement of net position. This statement presents all of the Authority'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 Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The second required financial statement is the statement of revenues, expenses, and changes in net position. This statement presents the Authority's revenues, expenses and change in net position. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through its user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and provides answers to such questions as where cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements include a section of required supplementary information (unaudited) immediately following its notes. This section includes information of the proportionate share of collective total pension liability and the total other postemployment benefits liability and related ratios from June 30, 2018, to June 30, 2023.

4. Financial Analysis

The following is an analysis of the financial position and changes in the financial position of the Authority for fiscal year 2023.

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YEAR ENDED JUNE 30, 2023

Net (Deficit) Position

The Authority's condensed financial information from the statement of net (deficit) position as of June 30, 2023, and 2022, is as follows (in thousands):

	June 30,		Change	
	2023	2022	Amount	Percentage
Assets	\$ 580	\$ 547	\$ 33	6%
Deferred outflows of resources	87	121	(34)	-28%
Liabilities	718	875	(157)	-18%
Deferred inflows of resources	149	130	19	15%
Net Deficit	\$ (200)	\$ (337)	\$ 137	-41%

Total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources of the Authority as of June 30, 2023, amounted to approximately \$580 thousand, \$87 thousand, \$718 thousand, and \$149 thousand, respectively, for a net deficit of approximately \$200 thousand.

Net deficit was reduced by \$137 thousand or 41%, from \$337 thousand in fiscal year 2022 to \$200 thousand in fiscal year 2023. The Authority's total assets consist of its cash balance. The cash balance increased by \$33 thousand as a net result of interest income earned on cash deposits of approximately \$51 thousand less cash payments for operating expenses of \$18 thousand.

The decrease in deferred outflows of resources of \$34 thousand or 28%, decrease in liabilities of \$157 thousand or 18%, and increase in deferred inflows of resources of \$19 million or 15% were principally due to the Authority recognizing a reduction in its proportionate share of the total pension and total other postemployment benefit liabilities, deferred outflows of resources, and deferred inflows of resources during the year. Total pension and total other postemployment benefits diminished by approximately \$184 million when compared to the previous fiscal year. In addition, accounts payable decreased by \$7 thousand, from \$14 thousand in fiscal year 2022 to \$7 thousand in fiscal year 2023.

On the other hand, and within liabilities, Pay-Go obligations for payments made by the Commonwealth on behalf of the Authority's retirees increased by \$33 thousand, increasing the related due to the Commonwealth obligations from \$196 thousand in fiscal year 2022 to \$229 thousand in fiscal year 2023. Also, the deferred inflows of resources related to pensions increased by \$19 thousand when recognizing the Authority's proportionate share of the total pension associated accounts.

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YEAR ENDED JUNE 30, 2023**

Statement of Revenues, Expenses, and Change in Net Position (Deficit)

Condensed financial information of the statement of revenues, expenses, and changes in net (deficit) position for the fiscal years ended June 30, 2023, and 2022 is as follows (in thousands):

	June 30,		Change	
	2023	2022	Amount	Percent
Operating Revenues	\$ 51	\$ 288	\$ (237)	-82%
Operating Benefit (Expenses)	86	(16)	102	-638%
Operating Income	137	272	(135)	-50%
Change in Net Position	137	272	(135)	-50%
Net Deficit, Beginning	(337)	(609)	272	-45%
Net Deficit, Ending	\$ (200)	\$ (337)	\$ 137	-41%

The Authority's net deficit was approximately \$200 thousand as of June 30, 2023, a decrease of \$137 million or 41% when compared to the prior year. Change in net position decreased from \$272 thousand during the year ended June 30, 2022, to \$137 thousand during the year ended June 30, 2023, or a decrease of \$135 thousand or 50%.

Operating revenues decreased from \$288 thousand for the year ended June 30, 2022, to \$51 thousand for the year ended June 30, 2023, representing a reduction of \$237 thousand or 82%. As discussed previously, during the year ended June 30, 2023, the Authority did not participate in bond issuances transactions. Therefore, no placement fees were collected during the fiscal year ended June 30, 2023 (as opposed to the prior year, when placement fees of approximately \$287 thousand were collected related to a conduit financing transaction to finance certain health related projects). Operating revenues during fiscal year ended June 30, 2023 represented interest income on cash deposits.

Operating expenses decreased from \$16 thousand for the year ended June 30, 2022, to a net benefit of \$86 thousand for the year ended June 30, 2023. The reduction of approximately \$102 thousand resulted mainly from the proportionate share expense of pension and other postemployment benefits during fiscal year 2023 being less by approximately \$101 thousand than the proportionate share expense recognized in fiscal year 2022.

Debt Administration - Conduit Debt

The Authority's main operations consist of issuing revenue bonds, known as AFICA Bonds, where the net cash proceeds are then loaned to the owners of eligible projects, as defined in the Act and regulations of the Authority, to finance educational, medical, environmental, agricultural, tourist, commercial, and industrial projects. The AFICA Bonds are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the

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Authority are presented in the accompanying basic financial statements. For each new AFICA Bonds, the Authority collects a placement fee. The Authority earns revenues from the collection of those placement fees, which generally represents 1% of the face value of the bonds issued, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be financed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.5%).

The AFICA Bonds and underlying loans are limited obligations of the Authority, and they are not guaranteed by the Government of Puerto Rico or any of its agencies, public corporations, and instrumentalities. Repayment and collateral support of the AFICA Bonds and loans is the legal and contractual responsibility of the corporate entities to which the Authority lends the cash proceeds of the Authority bonds. All Authority bond issuances are subject to the consideration and approval by the Board of Directors of the Authority, the Puerto Rico Fiscal Agency, and Financial Advisory Authority and, when applicable, the Financial Oversight and Management Board for Puerto Rico.

5. Currently Known Facts and Events

Authorization for AFICA Bonds Issuances

Auxilio Mutuo Group

On November 9, 2023, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") authorized AFICA to issue a two-year private-placement of taxable bonds in an aggregate principal amount up to \$35 million ("Series 2023 Bonds") as a pass-through for the benefit of the Sociedad Española de Auxilio Mutuo y Beneficiencia de Puerto Rico (the "Corporation") and Hospital Español Auxilio Mutuo de Puerto Rico, Inc. (the "Hospital" and, together with the Corporation, the "Obligated Group"). The Obligated Group was declared on September 29, 2023 the successful bidder to purchase the hospital previously known as HIMA San Pablo-Bayamón (the "Bayamón Hospital") pursuant to a U.S. Bankruptcy Court case. The transaction closed in December 2023.

The Obligated Group used the proceeds of the Series 2023 Bonds to: (1) purchase assets and related properties of the Bayamón Hospital from Grupo HIMA San Pablo, Inc. (\$18,000,000); (2) partially finance immediate substantial repairs and improvements to the Bayamón Hospital (\$12,021,375); and (3) fund operating expenses and reserves for financing and legal costs of the Series 2023 Bonds. The Series 2023 Bonds are not guaranteed by, or otherwise the obligation of, the Commonwealth of Puerto Rico or any agency, instrumentality or public corporation thereof, and repayment and collateral of the Series 2023 Bonds is provided exclusively by the Obligated Group.

San Juan Cruise Port Terminal

On January 11, 2024, the Oversight Board authorized AFICA to issue up to \$235 million of taxable and tax-exempt bonds to finance capital improvements and transaction costs related to the Public Private Partnership Agreement dated August 15, 2022 (the "P3 Agreement") between the Puerto Rico Ports Authority ("PRPA") and San Juan Cruise Port LLC ("SJCP") to operate the San Juan cruise terminals for a 30-year period.

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The Project consists of the design, construction, renovation, and equipping of various facilities at the San Juan Cruise Port Terminal and certain facilities functionally related and subordinate thereto, including the SJCP's acquisition of certain property interests therein. The transaction closed in February 2024.

The proceeds from the sale of the bonds were used to make a loan to SJCP to (a) pay all or a portion of the cost of the Project described above, (b) make a concession payment to the PRPA as required by the P3 agreement, (c) pay certain operating expenses and reserves for financing and legal costs in connection with the issuance of the AFICA bonds.

Repayment of the Bonds and the AFICA loans will be made solely by SJCP and the related collateral. The Bonds and the AFICA loans are not guaranteed by, or otherwise have recourse to, the Commonwealth of Puerto Rico or any governmental agency, public corporation, or instrumentality of the Government of Puerto Rico.

AES Puerto Rico Bonds Exchange Transaction

On March 1, 2024, the Oversight Board authorized AFICA to issue up to \$115 million of new senior bonds in exchange for the defaulted \$145 million in outstanding Cogeneration Facility Revenue Bonds, 2000 Series A, which proceeds were originally loaned to AES Puerto Rico, L.P. (AES-PR). The transaction, which closed in March 2024, reduced AFICA's outstanding debt issuance by approximately 28% and provided AES-PR an emergency bridge financing of \$23 million for operational needs and capital expenditures.

The AFICA AES-PR bonds are not guaranteed by, or otherwise the obligation of AFICA, the Commonwealth of Puerto Rico or any agency, instrumentality, or public corporation thereof, and are nonrecourse to AFICA, the Commonwealth, and all other governmental entities.

6. Request for Information

This financial report is designed to provide all interested with a general overview of the Authority's finances and to enhance the Authority's accountability for the resources it manages. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
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STATEMENT OF NET DEFICIT
JUNE 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets:

Cash	\$	580,326
Total current assets		580,326

Deferred Outflows of Resources

Pension related		85,706
Other postemployment benefits		1,200
Total deferred outflows of resources		86,906

Total assets and deferred outflows of resources		667,232
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LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Current Liabilities:

Due to Puerto Rico Fiscal Agency and Financial Advisory Authority		7,132
Due to Commonwealth of Puerto Rico		228,806
Total other postemployment benefits liability		1,200
Total pension liability		31,818
Total current liabilities		268,956

Non-Current Liabilities:

Total other postemployment benefits liability		10,917
Total pension liability		437,968
Total non-current liabilities		448,885
Total liabilities		717,841

Deferred Inflows of Resources - pension related		149,250
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Total liabilities and deferred inflows of resources		867,091
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NET DEFICIT - unrestricted	\$	(199,859)
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The accompanying notes are an integral part of the basic financial statements.

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**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET DEFICIT
 FOR THE YEAR ENDED JUNE 30, 2023**

OPERATING REVENUES	
Interest income on deposits	\$ 51,225
Total Operating Revenues	<u>51,225</u>
OPERATING EXPENSES	
Pension expense and other postemployment benefits (benefit)	(97,336)
Other operating expenses	11,464
Total Operating Expenses (Benefit)	<u>(85,872)</u>
Operating Income	<u>137,097</u>
CHANGE IN NET POSITION	137,097
NET DEFICIT - Beginning of year	<u>(336,956)</u>
NET DEFICIT - End of year	<u><u>\$ (199,859)</u></u>

The accompanying notes are an integral part of the basic financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOW FROM OPERATING ACTIVITIES	
Cash payments for operating expenses	\$ (18,132)
Cash received from interest on deposits	51,225
Total cash provided by operating activities	33,093
 NET INCREASE IN CASH	 33,093
 CASH - Beginning of year	 547,233
 CASH - End of year	 \$ 580,326
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 137,097
Adjustments to reconcile operating Income to net cash provided by operating activities and changes in assets and liabilities:	
Decrease in deferred outflows of resources	34,222
Increase in due to Fiscal Agency and Financial Advisory Authority	(6,668)
Increase in due to Commonwealth of Puerto Rico	33,018
Increase in deferred inflows of resources	19,505
Decrease in total other postemployment benefits liability	(1,231)
Decrease in total pension liability	(182,850)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 33,093

The accompanying notes are an integral part of the basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

1. REPORTING ENTITY

The Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the “Authority” or “AFICA”) is a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”) and an affiliate of the Government Development Bank for Puerto Rico (“GDB”), created by Act No. 121 of the Legislature of the Commonwealth on June 27, 1977, as amended (the “Act”). AFICA, while a legally separate entity from the Commonwealth, meets the discretely presented component unit criteria established by GASB Statement No. 14, *The Reporting Entity*, as amended, to be reported in the basic financial statements of the Commonwealth.

Subsequent to the discontinuance of operations of GDB, management, administrative, and accounting support services are provided to the Authority by the Puerto Rico Fiscal Agency and Financial Advisory Authority (“FAFAA”).

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements present the financial position and the results of operations of the Authority as a whole.

Following is a description of the Authority’s most significant accounting policies:

Measurement Focus and Basis of Accounting—The Authority’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Operating revenues are recorded when earned and operating expenses are recorded when incurred, regardless of the timing of related cash flow. The Authority’s placement fee income is recognized upon the issuance of the bonds. Revenues and expenses not meeting these criteria are reported as non-operating revenues or expenses.

The statement of net position (deficit) presents the Authority’s assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position(deficit). Net position(deficit) may be reported in two categories:

- a) Restricted component- consists of restricted assets reduced by liabilities related to those assets. Restrictions are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- b) Unrestricted component- consists of net amount of the assets and liabilities that

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do not meet the definition of the preceding category. Unrestricted component of net position (deficit) often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted component of net position (deficit) often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of revenues, expenses, and changes in net position (deficit) demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financial activities, and provides answers to such questions as where cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

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

Cash—Cash includes deposits maintained by the Authority in interest and non-interest-bearing accounts in commercial banks.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of net deficit will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net deficit that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then.

In addition to liabilities, the statement of net deficit will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net deficit that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Revenue Bonds and Related Loans—The Authority finances industrial (as defined by the Act, which includes commercial, research, tourist, and agricultural projects), medical, educational, and environmental control projects, by selling limited obligation revenue bonds in private placement or on the open public bond markets (the “Authority Financing”). The proceeds of the Authority Financing are loaned by the Authority to the obligor’s project as per the terms and conditions of the Authority Financing. The loan proceeds are, in turn, used by the Obligor to pay for the costs of the development of the project. The financing agreement calls for payments of principal and interest by the project owner to the Authority Financing through a trustee. Interest and principal payments are applied to debt service on the bonds and to any other related financing costs.

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Revenue bonds issued by the Authority are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements.

Revenue Recognition—Placement fees are recognized as revenues in the statement of revenues, expenses, and change in net deficit upon issuance of bonds. Refer to Note 7 to the basic financial statements for further information regarding the placement fees.

Accounting for Pensions Cost— Effective July 1, 2017, a new “pay-as-you-go” (“Pay-Go”) system was enacted into law by Act No. 106 of 2017 (“Act 106-2017”), significantly reforming the defined benefit plan (the “Plan”) of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”). Under the Pay-Go system, employers’ contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth’s General Fund for payment of pension benefits. Therefore, since the enactment of Act 106-2017, the Commonwealth’s General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the Pay-Go system, the Authority started to applying the guidance of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements No. 67 and 68. GASB Statement No. 73 maintains the “accrual basis” model under Statement 68, where then Net 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 Plan and converted it into a Pay-Go 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 Authority recognizes a Total Pension Liability, pension expenses, and related accounts, accordingly. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 10.

The Central Government and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. GASB Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit’s actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Employee Retirement System (ERS) elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022,

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actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2023.

The Authority's annual pension benefit (expense) for the year ended June 30, 2023, amounted to \$97,405 and the total pension liability as of June 30, 2023, amounted to approximately \$469,786. Disclosures required under GASB Statement No. 73 can be found in Note 10.

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

GASB Statement No. 75 employs an “accrual basis” model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 11.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of the Authority subsequent to the measurement date, of \$1,200.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022, actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2023.

The Authority's annual OPEB expense for the year ended June 30, 2023, amounted to \$69 and the OPEB liability as of June 30, 2023, amounted to approximately \$12,117. Disclosures

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required under GASB Statement No. 75 can be found in Note 11.

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

New Accounting Standards Adopted and Accounting Pronouncements Issued but Not Yet Effective

New Accounting Standards Adopted

During the fiscal year ended on June 30, 2023, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations, or in the presentation of the financial statements of the Authority. The Authority early adopted GASB Statement No. 91, *Conduit Debt Obligations* during fiscal year 2022. Refer to Note 8 to the basic financial statements for disclosure required by GASB Statement No. 91.

Accounting Pronouncements Issued but Not Yet Effective

- *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.
- *GASB Statement No. 102, Certain Risk Disclosures.* The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statements defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflows of resources. A constraint is

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

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

3. CASH AND DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral deposits that are in possession of an outside party. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico be fully collateralized for the amounts deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Authority's name.

Deposits maintained by the Authority as of June 30, 2023, represent the balance of interest and non-interest-bearing accounts in commercial banks. The table presented below discloses the level of custodial credit risk assumed by the Authority as of June 30, 2023. As of June 30, 2023, none of the Authority's deposits are uninsured and uncollateralized, as follows:

	Carrying Amount	Depository Bank Balance	Amount uninsured and uncollateralized
Cash	<u>\$ 580,326</u>	<u>\$ 580,326</u>	<u>\$ -</u>

4. DEPOSITS CLAIM RECEIVABLE FROM PUBLIC ENTITY TRUST (PET)

On August 10, 2018, GDB commenced an action to restructure certain of its indebtedness pursuant to the GDB Qualifying Modification under Title VI of the Puerto Rico Oversight Management and Economic Stability Act ("PROMESA"). The United States District Court for the District of Puerto Rico approved GDB Qualifying Modification on November 6, 2018, and the GDB Qualifying Modification became effective on November 29, 2018.

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act") and the terms of the GDB Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Authority, were exchanged for beneficial units in the Public Entity Trust created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the GDB Qualifying Modification, i.e., November 29, 2018 (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the Authority (each a "Non-Municipal Government Entity") and GDB was determined by

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applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB, or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB.

The Authority held deposits at GDB of approximately \$9.5 million. A custodial credit loss on these deposits was recorded in previous years resulting in a reserve of the entire balance. As a result of the execution of the GDB Qualifying Modification, the Authority received beneficial units of the PET in exchange for the \$9.5 million in deposits held at GDB. The units received from the PET and the custodial credit loss were reclassified as a deposit claim receivable from the PET and into an allowance for doubtful accounts, respectively, with a net carrying amount of zero.

The Authority's recovery on account of this deposit claim will depend upon the recovery ultimately received by the Public Entity Trust on account of the PET assets as a result units received from the PET are fully reserved. The claim receivable and its corresponding allowance as of June 30, 2023, was as follows:

	Balance as of June 30, 2023	Claim Allowance	Net Carrying Value
Claim receivable	<u>\$ 9,503,794</u>	<u>\$ (9,503,794)</u>	<u>\$ -</u>

5. DUE TO COMMONWEALTH

The Commonwealth has made Pay-Go pension related and other postemployment benefits payments on behalf of the Authority amounting to approximately \$220,906 and \$7,900, respectively. Due to Commonwealth has been recognized in the financial statements as of June 30, 2023, amounting to \$228,806.

6. RELATIONSHIP WITH FAFAA

The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016 (the "Moratorium Act"), as amended, created FAFAA as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth and its instrumentalities. Act No. 2 of 2017 subsequently repealed and replaced the provisions of the Moratorium Act regarding FAFAA. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant PROMESA.

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During the year ended June 30, 2023, FAFAA provided certain management and administrative services to the Authority at no cost, however, a memorandum of understanding was entered into with FAFAA during fiscal year 2023 to cover and reimburse certain operating expenses.

7. PLACEMENT FEES

The Authority generally charges a placement fee of one percent (1%) of the face value of bond issued or as deemed appropriate for the specific issue, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be placed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.50%).

There were no bond issuances during the year ended June 30, 2023, as such, no placement fees were charged.

8. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, the Authority issues 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.

The revenue bonds issued by the Authority are special and limited obligations of the Authority and, except to the extent payable from bond proceeds and investments thereof, are payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between the Authority and the borrowers. In some cases, payment of principal and interest on revenue bonds may be further secured by guarantees or letters of credit. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance.

Neither the Authority nor the Commonwealth is obligated in any manner for the repayment of these revenue bonds. The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth or any political subdivision thereof. In addition, no commitments beyond the collateral, the payments from the private-sector entities, and maintenance of the tax-exempt status of the conduit debt obligation were extended by the Authority for any of those bonds. Accordingly, the bonds are not reported as long-term liabilities in the basic financial statements of the Authority.

In connection with the issuance of revenue bonds, the Authority enters into trust agreements, whereby the Authority assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds: (1) all amounts receivable by the Authority in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of the Authority in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) the Authority's rights, title, and interest in and to the loan agreements, subject to the

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Authority's retention of certain rights, including the right to collect moneys payable to the Authority.

As of June 30, 2023, the Authority had approximately \$518.5 million in outstanding AFICA bonds distributed as follows:

<u>REVENUE BONDS</u>	<u>Face Amount</u>	<u>Balance June 30, 2023</u>
Commercial\Industrial	\$ 354,599,745	\$ 270,093,600
Educational	277,595,000	133,173,111
Medical	126,740,000	70,360,000
Tourist	56,355,000	44,835,000
Total	<u>\$ 815,289,745</u>	<u>\$ 518,461,711</u>

9. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The activity in deferred outflows and inflows of resources as of June 30, 2023, is summarized as follows:

<u>Deferred outflows of resources</u>	<u>Balance as of June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of June 30, 2023</u>
Pension related	\$ 119,828	\$ 31,818	\$ (65,940)	\$ 85,706
Other postemployment benefits	1,300	1,200	(1,300)	1,200
Total	<u>\$ 121,128</u>	<u>\$ 33,018</u>	<u>\$ (67,240)</u>	<u>\$ 86,906</u>
 <u>Deferred inflows of resources</u>				
Pension related	\$ 129,745	\$ 19,505	\$ -	\$ 149,250
Total	<u>\$ 129,745</u>	<u>\$ 19,505</u>	<u>\$ -</u>	<u>\$ 149,250</u>

10. EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

Plan Description

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Commonwealth") (the "Plan") was created pursuant to Act No. 447 on May 15, 1951, as amended ("Act No. 447") to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the enactment of Act No. 106 of August 23, 2017

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(“Act No. 106-2017”), the Plan was administered by the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (the “System”). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a “pay-as-you-go” (“Pay-Go”) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor’s approval, or by court decision.

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico (Commonwealth Plan of Adjustment), confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated several benefits to certain Plan participants. In summary, participants within the System 2000 plan and Act 3 members, as further explained below, who were not in payment status as of March 15, 2022, were transferred out from Plan benefits. Also, the Commonwealth Plan of Adjustment eliminated future cost of living adjustments, as well as benefits to active members under Act 127-1958 (members in high-risk positions).

Plan participants within the System 2000 includes members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution 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, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 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.

Therefore, plan provisions are different for the other two groups of members who entered the Plan prior to July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (contributory, defined benefit program).

(a) Service Retirement Eligibility Requirements

- (1) *Eligibility for Act No. 447 Members* - Act No. 447 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with

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25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013, are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

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

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

- (2) *Eligibility for Act No. 1 Members* - Act No. 1 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 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 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 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.

(b) Compulsory Retirement

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

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(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

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

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

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

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

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\$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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

- (2) *Accrued Benefit as of June 30, 2013, for Act No. 1 Members* - The accrued benefit as of June 30, 2013, shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

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

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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

(d) Special Benefits

Minimum Benefits

- Past Ad hoc Increases - The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973, and Act No. 23 approved on September 23, 1983.

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- Minimum Benefits for Members who retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 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).
- Coordination Plan Minimum Benefit - A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

Special “Bonus” Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3) - An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.
- Medication Bonus (Act No. 155, as Amended by Act No. 3) -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.

Total Pension Liability

Allocation Methodology

GASB Statement No. 73 requires that the primary government and its component units that provide pension benefits through the same defined benefit pension plan, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). Effective with the June 30, 2022 measurement date, the proportionate share as of each measurement date is based on the ratio of the total pension liability determined directly for each agency based on each agency's members to the total pension liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Agency allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by agency may result in immaterial differences.

Total Pension Liability and Actuarial Information

The Commonwealth's total pension liability was approximately \$22.2 billion as of June 30, 2023, of which approximately \$470 thousand is the Authority proportionate share as of June 30, 2022. The total pension liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

The Employee Retirement System (ERS) elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022,

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actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2023.

Actuarial Methods and Assumptions

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

Discount Rate

The discount rate for June 30, 2023, was 3.54%. 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.

Mortality

The mortality tables used in the June 30, 2022 actuarial valuations were as follows:

- *Pre-retirement Mortality*- For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.
100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.
- *Post-retirement Healthy Mortality*- Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.
- *Post-retirement Disabled Mortality*- Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- *Post-retirement Beneficiary Mortality*- Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010 (B) contingent survivor rates, adjusted by 110% for

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males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2022

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2022 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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

The following presents the total pension liability calculated using the discount rate of 3.54%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.54%) or 1-percentage-point higher (4.54%) than the current rate (dollars in thousands):

	1% decrease or 2.54%	Current discount rate of 3.54%	1% increase or 4.54%
Authority's proportionate share of the total pension liability	\$ 525,533	\$ 469,786	\$ 423,163

Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2023:

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Source	Deferred outflows of resources	Deferred inflows of resources
Benefits paid after measurement date	\$ 31,818	\$ —
Differences between actual and expected experience	5,894	9,961
Changes of assumptions	37,917	36,958
Changes in proportion and differences between actual contributions and proportionate share	10,077	102,331
	<u>\$ 85,706</u>	<u>\$ 149,250</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pension at June 30, 2023 will be recognized in pension expense (benefit) in future years as follows:

Years ending June 30,	Amount
2024	(1,554)
2025	(1,554)
	<u>\$ (3,108)</u>

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018 and 5 years for 2019 and 2020, and 4 years for 2021, and 2 years for 2022.

Pension Expense

The pension expense (benefit) for the year ended June 30, 2023, amounted to \$(97,405).

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay- as-you-go basis. Accordingly, no assets are accumulated in

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a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, 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 OPEB plan.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). Effective with the June 30, 2022 measurement date, the proportionate share as of each measurement date is based on the ratio of the total OPEB liability determined directly for each agency based on each agency's members to the total OPEB liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Agency allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by agency may result in immaterial differences.

Total OPEB Liability and Actuarial Information

The Commonwealth's total OPEB liability was approximately \$696 million, of which approximately \$12 thousand is the Authority's proportionate share as of June 30, 2023. The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2022, actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2023.

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Actuarial Assumptions

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

Discount Rate

The discount rate for June 30, 2023 was 3.54%. 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.

Mortality

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

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan at June 30, 2023 calculated using the discount rate of 3.54%, as well as the Plan’s total OPEB liability if it were calculated using the discount rate of 1- percentage point lower (2.54%) or 1-percentage point higher (4.54%) than the current rate:

	1% decrease or 2.54%	Current discount rate of 3.54%	1% increase or 4.54%
Authority’s Proportionate share of the total OPEB liability	\$ <u>13,174</u>	\$ <u>12,117</u>	\$ <u>11,183</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants 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 shares are recognized immediately during the measurement year.

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OPEB Expense (Benefit)

The OPEB expense for the year ended June 30, 2023, amounted to \$69.

12. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 21, 2024, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2023 financial statements.

Authorization for AFICA Bonds Issuances

Auxilio Mutuo Group

On November 9, 2023, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") authorized AFICA to issue a two-year private-placement of taxable bonds in an aggregate principal amount up to \$35 million ("Series 2023 Bonds") as a pass-through for the benefit of the Sociedad Española de Auxilio Mutuo y Beneficiencia de Puerto Rico (the "Corporation") and Hospital Español Auxilio Mutuo de Puerto Rico, Inc. (the "Hospital" and, together with the Corporation, the "Obligated Group"). The Obligated Group was declared on September 29, 2023, the successful bidder to purchase the hospital previously known as HIMA San Pablo-Bayamón (the "Bayamón Hospital") pursuant to a U.S. Bankruptcy Court case. The transaction closed in December 2023.

The Obligated Group used the proceeds of the Series 2023 Bonds to: (1) purchase assets and related properties of the Bayamón Hospital from Grupo HIMA San Pablo, Inc. (\$18,000,000); (2) partially finance immediate substantial repairs and improvements to the Bayamón Hospital (\$12,021,375); and (3) fund operating expenses and reserves for financing and legal costs of the Series 2023 Bonds. The Series 2023 Bonds are not guaranteed by, or otherwise the obligation of, the Commonwealth of Puerto Rico or any agency, instrumentality or public corporation thereof, and repayment and collateral of the Series 2023 Bonds is provided exclusively by the Obligated Group.

San Juan Cruise Port Terminal

On January 11, 2024, the Oversight Board authorized AFICA to issue up to \$235 million of taxable and tax-exempt bonds to finance capital improvements and transaction costs related to the Public Private Partnership Agreement dated August 15, 2022 (the "P3 Agreement") between the Puerto Rico Ports Authority ("PRPA") and San Juan Cruise Port LLC ("SJCP") to operate the San Juan cruise terminals for a 30-year period.

The Project consists of the design, construction, renovation, and equipping of various facilities at the San Juan Cruise Port Terminal and certain facilities functionally related and subordinate thereto, including the SJCP's acquisition of certain property interests therein. The transaction closed in February 2024.

The proceeds from the sale of the bonds were used to make a loan to SJCP to (a) pay all

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or a portion of the cost of the Project (described above), (b) make a concession payment to the PRPA as required by the P3 agreement, (c) pay certain operating expenses and reserves for financing and legal costs in connection with the issuance of the AFICA bonds.

Repayment of the Bonds and the AFICA loans will be made solely by SJCP and the related collateral. The Bonds and the AFICA loans are not guaranteed by, or otherwise have recourse to, the Commonwealth of Puerto Rico or any governmental agency, public corporation, or instrumentality of the Government of Puerto Rico.

AES Puerto Rico Bonds Exchange Transaction

On March 1, 2024, the Oversight Board authorized AFICA to issue up to \$115 million of new senior bonds in exchange for the defaulted \$145 million in outstanding Cogeneration Facility Revenue Bonds, 2000 Series A, which proceeds were originally loaned to AES Puerto Rico, L.P. (AES-PR). The transaction, which closed in March 2024, reduced AFICA's outstanding debt issuance by approximately 28% and provided AES-PR an emergency bridge financing of \$23 million for operational needs and capital expenditures.

The AFICA AES-PR bonds are not guaranteed by, or otherwise the obligation of AFICA, the Commonwealth of Puerto Rico or any agency, instrumentality, or public corporation thereof, and are nonrecourse to AFICA, the Commonwealth, and all other governmental entities.

REQUIRED SUPPLEMENTARY INFORMATION

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
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Schedule of Proportionate Share of Collective Total Pension Liability and Related Ratios
(Unaudited)
June 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the Collective Total Pension Liability	0.00212%	0.00240%	0.00248%	0.00305%	0.00299%	0.00284%
Proportionate Share of the Collective Total Pension Liability	\$ 469,786	\$ 652,636	\$ 695,898	\$ 758,107	\$ 731,713	\$ 801,853
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

Covered payroll is no longer applicable since contributions are no longer based on payroll and were eliminated pursuant to Act No. 106-2017.

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

There are no assets accumulated in a trust to pay related benefits.

See independent auditors' report on required supplementary information.

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Schedule of Proportionate Share of Collective Total Other Postemployment Benefit Liability
and Related Ratios (Unaudited)
June 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of Total Other Post-Employment Benefit Liability	0.00174%	0.00167%	0.00176%	0.00275%	0.00172%	0.00156%
Proportionate Share of Total Other Post-Employment Benefit Liability	\$ 12,117	\$ 13,348	\$ 15,394	\$ 22,916	\$ 14,448	\$ 14,321
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

Currently, there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Note: Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented at the Authority. The schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

There are no assets accumulated in a trust to pay related benefits.

See independent auditors' report on required supplementary information.