



Financial Statements and Report of  
Independent Certified Public Accountants

**Puerto Rico Aqueduct and Sewer Authority**

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2020 and 2019

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

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## Report of Independent Certified Public Accountants

To the Board of Directors of  
Puerto Rico Aqueduct and Sewer Authority:

### Report on the Financial Statements

We have audited the accompanying financial statements of Puerto Rico Aqueduct and Sewer Authority (a component unit of the Commonwealth of Puerto Rico) (the "Authority"), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### 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 misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Aqueduct and Sewer Authority as of June 30, 2020 and 2019 and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**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 22, the schedule of the Authority's proportionate share of the total pension liability on page 86, the schedule of funding progress for post-employment healthcare benefits on page 87, and the schedule of the Authority's proportionate share of the ERS for post-employment benefits on page 88, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which procedures consisted of inquiries to 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 we undertook do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplemental schedule of financial results and debt coverage calculations per the 2012 amended and restated master agreement of trust ("schedule") on pages 89-90 is presented as additional information and is not a required part of the basic financial statements. The schedule 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 and certain additional procedures, including comparing and reconciling financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of such internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
August 15, 2022.

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(OF PUERTO RICO)  
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# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Unaudited Management's Discussion and Analysis June 30, 2020 and 2019

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As management of Puerto Rico Aqueduct and Sewer Authority (the "Authority" or "PRASA"), we offer readers of the Authority's annual financial report our discussion and analysis of the Authority's financial performance during the fiscal years ended on June 30, 2020 and 2019. Please read it in conjunction with the Authority's financial statements, which follow this section. Numbers included are rounded to facilitate the readers' analysis.

### June 30, 2020 and 2019 Financial Highlights

- The Authority's net position in fiscal year 2020 was (\$480.1) million, which decreased by \$47million, or 10.8%, when compared to fiscal year 2019 net position of (\$433.1) million.
- Total operating revenues in fiscal year 2020 were \$1,063.2 million, an increase of \$2.3 million, or 0.2%, when compared to fiscal year 2019 total operating revenues of \$1,060.9 million. During fiscal year 2020, water and sewer revenues decreased by \$18.1 million and bad debt expense decreased by \$20.4 million.
- Operating expenses increased by \$159.1 million, or 31%, mainly due to the effect of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 73 in fiscal year 2019 which reduced pension expense in fiscal year 2019 and a lower discount rate used in the 2020 actuarial calculation of the total Pension Liability. In fiscal year 2020, payroll and payroll related expense increased by \$141.6 million when compared to the fiscal year 2019 affected by the implementation of the mentioned GASB Statement No. 73. Also, during fiscal year 2020 electricity expense increased by \$26.5 million, professional and consulting services increased by \$10.6 million, and chemical expense increased by \$4 million. Such expense increases were offset by a decrease in other operating expense of \$14 million and a decrease in repairs and maintenance expense of \$8.4 million.
- A decrease of \$548 million in operating expenses is related to the required transition from GASB Statement No. 68 to GASB Statement No. 73 which resulted in the Authority recognizing a nonoperating expense of \$548.2 million in fiscal year 2019, which did not recur in 2020.
- Decrease in nonoperating expenses by \$13.7 million when compared to \$225 million in fiscal year 2019 is attributed to a decrease in interest expense for debt service by \$23.6 million, and a decrease in interest income and other income by \$9.9 million.
- Capital contributions decreased by \$68.3 million, from \$77.9 million in fiscal year 2019 to \$9.6 million, primarily as a result of lower proceeds of funds obligated by Federal Emergency Management Agency ("FEMA") during fiscal year 2020 to reimburse the Authority for expenses incurred in its system recovery process after Hurricanes Irma and María (the "2017 Hurricanes").
- Total assets and deferred outflow of resources decreased by \$5.6 million to \$7,142.1 million, or 0.08%, when compared to \$7,147.7 million in fiscal year 2019. Capital assets decreased by \$162.3 million, mainly as a result of depreciation and amortization of \$240.4 million. The decrease in capital assets was offset by an increase in current asset of \$38.9 million (including an increase in current restricted cash and cash equivalents of \$36.3 million used to finance current debts service obligations), an increase in restricted cash and cash equivalents of \$66.5 million and an increase in deferred outflows of resources by \$51.3 million.
- Total liabilities and deferred inflow of resources increased by \$41.5 million to \$7,622.2 million, or 0.55%, when compared to \$7,580.8 million in fiscal year 2019. The change was mainly the result of an increase in current liabilities of \$57.8 million (reflecting mostly an increase of \$27.6 million in accounts payable, and an increase of \$21.6 million in notes payable current). Noncurrent liabilities decreased by \$21 million as a result of the net effect of decrease of \$44 million of long-term debt non-current and an increase in pension liability of \$19 million. Deferred inflow of resources increased by \$4.7 million.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Unaudited Management's Discussion and Analysis June 30, 2020 and 2019

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### June 30, 2019 and 2018 Financial Highlights

- The Authority's net position in fiscal year 2019 was (\$433.1) million, which decreased by \$418.4 million when compared to fiscal year 2018 net position of (\$14.6) million (as restated). The decrease in the net position is mostly as a result of the change in implementation of the pension "pay-as-you-go" (PayGo) methodology by the Employees Retirement System of the Government of Puerto Rico ("ERS"), which required the transition from the Governmental Accounting Standards Board ("GASB") Statement No. 68 to GASB Statement No. 73 to record the total pension liability, with an impact of \$548.2 million.
- Total operating revenues decreased by \$24.1 million, primarily driven by the reduction in insurance proceeds of \$143.9 million for business interruption received during fiscal year 2018 as a consequence from the impact of Hurricane Maria, offset by an increase in water and sewer revenues by \$88.9 million and a decrease in the bad debt expense by \$31.0 million. Capital contributions decreased by \$26.6 million, related to lower reimbursements from FEMA to recover a portion of hurricane-related incremental expenses.
- During fiscal year 2019, water and sewer service revenues increased by \$119.9 million, or 12.7%, as fiscal year 2018 revenues were affected by service interruptions caused by Hurricane María.
- Operating expenses increased by \$90.1 million mainly due to the effect of \$548.2 million related to the transition from GASB Statement No. 68 to GASB Statement No. 73, and a reduction of \$162.4 million in pension expense presented within payroll and payroll related expense. Additionally, payroll and payroll related expense was reduced by \$48.2 million due to the cost of preretirement program recorded in fiscal year 2018. Also, as part of the effort and recovery from damages caused by Hurricane Maria, the Authority presented a decrease of \$61.7 million in other operating expenses, a decrease of \$9.0 million in repairs and maintenance of capital assets, however there was an increase in other operating expenses, such as electricity by \$9.9 million, insurance by \$8.5 million, material and replacements by \$4.6 million and chemicals by \$3.2 million.
- Nonoperating expenses decreased by \$22.8 million, or 9.2%, to a net expense of \$225.1 million. The major variance is due to an increase in interest and other income by \$18.9 million.
- Capital contributions decreased by \$26.6 million, from \$104.5 million to \$77.9 million, primarily as a result of lower proceeds of funds obligated by FEMA during fiscal year 2019 to reimburse the Authority for expenses incurred in its system recovery process after the 2017 Hurricanes impact.
- Total assets and deferred outflow of resources decreased by \$434.5 million to \$7,147.7 million or 5.7% when compared to \$7,582.1 million in fiscal year 2018, as restated. Capital assets decreased by \$215.7 million, mainly as a result of the fiscal year depreciation and amortization of \$274.7 million and deferred outflows of resources decreased by \$204.5 million mainly due to the effect of the transition from GASB Statement No. 68 to GASB Statement No. 73. Current assets decreased by \$52.6 million, mainly due to the collection of \$186 million of accounts receivable from insurance companies. However, there was an increase in cash and cash equivalents of \$144.2 million, and restricted cash and cash equivalent of \$73.5 million.
- Total liabilities and deferred inflow of resources decreased by \$16.0 million to \$7,580.8 million or 0.2%, when compared to \$7,596.8 million in fiscal year 2018, as restated. The results are primarily trended by an increase in pension liability of \$265.6 million. As a result of the implementation of the PayGo method, pursuant to Act 106-2017, the Authority, starting in fiscal year 2019, implemented GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68. This Statement applies to pension plans that do not meet the GASB Statement No. 68 requirements because they do not have dedicated assets or assets held in trust for making pension payments, among other considerations. Also, the variance reflects an increase in accrued interest of \$34.8 million, offset by a decrease

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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in account payables of \$100.3 million, decrease in accrued liabilities of \$53.0 million, a decrease in long term debt of \$72.2 million, a decreased in compensated absences and postemployment and other benefits by \$16.9 million, and a decrease in unearned revenue of \$6.4 million. Deferred inflow of resources decreased by \$69.1 million mainly as a result of the implementation of GASB Statement No. 73.

#### **Overview of the Financial Statements**

This annual report includes the unaudited management's discussion and analysis report, the report of independent certified public accountants, the basic financial statements and the required supplementary information of the Authority. The basic financial statements include notes that explain in more detail the information contained in the basic financial statements.

#### **Required Financial Statements**

The financial statements report the financial position and operations of the Authority as of and for the fiscal years ended June 30, 2020 and 2019, which include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and the notes to financial statements.

#### **Financial Analysis of the Authority**

The balance sheets and the statements of revenues, expenses, and changes in net position, report the net position of the Authority and the changes therein. The Authority's net position – the difference between assets and liabilities – can be used to measure its financial health or financial position. Increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors need to be considered such as changes in economic conditions and new or changed government regulations or accounting regulations.

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Unaudited Management's Discussion and Analysis**  
**June 30, 2020 and 2019**

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**Analysis of Financial Results**

The following table provides a summary of the Authority's net position as of June 30, 2020 and 2019 (in thousands):

	<b>June 30</b>		<b>Change</b>
	<b>2020</b>	<b>2019</b>	
Current and other assets	\$ 1,185,533	\$ 1,080,129	\$ 105,404
Capital assets, net	5,782,236	5,944,534	(162,298)
Deferred outflow of resources	174,356	123,031	51,325
Total assets	<u>7,142,125</u>	<u>7,147,694</u>	<u>(5,569)</u>
Long-term debt outstanding	4,891,871	4,914,850	(22,979)
Other liabilities	2,611,066	2,551,287	59,779
Deferred inflow of resources	119,294	114,618	4,676
Total liabilities	<u>7,622,231</u>	<u>7,580,755</u>	<u>41,476</u>
Net position:			
Net investment in capital assets	1,258,643	1,324,192	(65,549)
Restricted	173,485	144,449	29,036
Unrestricted deficit	<u>(1,912,234)</u>	<u>(1,901,702)</u>	<u>(10,532)</u>
Total net position	<u>\$ (480,106)</u>	<u>\$ (433,061)</u>	<u>\$ (47,045)</u>



# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Unaudited Management's Discussion and Analysis

#### June 30, 2020 and 2019

The following table provides a summary of the Authority's net position as of June 30, 2019 and 2018 (as restated) (in thousands):

	June 30		
	2019	2018 As Restated	Change
Current and other assets	\$ 1,080,129	\$ 1,094,454	\$ (14,325)
Capital assets, net	5,944,534	6,160,192	(215,658)
Deferred outflow of resources	123,031	327,511	(204,480)
Total assets and deferred outflows of resources	<u>7,147,694</u>	<u>7,582,157</u>	<u>(434,463)</u>
Long-term debt outstanding	4,914,850	4,987,101	(72,251)
Other liabilities	2,551,287	2,425,940	125,347
Deferred inflow of resources	114,618	183,739	(69,121)
Total liabilities and deferred inflows of resources	<u>7,580,755</u>	<u>7,596,780</u>	<u>(16,025)</u>
Net position:			
Net investment in capital assets	1,324,192	1,415,689	(91,497)
Restricted	144,449	122,818	21,631
Unrestricted deficit	<u>(1,901,702)</u>	<u>(1,553,130)</u>	<u>(348,572)</u>
Total net position	<u>\$ (433,061)</u>	<u>\$ (14,623)</u>	<u>\$ (418,438)</u>

### Net Position

#### June 30, 2020 and 2019

The Authority's net position for the fiscal year ended June 30, 2020 was approximately (\$480.1) million. This is a decrease of \$47 million, from the net position, as of June 30, 2019 of \$(433.1) million.

Total assets and deferred outflows decreased by \$5.6 million, or 0.08%, during the fiscal year ended June 30, 2020, primarily due to a decrease in capital assets of \$162.3 million, offset in part by an increase in restricted cash and cash equivalents of \$102.8 million. Deferred outflows of resources increased by \$51.3 million.

Current and total restricted assets increased by \$105.4 million, principally due to an increase in current restricted cash and cash equivalents of \$102.8 million and an increase \$37.5 million in accounts receivable partially offset by a decrease in cash and cash equivalents of \$37.5 million.

The increase in restricted cash was primarily due to \$85.5 million deposited in the capital improvement fund account to finance the Authority's capital improvement program and \$32.4 million deposited in the operational reserve fund account. Both funds are held by the Authority's bond trustee under the Authority's Master Agreement of Trust.

Capital assets decreased by \$162.3 million, or 3%, to \$5,782.2 million, primarily as a result of the depreciation and amortization expense of \$240.4 million, net of additions of \$76.5 million. During fiscal year 2019, the Authority, restated the 2018 net position to correct an error in the computation of depreciation expense. The prior period adjustment to accumulated depreciation amounted to \$286.3 million.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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Deferred outflows of resources increased by \$51.3 million, mainly as result of the change of actuarial assumptions for the 2020 calculation.

Total liabilities and deferred inflows of resources increased by \$41.5 million to \$7,622.2 million, or 0.55%, when compared with fiscal year 2019 total liabilities and deferred inflows of resources of \$7,580.8 million.

Total current liabilities increased by \$57.8 million, driven mostly by an increase of \$27.6 million in accounts payable mainly due to significant payments made during fiscal year 2019, an increase in notes payable current portion of \$21.6 million due to the classification as current of one-time settlement payment to GDB Debt Recovery Authority of \$20.5 million, an increase of \$12.5 million in accrued interest and an increase of \$6.2 million in accrued liabilities, offset by a decrease of \$8.8 million in unearned revenue and a decrease in current pension liability of \$3.0 million.

Total non-current liabilities decreased by \$21 million. The change was mainly due to the part that during fiscal year 2020, the Authority concluded a debt modification process with USDA Rural Development and the Environmental Protection Agency ("EPA") and both programs were re-activated resulting in the increase of notes payable for \$403.7 million and a decrease in bonds payable of \$388.4 million, this modification converted the bonds outstanding balance into a new loan agreement. In addition, the non-current portion of pension liability increased by \$19 million and compensated absences increased by \$4.7 million. Those increases were offset by principal payments of \$64 million in the non-current portion of bonds and notes payable.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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#### ***June 30, 2019 and 2018***

The Authority's net position (deficit) for the fiscal year ended June 30, 2019 was approximately (\$433.1) million. This is a decrease the deficit increased] of \$418.4 million, from the net position (deficit), as restated, as of June 30, 2018 of (\$14.6) million.

Total assets and deferred outflows decreased by \$434.5 million, or 5.7%, during fiscal year ended June 30, 2019, primarily due to a decrease in deferred outflows of resource of \$204.5 million and a decrease in capital assets of \$215.7 million.

Current and total restricted assets decreased by \$14.3 million, principally due to a decrease of receivable from insurance companies of \$186.0 million, and a decrease of \$56.4 million in accounts receivable. The decrease was partially offset by an increase in cash and cash equivalents of \$144.2 million, increase in total restricted cash of \$73.5 million, and an increase of \$8.5 million in accounts receivable from federal agencies.

For the fiscal year 2019, restricted cash, unrestricted cash, cash equivalents and other deposits increased by \$217.8 million compared with fiscal year 2018. The cash and cash equivalents increase was primarily due to the proceeds received of \$186.0 million from insurance companies, \$61.9 million received from FEMA and \$32.4 million deposited into the operational reserve fund account, which is held by the Authority's trustee agent, In addition, during fiscal year 2019, the Authority deposited \$61.3 million in the capital improvement fund account to finance its capital improvement program.

Capital assets decreased by \$215.7 million, or 3.5% to \$5,944.5 million, primarily as a result of the depreciation and amortization of the period by \$274.7 million, net of additions of \$62.9 million. On fiscal year 2019, the Authority corrected an error in the computation of depreciation expense, which resulted in a prior period adjustment to accumulated depreciation of \$286.3 million.

Deferred outflows of resources decreased by \$204.5 million, mainly as result of the transition to GASB Statement No. 73, which required a change in the pension liability proportion assigned to the Authority. After considering the adoption of GASB Statement No. 73, the Authority's share of the total pension liability increased to 6.831% and its share of the total pension liability was \$1.67 billion. Under GASB Statement No. 73, the Authority's share is based on the ratio of the Authority's benefit payments made to the total benefit payments by ERS for the corresponding fiscal year.

Total liabilities and deferred inflows of resources decreased by \$16.0 million to \$7,580.8 million, or 0.2% when compared with fiscal year 2018 (as restated) total liabilities and deferred inflows of resources of \$7,596.8 million. On fiscal year 2019, the Authority recognized its share of the healthcare benefit provided by the ERS, recorded following GASB Statement No. 75, which resulted in a prior period adjustment of \$48.3 million.

Total current liabilities decreased by \$124 million, driven by a decrease of \$100.3 million in accounts payables, a decrease of \$53.0 million in accrued liabilities and a decrease of \$6.4 million in unearned revenue, offset by an increase of \$34.8 million in accrued interest.

Total non-current liabilities and deferred inflows of resources increased by \$108.0 million. The increase was mainly due to an increase in pension liability of \$267.3 million, as a result of the implementation of GASB Statement No. 73. In addition, the non-current portion on long term debt decreased by \$74.8 million and there was a decrease in compensated absences, postemployment and other noncurrent benefits liability of \$16.6 million. The deferred inflow of resources decreased by \$69.1 million during fiscal year 2019.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Unaudited Management's Discussion and Analysis

#### June 30, 2020 and 2019

#### Capital Assets

Capital assets as of June 30, 2020 and 2019 were as follows (in thousands):

	June 30		Change
	2020	2019	
Capital assets being depreciated	\$ 10,720,074	\$ 10,691,773	\$ 28,301
Accumulated depreciation and amortization	(5,412,082)	(5,173,317)	(238,765)
	5,307,992	5,518,456	(210,464)
Land and other nondepreciable assets	75,109	74,956	153
Construction in progress	399,135	351,122	48,013
Capital assets, net	<u>\$ 5,782,236</u>	<u>\$ 5,944,534</u>	<u>\$ (162,298)</u>

The decrease of \$162.3 million in capital assets includes an increase of \$28.3 million in capital assets being depreciated, a decrease of \$238.8 million in accumulated depreciation and amortization for the period, and a net increase of \$48 million in construction in progress. Additions to construction in progress during fiscal year 2020 amounted to \$80.9 million and are broken down as follows:

- \$27.3 million in the Authority's capital improvement program
- \$54.8 million in renewal and replacement projects.

The Authority has \$399.1 million in construction in progress as of June 30, 2020. During fiscal year 2020, the Authority re-activated its capital improvement program, and began planning for the execution of projects, including the regulatory and compliance projects with the state revolving funds from EPA, as well the reconstruction and resiliency projects, which will be financed as part of the FEMA obligation of \$3.7 billion under the Federal Accelerated Award Strategies ("FAAST") program. See Note 21.

Capital assets as of June 30, 2019 and 2018 were as follows (in thousands):

	June 30		Change
	2019	2018 As Restated	
Capital assets being depreciated	\$ 10,691,772	\$ 10,662,414	\$ 29,358
Accumulated depreciation and amortization	(5,173,316)	(4,900,596)	(272,720)
	5,518,456	5,761,818	(243,362)
Land and other nondepreciable assets	74,956	74,956	-
Construction in progress	351,122	323,418	27,704
Capital assets, net	<u>\$ 5,944,534</u>	<u>\$ 6,160,192</u>	<u>\$ (215,658)</u>

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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During fiscal year 2019, the Authority corrected an error in the computation of depreciation expense resulting in a prior period adjustment of \$286.3 in accumulated depreciation. The information for fiscal year 2018 included herein is presented as restated. The decrease of \$215.6 million in capital assets includes an increase of \$29.4 million in capital assets being depreciated, \$274.7 million in depreciation and amortization for the period, and an increase of \$27.7 million in work in progress. Additions during fiscal year 2019 amounted to \$62.8 million and are broken down as follows:

- \$4.9 million in the Authority's capital improvement program
- \$57.9 million in renewal and replacement projects.

The Authority had \$351.1 million in construction in progress as of June 30, 2019. As of June 30, 2019, its capital improvement program was still halted, and the execution of projects were prioritized in order to comply with regulatory agencies. Other projects were rescheduled for the following years.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Unaudited Management's Discussion and Analysis

#### June 30, 2020 and 2019

#### Debt Administration

Long-term debt for the fiscal years ended June 30, 2020 and 2019 was as follows (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Bonds payable:			
2011 Series A Commonwealth			
Appropriation Bonds	\$ 90,099	\$ 90,099	\$ -
2011 Series B Commonwealth			
Appropriation Bonds	102,183	102,183	-
2011 Series B Commonwealth (SA)			
Appropriation Bonds	162,700	162,700	-
2012 Series A Commonwealth			
Appropriation Bonds	56,247	56,247	(0.03)
Revenue Bonds:			
2008 Series A, Serial Bonds (Senior Lien)	25,240	25,240	-
2008 Series A, Convertible Capital			
Appreciation, (Senior Lien)	105,965	123,635	(17,670)
2008 Series A Term Bonds (Senior Lien)	1,095,125	1,095,125	-
2008 Series B Serial Bonds (Senior Lien)	22,445	22,445	-
2008 Series A and B Revenue			
Refunding Term Bonds	284,755	284,755	-
2012 Series A Serial Bonds (Senior Lien)	313,060	351,400	(38,340)
2012 Series A Term Bonds (Senior Lien)	1,381,995	1,381,995	-
2012 Series B Serial Bonds (Senior Lien)	86,725	86,725	-
2012 Series B Term Bonds (Senior Lien)	107,115	107,115	-
Rural Development Serial Bonds <sup>1</sup>	-	388,417	(388,417)
Add premium on bonds refunding	23,298	23,963	(665)
Less :			
Bond discount	(14,977)	(15,212)	235
Deferred loss from refunding	-	-	-
Total bonds	<u>3,841,975</u>	<u>4,286,832</u>	<u>(444,857)</u>
Notes payable:			
Water Pollution Control and Drinking Water			
Treatment Revolving Funds Loans	590,677	570,275	20,402
USDA Rural Development Loan Agreement <sup>1</sup>	401,476	-	401,476
Notes with GBD Debt Recovery Authority	57,743	57,743	-
Total notes	<u>1,049,896</u>	<u>628,018</u>	<u>421,878</u>
Long-term debt outstanding	<u>4,891,871</u>	<u>4,914,850</u>	<u>(22,979)</u>
Other long term liabilities:			
Accrued compensated absences	42,763	35,184	7,579
Total OPEB obligation	125,204	121,377	3,827
Total pension liability	1,688,941	1,672,879	16,062
Early retirement obligation	33,098	39,109	(6,011)
Customer deposits	91,986	91,136	850
Total other liabilities	<u>1,981,992</u>	<u>1,959,685</u>	<u>22,307</u>
Total – long-term obligations	<u>6,873,863</u>	<u>6,874,535</u>	<u>(672)</u>
Current portion	<u>(211,421)</u>	<u>(191,089)</u>	<u>(20,332)</u>
Long-term obligations, less current portion	<u>\$ 6,662,442</u>	<u>\$ 6,683,446</u>	<u>\$ (21,004)</u>

<sup>1</sup> The Rural Development Serial Bonds debt was modified on July 26, 2019 and converted into a new loan agreement incorporating accrued interest as of that date.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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The Authority's long-term debt decreased by \$23 million, or 0.05%, from \$4,914.9 million as of June 30, 2019, to \$4,891.9 million as of June 30, 2020.

#### Bonds Payable

Bonds outstanding as of June 30, 2020 decreased by \$444.9 million, mainly because on July 26, 2019, the Authority and the US Department of Agriculture ("USDA") (through the Rural Development program) executed a definitive agreement to restructure the Authority's Rural Development Bonds (the "RD Bonds") totaling \$403 million, including accrued interest as of that date. Decrease in bonds payable is also due to the payments of principal on 2012 Series A of \$38.3 million and 2008 Series A Convertible Capital Appreciation of \$17.7 million. During fiscal year 2020, the Authority did not issue additional bond debt.

The agreement was approved by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") pursuant to Section 207 of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") and consolidates and restructures all RD Bonds into two loans with a 40-year maturity and 2% interest rate, with a \$10 million annual debt service requirement from years 1 to 10 and a \$17 million annual debt service requirement thereafter. The restructured RD Bonds were designated as Other System Indebtedness on a parity as to payment with other Authority senior debt under the Authority's Master Agreement of Trust by and between the Authority and Banco Popular de Puerto Rico, as Trustee (the "MAT Trustee" and the Master Agreement of Trust, as amended and restated, the "MAT"). In addition, a significant portion of the Authority's outstanding senior revenue bonds was refinanced for debt service savings subsequent to June 30, 2020. For additional details, refer to Note 21.

#### Notes Payable

The Authority finances a portion of the cost of design and construction of certain capital improvements projects with notes from the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund programs (each State Revolving Fund, a "SRF"). As of June 30, 2020, the Authority's loans outstanding under these programs amounted to approximately \$590.7 million.

On July 26, 2019, the Authority and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF", by its Spanish acronym) consummated definitive agreements restructuring the Authority's SRF loans including the outstanding \$590 million loans plus \$26 million of funds for ongoing projects. The agreement was approved by the Oversight Board pursuant to Section 207 of PROMESA and consolidated all the restructured debt into two SRF loans with a 30-year maturity at 0% interest rate and \$10 million annual principal-only payments from years 1 through 10 and 1% interest rate and \$27 million annual debt service payments thereafter. The restructured SRF loans were designated as Other System Indebtedness on a parity as to payment with other senior debt under the Authority's MAT.

On February 29, 2012, the Authority entered into a line of credit agreement with Government Development Bank for Puerto Rico ("GDB"). This agreement provided an available maximum amount of \$150 million for the purpose of assisting with the Authority's cash flow needs during the transition period after amending and restating the MAT to provide, as security for the bonds outstanding thereunder, a gross revenue pledge in connection with the issuance of 2012 Revenue Bonds Series A and B. On June 27, 2014, the Authority and GDB executed an Amended and Restated Loan Agreement (the "Loan Agreement") reducing the line of credit to the outstanding balance as of that date of \$72.3 million and converting the interim loan to a term loan due and payable on March 31, 2019. The Loan Agreement had an amortization period of fifteen (15) years, payable in nineteen (19) quarterly payments, commencing on June 30, 2014, plus a final balloon payment of the principal amount then outstanding on the maturity date.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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On November 29, 2018, the Loan Agreement was transferred to the GDB Debt Recovery Authority, a statutory public trust and governmental instrumentality created pursuant to Act 109-2017, as amended ("GDB-DRA"), upon consummation of the GDB Qualifying Modification (the "Qualifying Modification") under Title VI of PROMESA. At the time of the transfer to the GDB-DRA, the outstanding principal amount under the Loan Agreement was \$57.5 million, plus accrued, and unpaid interest. For additional details, refer to Note 21.

Detailed information regarding long-term debt activity is included in Note 11 to the financial statements.

#### Pension Liability

Pension liability as of June 30, 2020, increased by \$16.1 million, or 1%, to \$1,688.9 million compared to \$1,672.9 million in June 30, 2019, as a result of the latest actuarial report issued for the allocation of pension liability, which utilized a lower discount rate among its updated assumptions.



**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Unaudited Management's Discussion and Analysis**  
**June 30, 2020 and 2019**

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**Summary of Revenues, Expenses, and Changes in Net Position**

The following table provides a summary of the Authority's changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019 (in thousands):

	Years ended June 30		Change
	2020	2019	
Operating revenue--			
Revenues from water and sewer, net	\$ 1,063,223	\$ 1,060,924	\$ 2,299
Operating expenses:			
Payroll and payroll related expenses	271,910	130,295	141,615
Service contract – Superaqueduct	4,192	3,762	430
Professional and consulting services	40,338	29,689	10,649
Chemicals	36,462	32,439	4,023
Materials and replacements	14,567	17,070	(2,503)
Repairs and maintenance of capital assets	43,403	51,805	(8,402)
Electricity	140,934	114,462	26,472
Insurance	20,038	19,173	865
Other operating expenses	95,086	109,107	(14,021)
Operating expenses (excluding depreciation and amortization)	666,930	507,802	159,128
Depreciation and amortization	240,436	274,655	(34,219)
Transition from GASB Statement No. 68 to GASB Statement No. 73	-	548,223	(548,223)
Cost of assets disposition	1,126	1,513	(387)
Total operating expenses	908,492	1,332,193	(423,701)
Operating income (loss)	154,731	(271,269)	426,000
Nonoperating expenses, net	(211,362)	(225,059)	13,697
Net loss before capital contributions	(56,631)	(496,328)	439,697
Capital contributions	9,586	77,890	(68,304)
Decrease in net position	(47,045)	(418,438)	371,393
Net position at beginning of year	(433,061)	(14,623)	(418,438)
Net position, end of year	\$ (480,106)	\$ (433,061)	\$ (47,045)

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Unaudited Management's Discussion and Analysis June 30, 2020 and 2019

The following table provides a summary of the Authority's changes in net position for the fiscal years ended June 30, 2019 and June 30, 2018, as restated (in thousands):

	Year Ended June 30		Change
	2019	2018 As Restated	
Operating revenue:			
Revenues from water and sewer, net	\$ 1,060,924	\$ 941,007	\$ 119,917
Insurance proceeds for business interruption	-	143,998	(143,998)
Total operating revenue	1,060,924	1,085,005	(24,081)
Operating expenses:			
Payroll and payroll related	130,295	367,794	(237,499)
Service contract – Superaqueduct	3,762	4,118	(356)
Professional and consulting services	29,689	28,703	986
Chemicals	32,439	29,188	3,251
Materials and replacements	17,070	12,497	4,573
Repairs and maintenance of capital assets	51,805	60,810	(9,005)
Electricity	114,462	104,510	9,952
Insurance	19,173	10,672	8,501
Other operating expenses	109,107	170,853	(61,746)
Operating expenses (excluding depreciation, amortization, and other non-cash adjustments)	507,802	789,145	(281,343)
Depreciation and amortization	274,655	256,758	17,897
Fixed assets hurricane impairment	-	194,197	(194,197)
Transition from GASB Statement No. 68 to GASB Statement No. 73	548,223	-	548,223
Cost of assets disposition	1,513	2,019	(506)
Total operating expenses	1,332,193	1,242,119	90,074
Operating loss	(271,269)	(157,114)	(114,155)
Nonoperating expenses, net	(225,059)	(247,807)	22,748
Net loss before capital contributions	(496,328)	(404,921)	(91,407)
Capital contributions:	77,890	104,504	(26,614)
Decrease in net position	(418,438)	(300,417)	(118,021)
Net position at beginning of year, <i>as restated</i>	(14,623)	285,794	(300,417)
Net position at end of year	\$ (433,061)	\$ (14,623)	\$ (418,438)

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Unaudited Management's Discussion and Analysis June 30, 2020 and 2019

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Net position decreased by \$47 million, from (\$433.1) million in 2019, to (\$480.1) million in fiscal year 2020.

Major fluctuations that resulted in the net position decrease when compared to 2019 operational results:

Increase in operating revenues	\$	2,299
Decrease in operating expenses		423,701
Decrease in non-operating expenses, net		13,696
Decrease in capital contributions		<u>(68,304)</u>
Net change	\$	<u>371,392</u>

Operating revenues increased by \$2.3 million, or 0.22%, when comparing the Authority's operating revenues for fiscal year 2020 with fiscal year 2019. On July 1, 2019, the Authority implemented the approved rate increase for water and sewer service. However, on March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus ("COVID-19") a global pandemic, which caused a lockdown period for various months, resulting in a reduction in consumption and service revenues mostly in commercial, industrial and government accounts. This mitigated the otherwise increasing impact effect on operation revenues of the approved rate increase.

Operating expenses decreased by \$423.7 million or 31.8% primarily due to the net effect of the following:

- Decrease of \$548.2 million as a result of the impact in fiscal year 2019 of the transition from GASB Statement No. 68 to GASB Statement No. 73 to record the adjusted pension liability, which did not recur in 2020.
- Decrease of \$34.2 million in depreciation and amortization expense, mostly caused by more fully depreciated assets.
- Decrease of \$14.0 million in other operating expense mainly due to expenses incurred in fiscal year 2019 as a result of the effect of Hurricane María in September 2017.
- Decrease of \$8.4 million in repairs and maintenance of capital assets expenses and decrease of \$2.5 million in materials and replacement costs related to repairs made to facilities during fiscal year 2019 due to damages caused by Hurricane María.
- Increase of \$141.6 million in payroll and payroll-related expenses, mainly as a result, during fiscal year 2019, of the transition from GASB 68 to GASB 73, which resulted in a reduction of pension expense of \$162 million in such year.
- Increase of \$26.5 million in electricity expense is due to the fact that during fiscal year 2019 the Authority had various facilities without electricity.
- Increase of \$10.6 million in professional and consulting expense as a result of insurance adjusters by \$10.5 million paid during fiscal year 2020.
- Increase of \$4.0 million in chemicals expense due to increased chemicals consumption during fiscal year 2020 as a result of changes in raw water quality.

Non-operating expense decreased by \$13.7 million when compared to fiscal year 2019, mainly as a result of a decrease in interest expense by \$23.6 million as a result of decrease in interest rate due to the federal debt modification and a decrease in other income by \$11.3 million.

Capital contributions decreased by \$68.3 million as a result of lower grant funds obligated by FEMA during fiscal year 2020 to reimburse the Authority for expenses incurred in the system recovery process after the 2017 Hurricanes and 2020 seismic activity (discussed below).

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Unaudited Management's Discussion and Analysis June 30, 2020 and 2019

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### *Fiscal Years June 30, 2019 and 2018 (as restated)*

Net position decreased by \$418.4 million, from (\$14.6) million in 2018, as restated, to (\$433.5) million in fiscal year 2019.

Major fluctuations that resulted in the net position decrease when compared to 2018 operational results:

Decrease in operating revenues	\$	(24,081)
Increase in operating expenses		(90,076)
Decrease in non-operating expenses, net		22,750
Decrease in capital contribution		(26,614)
Decrease in net position		(300,417)
Net Change	\$	<u>(418,438)</u>

Operating revenues decreased by \$24.1 million or 2.2%, when comparing the water and sewer service revenue for fiscal year 2019 with fiscal year 2018, primarily driven by the reduction in insurance proceeds of \$143.9 million for business interruption received during fiscal year 2018, as a consequence from the impact of Hurricane Maria, netted from an increase in water and sewer revenues. During fiscal year 2019, water and sewer service revenues increased by \$119.9 million, or 12%, as fiscal year 2018 revenues were affected by service interruptions caused by the Hurricane Maria.

Operating expenses increased by \$90.1 million or 7.2% primarily due to the net effect of the following:

- Increase of \$548.2 million as a result of the impact in the transition from GASB Statement No. 68 to GASB Statement No. 73 to record the adjusted pension liability.
- Increase of \$17.9 million in depreciation and amortization expense.
- Increase of \$9.9 million in electricity expense, as consumption during fiscal year was affected by the electric service interruptions as a result of the 2017 Hurricanes impact in the Puerto Rico electric system.
- Increase of \$8.5 million in insurance costs, after the 2017 Hurricanes impact on the insurance premium costs
- Increase of \$4.6 million in materials and replacements costs.
- Increase of \$3.3 million in professional and consulting expenses.
- Decrease of \$237.5 million in payroll and payroll-related expenses, as a result of the transition from GASB 68 to GASB 73, which resulted in a reduction of pension expense of \$162 million when compared to fiscal year 2018. In addition, payroll and payroll related cost was also reduced by \$48.2 million as a result of the adjustment of pre-retirement benefits under Act 211 in accordance with GASB Statement No. 47.
- Decrease of \$194.2 million in fixed assets hurricane impairment, since after the fiscal year 2018 asset impairment recognized as a result of the 2017 Hurricanes. No impairment was recorded during fiscal year 2019.
- Decrease of \$61.7 million in other operating expense, as fiscal year 2018 results were affected by the 2017 Hurricanes impact.
- Decrease of \$9.0 million in repairs and maintenance of capital assets expenses, as fiscal year 2018 results were affected by the 2017 Hurricanes impact.

Non-operating expenses decreased by \$22.8 million when compared to fiscal year 2018, mainly as a result of an increase in interest and other income by \$18.9 million and an decrease of \$3.8 million in interest expense.

Capital contributions decreased by \$26.6 million as a result of lower proceeds of funds obligated by FEMA during fiscal year 2019 to reimburse the Authority's expenses incurred in the system recovery process after the 2017 Hurricanes impact.

# **Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)**

## **Unaudited Management's Discussion and Analysis June 30, 2020 and 2019**

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### **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 Authority's financial position and results of operations. For additional information and further detail, refer to Note 21.

#### **Drought**

On June 5, 2022, the Authority began a water rationing program for approximately 10,000 clients in the Municipalities of Canóvanas and Loíza served by the Canóvanas water treatment plant. This program has been extended to approximately 10,000 additional clients in the Municipalities of Rio Grande, Juncos and Las Piedras served by the Juncos and El Yunque water treatment plants. To minimize the impact of the drought and water rationing on its service, the Authority had taken measures to manage pressures in the system, reduce water production and activate wells to protect and extend water sources availability. Such actions helped the Authority to reduce the impact to the service, which combined with system interconnections allowed the Authority to avoid more drastic water rationing measure. As of the of issuance of the financial statements the rationing program was canceled for the clients in the municipality of Rio Grande, Juncos and Las Piedras.

#### **2022 Fiscal Plan**

On May 20, 2022, the Oversight Board approved its latest 6-year fiscal plan for the Authority (the "PRASA Fiscal Plan") pursuant to PROMESA. The PRASA Fiscal Plan includes certain initiatives, such as, among others, an improved metering system, physical water losses reduction, federal funding maximization, projects to reduce electricity costs and aggressive execution of the capital improvement program. For more detail on PRASA's financial projections and measures under implementation or to be implemented as required by the Oversight Board please refer to the 2022 Fiscal Plan for the Authority published in the Oversight Board webpage.

#### **Rate Adjustments**

In August 2021, the Authority reviewed its rates in accordance with Act 21 procedures and requirements. Act 21 mandates engaging an independent examiner, who will submit an independent report to the Governing Board. The Authority had also engaged a third-party expert in water and sewer utility rate design to recommend an optimal rate structure aligned with industry standard cost allocation and rate design principles. Based on the recommendations from the consultant, the Authority proposed a new and simplified rate structure which was subject to the Act 21 public hearing process and requirements. The public hearings were held on March 15, 16 and 17, 2022 and presided over by an independent examiner who listened to the arguments of the deponents and granted them the opportunity to present expert and documentary testimony. The independent examiner also received written comments from persons participating in the public hearings, and from persons or organizations wishing to comment on the proposed rates without participating in the hearings.

On May 16, 2022, the independent examiner issued a report to the Authority's Governing Board containing a list of all the objections, proposals, opinions, documents, studies, recommendations and any other pertinent data presented at the hearings, as well as his conclusions and recommendations. A copy of said report has been made publicly available after the required public notice of availability. Interested persons had until May 26, 2022 (10 days after the public notice of availability) to submit in writing to the Authority's Governing Board their comments on the report.

# **Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)**

## **Unaudited Management's Discussion and Analysis June 30, 2020 and 2019**

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The proposed simplified rate structure (including only two charges – base charge and consumption charge) is designed to be revenue neutral. For fiscal year 2023 (beginning on July 1, 2022), the examiner's report proposes a 5% increase in the base charge (to take current inflation, energy price and supply-chain trends, among others, into account) and a 2% increase in the consumption charge. The report recommends an overall 4% rate increase for residential customer accounts and a 5% rate increase for all other customer accounts starting on July 1, 2023. The examiner also included his support for the ability for subsequent annual rate adjustments in future years and recommended rate adjustments of up to 5% annually with a 30% cumulative adjustment cap (up from 4.5% and 25%, respectively, in the Authority's current rate structure) after which additional public hearings will be required. The Authority cannot provide any assurance as to what any rate adjustments will be in the future.

On June 3, 2022, the Authority's Governing Board approved the simplified rate structure as proposed by the independent examiner, except the recommendation to increase the base charge by 5% in the first year, approving instead an initial 2% annual increase in all charges, subject to the receipt by the Authority of \$20 million upon the approval of proposed legislation by the Legislative Assembly ("*P. de la C. 1387*") to mitigate the rate increase impact on its customers, and subject to the approval thereof by the Oversight Board. The intention of this bill is to cover a portion of the increased water production costs, including electricity and chemicals costs, resulting from several exogenous factors including the pandemic's impact on the supply chain, significant inflationary pressures and the events in Ukraine. As *P. de la C. 1387* was not enacted by June 30, 2022 and the contemplated \$20 million was not received by the Authority, a 4.95% rate adjustment to the base charge for fiscal year 2023, as set forth in the 2022 Fiscal Plan, was implemented on July 1, 2022.

### **State Revolving Funds Loan**

After the July 2019 successful debt restructuring of the Authority's outstanding loans under the Puerto Rico SRF Program, with the agreement of and in collaboration with the EPA, the Authority regained access to funds from the SRF Program. The Authority had entered into various financial agreement with the State Revolving Funds Programs. On August 18, 2020, PRASA entered into a loan agreement with the PRDNER and PRIFA for loans totaling up to \$163 million to allow for funding of 28 wastewater capital improvement projects. Also, on September 17, 2021, the Authority signed a \$46 million financial agreement for DWSRF funding and, on October 28, 2021, a financial agreement for \$32 million of CWSRF funding was executed by the Authority. The Authority anticipates executing prior to July 31, 2022, two financial agreements for additional funding from the DWSRF program of \$11.8 million and from the CWSRF program of \$24.2 million.

The executed loans agreements provide for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans were designated as Senior Indebtedness under PRASA's Master Trust Agreement.

### **Government Development Bank (GDB) – Debt Restructuring Act**

On August 24, 2017, the Governor signed into law Act No. 109 – "GDB Debt Restructuring Act", which provides for the determination of liabilities between any government entity and the GDB, by automatically applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB, in a manner consistent with the Qualifying Modification - as described in Title VI of PROMESA. PRASA's Note with GDB (refer to Note 13 for more details) was transferred to the GDB DRA upon consummation of the Qualifying Modification on November 29, 2018 (the "GDB-DRA Loan Agreement"). The Authority's obligation under the GDB-DRA Loan Agreement was subordinate in all respects to its outstanding Trust Agreement obligations. At the time of the transfer to GDB-DRA, the outstanding principal amount under the GDB-DRA Loan Agreement was \$57.5 million, plus accrued and unpaid interest. On November 10, 2020,

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Unaudited Management's Discussion and Analysis**

#### **June 30, 2020 and 2019**

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the Authority, AAFAF, GDB-DRA and the collateral monitor for GDB-DRA reached an agreement in principle, contingent on Oversight Board approval, to resolve and settle in full all Authority obligations under the GDB-DRA Loan Agreement by a one-time Authority payment in the amount of \$20.5 million. On November 20, 2020, the Oversight Board approved the settlement, the Authority made that payment in full, the GDB-DRA Loan Agreement was terminated, and the Authority has no further obligation under it.

#### **2020 Debt Refunding**

On December 17, 2020, the Authority issued its 2020 Series A and Series B Revenue Refunding Bonds (the "2020 Senior Bonds") in the amount of \$1,351.3 million and \$18.8 million, respectively, for the purpose of refunding a portion of the outstanding bonds of the Authority. The proceeds of the 2020 Senior Bonds were used to (i) refinance a portion of the currently outstanding 2008 Revenue Bonds, Series A, and Series B (Senior Lien) issued under the Trust Agreement, excluding the non-callable convertible capital appreciation, (ii) refinance all of the Authority's currently outstanding Revenue Refunding Bonds, 2008 Series A and 2008 Series B, each guaranteed by the Commonwealth of Puerto Rico, and (iii) pay costs of issuance of the 2020 Senior Bonds. The par amount of the refunded bonds amounted to \$1,427.6 million.

The defeasance of the refunded bonds resulted in a reduction in the Authority's total debt service payments over the next 27 years of approximately \$348.2 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$213.3 million.

#### **Disaster Recovery Funds**

On January 5, 2021, the President of the United States announced that FEMA would award federal grant funds to help rebuild Puerto Rico's water and wastewater treatment plants, pumping stations, dams, and reservoirs affected by Hurricane María. On January 8, 2021, the funds were obligated through an agreement (the "2021 FEMA Funding Agreement") by which FEMA agreed to pay \$3.66 billion to the Authority for recovery and resiliency capital projects related to damage suffered by the Authority during Hurricane María. The amount represents the federal government's 90% funding share of the \$4.07 billion fixed cost estimate for repairing such damage to the Authority's facilities. The Authority is required to meet a 10% cost share ("match") requirement for its FEMA-funded permanent work projects under the 2021 FEMA Funding Agreement. The Authority plans to meet its cost-share portion with federal Housing and Urban Development ("HUD") Community Development Block Grant – Disaster Recovery Flexible Match program ("CDBG-DR Program") funds, as they become available. On September 2, 2021 the Department of Housing of Puerto Rico and the Authority entered into a sub-award agreement for \$200 million under the CDBG-DR Non-Federal Match Program to fund the state match of the FEMA award.

#### **2021 and 2022 Debt Refunding**

On August 25, 2021, the Authority issued 2021 Series A, 2021 Series B and 2021 Series C senior revenue refunding bonds in a total principal amount of \$1,089.8 million and on June 15, 2022, the Authority issued i 2022 Series A senior revenue refunding bonds in a total principal amount of \$565.2 million (together, the "Refunding Bonds") to refinance in the aggregate all of the Authority's 2012 Series A and B senior revenue bonds (the "Refunded Bonds") with an outstanding principal balance of \$1,806 million.

The 2021 and 2022 Debt Refunding resulted in (a) a reduction of the Authority's total debt service payments over the next 26 years of approximately \$569.7 million and (b) an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$385 million.

# **Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)**

## **Unaudited Management's Discussion and Analysis June 30, 2020 and 2019**

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### **PFC Restructuring Support Agreement**

On January 20, 2022, AAFAF, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

Upon the effective date of the PFC RSA, the outstanding debt of the Authority described in Note 12 and of those other Commonwealth's instrumentalities and public corporations, where applicable, will be cancelled and considered extinguished.

### **Credits Ratings**

As of the date of the issuance of these financial statements, the Authority's outstanding Senior Revenue Bonds were rated "CCC" by Fitch Ratings. In August 2018, Standard and Poor's withdrew its credit ratings for the Authority's bonds. On July 20, 2021, Moody's withdrew for unspecified business reasons its "Ca (Negative)" rating on the Senior Bonds of the Authority.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide the Authority's customers, creditors, and other interested persons with a general overview of its finances and to demonstrate the Authority's accountability for the funds it receives. If you have questions about this report, or need additional financial information, please contact the Director of Finance at 604 Barbosa Avenue, Suite 406, San Juan, Puerto Rico 00917 or at (787) 620-3791.



**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Balance Sheets**  
**June 30, 2020 and 2019**

(In thousands)

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 340,303	\$ 377,875
Accounts receivable, net	221,889	184,342
Receivables from federal agencies	32,509	35,020
Materials and supplies inventory, net	35,639	30,820
Prepayments and other current assets	13,430	13,115
Restricted cash for debt service and working capital	287,979	251,678
Total current assets	<u>931,749</u>	892,850
<b>Restricted assets--</b>		
Restricted cash, cash equivalents and other deposits	253,784	187,279
<b>Capital assets:</b>		
Capital assets being depreciated	10,720,074	10,691,773
Accumulated depreciation and amortization	<u>(5,412,082)</u>	<u>(5,173,317)</u>
	5,307,992	5,518,456
Land and other nondepreciable assets	75,109	74,956
Construction in progress	<u>399,135</u>	<u>351,122</u>
Total capital assets, net	5,782,236	5,944,534
<b>Deferred outflows of resources--</b>		
Loss on debt refunding	12,369	13,403
Pension related	146,096	93,449
Other post employment benefits related	15,891	16,179
Total deferred outflows of resources	<u>174,356</u>	123,031
Total assets and deferred outflows of resources	<u>\$ 7,142,125</u>	<u>\$ 7,147,694</u>

**Puerto Rico Aqueduct and Sewer Authority  
(A Component Unit of the Commonwealth of Puerto Rico)**

**Balance Sheets  
June 30, 2020 and 2019**

	<u>Liabilities and Net Position</u>	
	<u>2020</u>	<u>2019</u>
<b>Current liabilities:</b>		
Bonds payable	\$ 59,459	\$ 59,695
Notes payable	32,481	10,833
Pension liability	88,036	91,017
Accounts payable	178,146	150,596
Accrued liabilities	150,675	144,522
Accrued interest	285,688	273,154
Unearned revenue	14,565	23,330
Customers' deposits	8,065	8,046
Compensated absences, postemployment and other benefits	23,380	21,498
Total current liabilities	<u>840,495</u>	782,691
<b>Noncurrent liabilities:</b>		
Bonds payable	3,782,516	4,227,137
Notes payable	1,017,415	617,185
Pension liability	1,600,905	1,581,862
Customers' deposits	83,921	83,090
Compensated absences, postemployment and other benefits	177,685	174,172
Total noncurrent liabilities	<u>6,662,442</u>	6,683,446
<b>Deferred inflows of resources:</b>		
Pension related	108,125	105,454
Other postemployment benefit related	11,169	9,164
Total deferred inflows of resources:	<u>119,294</u>	114,618
Total liabilities and deferred inflows of resources	<u>7,622,231</u>	7,580,755
<b>Net Position:</b>		
Net investment in capital assets	1,258,643	1,324,192
Restricted for environmental compliance, capital activity and other	173,485	144,449
Unrestricted deficit	<u>(1,912,234)</u>	<u>(1,901,702)</u>
Total net position	<u>(480,106)</u>	<u>(433,061)</u>
Total liabilities and net position	<u>\$ 7,142,125</u>	<u>\$ 7,147,694</u>

The accompanying notes are an integral part of these balance sheets.

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2020 and 2019**

(In thousands)

	<u>2020</u>	<u>2019</u>
<b>Operating revenues:</b>		
Water	\$ 700,649	\$ 717,131
Sewer	375,957	377,552
Bad debt expense	<u>(13,383)</u>	<u>(33,759)</u>
Total net operating revenues	1,063,223	1,060,924
<b>Operating expenses:</b>		
Payroll and payroll related	271,910	130,295
Electricity	140,934	114,462
Repairs and maintenance of capital assets	43,403	51,805
Professional and consulting services	40,338	29,689
Chemicals	36,462	32,439
Materials and replacements	14,567	17,070
Insurance	20,038	19,173
Service contract – Superaqueduct	4,192	3,762
Other operating expenses	<u>95,086</u>	<u>109,107</u>
<b>Operating expenses</b>		
(excluding depreciation and amortization and other non-cash adjustments)	666,930	507,802
Depreciation and amortization	240,436	274,655
Transition from GASB Statement No. 68 to GASB Statement No. 73	-	548,223
Cost of assets disposition	<u>1,126</u>	<u>1,513</u>
Total operating expenses	<u>908,492</u>	<u>1,332,193</u>
Operating income (loss)	<u>154,731</u>	<u>(271,269)</u>
<b>Nonoperating revenues (expenses):</b>		
Interest expense, net of amortization of debt issuance cost, bond premium and discount, and deferred refunding loss	(225,458)	(249,040)
Interest income	10,939	9,473
Other income, net	<u>3,157</u>	<u>14,508</u>
Total non-operating expenses, net	<u>(211,362)</u>	<u>(225,059)</u>
Loss before capital contributions	<u>(56,631)</u>	<u>(496,328)</u>
Capital contributions--		
Federal grants and other contributions	<u>9,586</u>	<u>77,890</u>
Change in net position	<u>(47,045)</u>	<u>(418,438)</u>
Net position at beginning of year	<u>(433,061)</u>	<u>(14,623)</u>
Net position at end of year	<u>\$ (480,106)</u>	<u>\$ (433,061)</u>

The accompanying notes are an integral part of these statements.

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

(In thousands)

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 1,018,788	\$ 1,111,415
Cash received from insurance companies	-	186,000
Cash paid to suppliers	(367,537)	(484,003)
Cash paid to employees and payroll related	(272,251)	(353,445)
Net cash provided by operating activities	<u>379,000</u>	<u>459,967</u>
<b>Cash flows from non-capital financing activities:</b>		
Payments of notes	-	(7,807)
Net cash from other income	<u>3,156</u>	<u>14,508</u>
Net cash provided by non-capital financing activities	<u>3,156</u>	<u>6,701</u>
<b>Cash flows from capital and related financing activities:</b>		
Additions to utility plant and other capital assets	(81,817)	(63,560)
Proceeds from capital contributions	8,559	78,972
Proceeds from issuance of notes payable	21,806	-
Payments of bonds and notes	(64,090)	(61,763)
Interest paid on bonds, notes and lines of credit	(212,319)	(211,998)
Net cash used in capital and related financing activities	<u>(327,861)</u>	<u>(258,349)</u>
<b>Cash flows from investing activities--</b>		
Interest received on investments	<u>10,939</u>	<u>9,472</u>
<b>Net change in cash and cash equivalents</b>	<b>65,234</b>	<b>217,791</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>816,832</b>	<b>599,041</b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 882,066</u></b>	<b><u>\$ 816,832</u></b>
<b>For purposes of the statements of cash flows, cash and cash equivalents include:</b>		
Unrestricted	\$ 340,303	\$ 377,875
Restricted	<u>541,763</u>	<u>438,957</u>
	<b><u>\$ 882,066</u></b>	<b><u>\$ 816,832</u></b>

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

(In thousands)

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of operating (loss) income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 154,731	\$ (271,269)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	240,436	274,655
Effect of transition from GASB Statement No. 68 to GASB Statement No	-	548,223
Cost of assets disposition	1,126	1,513
Bad debt expense	13,383	33,759
Change in assets and liabilities:		
Accounts receivable	(49,903)	21,558
Receivables from insurance companies	-	186,000
Receivables from federal agencies	2,511	(8,457)
Materials and supplies inventory	(4,819)	(1,400)
Prepayments and other current assets	(315)	580
Accounts payable	30,106	(97,219)
Unearned revenue	(8,765)	(6,361)
Accrued compensated absences, post employment and other benefi	(17,444)	(12,771)
Accrued liabilities	6,152	(53,009)
Customers' deposits	850	1,535
Pension liability	10,951	(157,370)
Total adjustments	<u>224,269</u>	<u>731,236</u>
Net cash provided by operating activities	<u>\$ 379,000</u>	<u>\$ 459,967</u>

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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### (1) Reporting Entity and Summary of Significant Accounting Policies:

The Puerto Rico Aqueduct and Sewer Authority (“PRASA” or the “Authority”) is a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”). The Authority was created in 1945 under Act No. 40 (the “Act”), as amended, and reenacted, for the purpose of owning, operating, and developing all of the public aqueduct and sewer systems in Puerto Rico (the “System”). The Authority provides water and wastewater services to the Commonwealth, businesses, and residents of Puerto Rico. As a public corporation and an instrumentality of the Commonwealth, the Authority is exempt from the payment of income, property and municipal taxes. Under the terms of the Act, the Authority has broad powers, including, among others, to borrow money and issue revenue bonds for any of its corporate purposes. The Authority receives, in addition to the funds derived from operating its water and wastewater systems, grants from various agencies of the federal government of the United States of America and donations in kind or in cash from developers and various governmental agencies and instrumentalities of the Commonwealth.

#### **Basis of Presentation – Blended Component Unit**

The financial statements of the Authority as of June 30, 2020 and 2019, include the financial position and operations of PRASA Holdings, which is a limited liability company incorporated under the laws of the State of Delaware on March 6, 2014. PRASA Holdings, LLC was created to engage in lawful activities, for which limited liability companies may be organized under the Delaware Limited Company Act, subject to the limitations contained in the Authority’s enabling act.

As part of the Authority’s plan to collect additional revenues to supplement the Authority’s Revenues, pursuant to Act No. 228 enacted on November 1, 2011, the Authority created PRASA Holdings, LLC, pursuant to Resolution No. 2826. PRASA Holdings, LLC is authorized to do business in Puerto Rico. It is the parent company of Zumfiber, LLC, a limited liability company organized for investment purposes, which is also registered in the State of Delaware and is to engage in the development and operation of open access fiber optic infrastructure mainly through the water and wastewater system pipes in the San Juan Metropolitan area neighborhoods of Old San Juan, Condado and Isla Verde.

During the fiscal years ended June 30, 2020 and 2019, PRASA Holdings, LLC did not have operational activities. However, it has total assets and net position of \$0.5 million as of June 30, 2020 and 2019.

#### **Summary of Significant Accounting Policies**

The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (“GASB”). The Authority follows GASB pronouncements under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The Authority functions as an enterprise fund and maintains its accounting records on accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The most significant account policies followed by the Authority are described below.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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#### **Measurement Focus and Basis of Accounting**

The Authority's operations are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheets, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenues are recorded when utility services are provided to customers. All customers are billed on a monthly basis. Revenues are presented net of estimated allowances for uncollectible accounts. The Authority recognizes revenue on unbilled utility services based on estimated consumption.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water and wastewater related sales and services. Operating expenses of the Authority include mainly the cost of providing water and wastewater services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Cash and Cash Equivalents**

Cash equivalents include all highly liquid instruments with maturities of three months or less at the time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

Funds set aside by agreement for construction, debt service payments or other specific purposes are classified as restricted assets because their use is limited for the purposes specified in the applicable agreements.

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

#### **Receivables**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, the current receivable aging and current economic conditions, among other factors. As a result of uncertainties in the estimation process, management's estimate of credit losses inherent in the actual accounts receivable and related allowance may change in the future.

#### **Materials and Supplies Inventory**

Materials and supplies inventory are stated at average cost, not to exceed market. Inventory is presented net of a reserve for obsolescence for approximately \$0.60 million as of June 30, 2020 and \$0.46 million as of June 30, 2019.

#### **Unamortized Premiums, Discounts and Deferred Refunding Losses**

Debt premiums and discounts are deferred and amortized to expense over the life of the related debt using the effective interest method.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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The excess of reacquisition costs over the carrying value of refunded long-term debt is deferred and amortized to expense using the effective interest method over the remaining term of the original debt, or the term of the new debt, whichever is shorter.

Bonds payable are reported net of applicable bond premiums or discounts. The debt issuance costs are classified as nonoperating expenses and the loss on debt refunding as deferred outflows of resources on the accompanying balance sheets.

### Capital Assets

The Authority defines capital assets as tangible and intangible assets used in the Authority's operations with a useful life longer than three years, and with an individual cost of over \$1,000 for technology hardware and software and over \$2,000 for all other capital assets.

Utility plant and other capital assets are carried at historical cost or estimated historical cost, which includes capitalized labor, materials, administrative costs, and interest on debt financed construction. The Authority did not recognize capitalized interest for the fiscal years ended June 30, 2020 and June 30, 2019 as most of its Capital Improvement Program ("CIP") were financed by the Authority's operating revenues or federal funds with minor or no cost.

Recurring maintenance and repair costs are charged to expense, whereas major repairs, improvements, and replacements are capitalized. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded as operating expense.

Depreciation and amortization expense are calculated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Wells and tanks	Fifty (50) years
Vehicles, computer and software, tools and laboratory equipment	Five (5) years
Furnitures and fixtures, water meters, construction equipment	Ten (10) years
Water and sewer parts and pump station	Thirty (30) years
Burried infranstructure	Range from fifty (50) to Seventy (70) years
Dams	Seventy (70) years
Buildings	Forty (40) years

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.



# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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The Authority performed an assessment of impairment on capital assets as of June 30, 2020 and 2019 under the provisions of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. No assets impairment was recorded during the fiscal years ended June 30, 2020, and 2019, respectively.

### Unearned Revenue

Unearned revenue arises from water and sewer services paid in advance by government, residential, commercial or industrial clients.

### Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheets report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position applicable to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. Similarly, the Authority reports deferred inflows of resources on the balance sheets in a separate section following liabilities. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position and resources applicable to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Deferred outflows and inflows of resources mainly affect the unrestricted (deficit) net position.

The Authority has the following deferred outflow/inflow of resources:

#### Deferred outflows

- Unamortized loss on debt refunding. See Note 12.
- Difference between expected and actual experience, changes in proportions, assumptions, and pension and other post-employment benefits payments subsequent to the measurement date of the applicable benefit. See Notes 14 and 15.

#### Deferred inflows

- Difference between actual and expected pension liability experience. See Note 14.
- Changes in proportions, assumptions about future economic and demographic factors related to other post-employment benefits obligation. See Note 15.

### Accounting for Compensated Absences

Employees earn vacation and sick leave based on a prescribed formula. The amount of vacation and sick leave earned and not used by the Authority's employees is accrued as a liability, including payroll related costs, as the benefits are earned by the employees and if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Authority will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The Authority's employees are entitled to receive compensation for unused vacation days up to 60 days, based on current legislation. Accrued unused sick days does not result in compensation to employees.

The cost of compensated absences expected to be paid in the next twelve (12) months is classified as a current liability while amounts expected to be paid after twelve (12) months are classified as noncurrent liabilities.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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### Termination Benefits

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

### Accounting for Pension Costs

As further disclosed in Note 14, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system was established 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 PayGo system, employers’ contributions and other contributions ordered by special laws were all eliminated and substantially all of 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 is making direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, 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 amendment of Certain Provisions of GASB Statements No. 67 and 68*, is applied starting in fiscal year 2019. GASB Statement No. 73 maintains the “accrual basis” model under GASB Statement No. 68, where the 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 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, during fiscal year 2019, the Authority 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 Authority’s management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments, the impact on all corresponding pension related accounts was accounted for prospectively. A total of \$548.2 million of pension expense related to the adoption of GASB Statement No. 73, is presented within operating expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Position during the fiscal year ended June 30, 2019. The Authority’s share of the total pension liability was 6.96% and 6.831% for fiscal years 2020 and 2019, respectively, and its share of the total pension liability was \$1.7 billion for both fiscal years. Disclosures required under GASB Statement No. 73 can be found in Note 14.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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The Central Government and its component units are considered to be one employer, and the Plan, as modified by Act 106-2017, is classified for financial reporting purposes as a single-employer, defined benefit, pension plan. Other employers also participate in the Plan, as modified. 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.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020 and the June 30, 2018 actuarial measurement date was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2019.

#### **Accounting for Postemployment Benefits Costs**

In accordance with the provisions of the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Authority is required to quantify and disclose its obligations to pay non-pension post-employment benefits to current and future retirees. GASB Statement No. 75 employs an "accrual basis" model, where the total post employment benefit obligation (actuarially determined) is compared to the benefit plan net position, if any, and the difference represents the Net Other Postemployment Benefit (OPEB) Liability (Total OPEB Liability for unfunded plans).

The Authority provides non-pension, post-employment benefits under a Healthcare Benefits Plan to qualifying retirees that consist of a fixed maximum monthly payment of \$125 to cover medical expenses for retired employees meeting the service eligibility requirements. Based on this Plan's features, it is treated as a single-employer, defined benefit healthcare plan. These benefits are funded by the Authority on a PayGo, which means that there is no reserve or pool of assets against the benefit expenses that the Authority may incur in future years, therefore, the Authority recognizes the total OPEB liability.

The Authority's retired employees also participate in the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC), providing a benefit of \$100 per month for health plan costs. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS MIPC Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of 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 MIPC 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.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions of other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Authority contributions made after the measurement date of the total OPEB liability are recorded as a deferred outflow of resources. Disclosures required under GASB Statement No. 75 can be found in Note 15.

### Net Position

The net position is the difference between an entity's assets plus deferred outflows of resources and its liabilities plus deferred inflows of resources.

Net position is reported in three categories:

- ▶ **Net Investment in Capital Assets** – Includes capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of net investment in capital assets.
- ▶ **Restricted Net Position** – Reflects constraints on the use of net assets that are either externally imposed by creditors, grantors, contributors, and the like, or imposed by agreements or law (through constitutional provisions or enabling legislation).
- ▶ **Unrestricted Net Position** – Consists of net assets, which do not meet the definition of the two preceding categories. Unrestricted net position could be designated to indicate that management considers certain amounts to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management that can be removed or modified

### Use of Estimates

Management of the Authority has made several estimates and assumptions related to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Effects of New Pronouncements

The following GASB statements were adopted in fiscal year 2020:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, was implemented as required by GASB during the fiscal year ending June 30, 2020. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The implementation of this statement did not result in any changes to the financial statements.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

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- GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, was implemented as required by GASB during the fiscal year ending June 30, 2020. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of this statement added additional note disclosures for the long-term debt. For more information refer to notes 11 to 13.

#### Future Adoption of Accounting Standards

GASB has issued the following accounting standards that the Authority has not yet adopted:

GASB Statement No.	Name	Adoption required in fiscal year
84	Fiduciary Activities	2021
87	Leases	2022
89	Accounting for Interest Cost Incurred Before a Construction Period	2022
90	Majority Equity Interests an amendments of GASB Statements No. 14 and 61	2021
91	Conduit Debt Obligations	2023
92	Omnibus 2020	2021
93	Replacement of Interbank Offered Rates	2022
94	Public-Private and Public-Public Partnerships and Availability Payments Arrangements	2023
96	Subscription-Based Incorporation Technology Arrangements (SBITA)	2023
97	Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code 437 Deferred Compensation Plans	2022
98	The Annual Comprehensive Financial Report	2022
99	Omnibus 2022	2023 and 2024
100	Accounting Changes and Error Corrections an amendment of GASB Statement No. 62	2024
101	Compensated Absences	2025

The Authority is evaluating the impact that these statements may have, if any, on its future financial statements.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

#### Commonwealth Appropriations

The Authority may receive appropriations from the Commonwealth, which are classified as non-operating revenue or capital contributions as specified in Joint Resolutions approved by the Puerto Rico Legislature. Commonwealth appropriations to pay for operating expenses are classified as non-operating contributions. Commonwealth appropriations to pay for debt service are classified as non-operating revenues and appropriations for capital projects are classified as capital contributions. During fiscal year 2020 and 2019, the Authority did not receive Commonwealth appropriations.

#### Federal Grants and Other Contributions

The Authority receives contributions for capital projects from developers, the Commonwealth Governmental Agencies, and Federal Agencies, such as the US Department of Agriculture ("USDA") (through the RD program) and the Environmental and Protection Agency ("EPA") (through the SRF programs). The Authority also receives contributions from the Federal Emergency Management Administration ("FEMA") and other federal agencies for recovery and resiliency operating expenses and capital projects, when a natural disaster occurs and a state of emergency is declared by the president of the United States of America.

#### (2) Deposits:

As of June 30, 2020 and 2019, the carrying amount of deposits with financial institutions of the Authority consisted of the following (in thousands):

	June 30,			
	2020		2019	
	Carrying amount	Bank balance	Carrying amount	Bank balance
Unrestricted deposits in commercial banks in Puerto Rico	\$ 340,303	\$ 343,007	\$ 377,875	\$ 416,574
Restricted deposits in commercial banks in Puerto Rico	535,379	535,378	432,573	431,281
Federal funds held in custody	6,384	6,384	6,384	6,384
Total	<u>\$ 882,066</u>	<u>\$ 884,769</u>	<u>\$ 816,832</u>	<u>\$ 854,239</u>

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, and certificates of deposit, as described in Note 1.

#### Reclassifications

Certain amounts in the 2019 balance sheet have been reclassified to conform with the 2020 presentation.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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### **(3) Custodial Credit Risks Related to Deposits and Impairment Loss on Deposits with Governmental Bank:**

Pursuant to the laws of the Commonwealth, the Authority's cash is required to be held only in banks designated as depository institutions of public funds by the Commonwealth's Secretary of the Treasury. 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 the Secretary of the Treasury of the Commonwealth.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Deposits that were maintained at the Government Development Bank for Puerto Rico ("GDB") were exempt from the collateral requirements established by the Commonwealth and thus represented a custodial credit risk.

On April 8, 2016, GDB was declared to be in state of emergency by executive order EO-2016-010 (the "Executive Order"), in accordance with the emergency powers provided for in Act No. 21-2016 (the "Moratorium Act"). The Executive Order implemented a regulatory framework governing GDB's operations and liquidity, including establishing a new procedure with respect to governmental withdrawals, payments, and transfer requests in respect to funds held on deposit at GDB. The procedures implemented by the Executive Order resulted in restrictions on the ability of the Authority to withdraw the funds held on deposit at GDB, which had an adverse impact on the Authority's financial condition, liquidity and results of operations.

Under the Moratorium Act (subsequently amended by Act No. 5 of 2017, the Puerto Rico Financial Emergency and Fiscal Responsibility Act), the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), was created to assume, among other functions, the fiscal agency and financial advisory responsibilities that were previously held by GDB. With these measures, the GDB's management effectively concluded that an orderly wind down of its operations and a restructuring of its debt under the Qualifying Modification provisions of Title VI of PROMESA would mitigate the impact on its stakeholders (municipalities, other depositors, and other creditors, etc.). As a result, the Authority recognized an impairment loss on deposits held with GDB of \$9.8 million during the fiscal year ended June 30, 2016. The balance of the deposits which was not impaired of \$4.6 million as of June 30, 2016, consisted of federal grants received under the USDA RD program to finance eligible construction projects.

Pursuant to the terms of the Qualifying Modification, as further explained in Note 12, the Commonwealth restored \$6.4 million of funds from federal programs held at GDB, including \$6.3 million related to USDA RD program, of which \$1 million was held by the Authority as it was related to fleet purchases financed by a USDA loan paid in full by the Authority on July 2019 and \$5.3 million were transferred to USDA on January 28, 2021, as this amount was related to projects with no further outstanding invoices. Pursuant the Qualifying Modification, the remaining funds deposited at GDB were reduced from the balance owed by the Authority to GDB under a term loan, as further discussed in Note 12. As a result of these transactions, the Authority recorded a custodial credit loss recovery of \$9.5 million during the fiscal year ended June 30, 2019, which is presented within other income in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

For fiscal year 2020 the Authority was not exposed to custodial credit risk.

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**(4) Accounts Receivable:**

Accounts receivable are primarily for water and sewer services provided to residential, industrial, commercial and government customers, and as of June 30, 2020 and 2019 consisted of the following (in thousands):

	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
Water and sewer services:		
Residential, industrial, and commercial	\$ 804,690	\$ 773,746
Government agencies and municipalities	126,372	108,236
	<u>931,062</u>	<u>881,982</u>
Other receivables:		
Central government	4,743	4,743
Other government agencies	3,410	3,410
Private entities	32,772	31,949
	<u>40,925</u>	<u>40,102</u>
Less allowance for uncollectible accounts	<u>(750,098)</u>	<u>(737,742)</u>
Total	<u>\$ 221,889</u>	<u>\$ 184,342</u>

Receivables from the Commonwealth amounted to approximately \$4.7 million as of June 30, 2020 and 2019. Approximately \$3.7 million of this balance is related to interest paid by the Authority on the Public Finance Corporation ("PFC") 2011 Series B Bonds to be reimbursed. As of June 30, 2020, and 2019, \$3.7 million of this receivable from the Commonwealth is reserved.

**(5) Receivables from Federal Agencies:**

Receivables from federal agencies of approximately \$32.5 million and \$35.0 million as of June 30, 2020 and 2019, respectively, consist primarily of amounts to be received from FEMA as reimbursement for expenses incurred by the Authority for disaster recovery costs, following the state of emergency declaration made by the president of the United State of America for Puerto Rico after the extreme damages caused by the 2017 Hurricanes. Management expects this receivable to be collected; therefore the balance has not been reserved.

**(6) Materials and Supplies Inventory:**

Material and supplies inventory were approximately \$35.6 million and \$30.8 million as of June 30, 2020 and 2019, respectively and consisted of materials and supplies needed for the operation and maintenance of the water and sewer systems and for the replacement of water meters and other operating components.

**(7) Restricted Assets:**

Restricted assets consist of the following:

**Construction Funds** – Amounts in construction funds represent unspent bond proceeds, which will be used to pay the cost of construction of capital improvement projects. It also includes funds designed by the Authority for specific projects such as water sustainability and others.



# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

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**Capital Activity Funds** – Capital activity funds represent amounts deposited by the Authority as required by the annual budget into the Capital Improvement Fund held by the Master Agreement of Trust (“MAT”) Trustee as well as funds deposited by the Authority to comply with agreements requiring construction of capital improvement projects, including fines and penalties assessed by EPA that will be used for construction of capital improvement projects to provide water and sewer services and to comply with environmental regulations.

**Debt Service Funds** – Amounts deposited for the payment of principal and interest on bonds and notes. They also include deposits required by the MAT to be maintained in the Debt Service Reserve accounts.

**Disaster Recovery Funds** – Funds received from FEMA and other federal agency or insurance proceeds to be invested in capital improvement projects for the system recovery after disaster emergencies, such as hurricanes, tropical storms, earthquakes, and others.

**Operating Reserve Fund** – Deposits to comply with the Operating Reserve Fund requirement of the MAT.

The Authority’s restricted cash and cash equivalents include \$287.9 million and \$251.7 million as of June 30, 2020 and 2019, respectively, classified as current assets to be used for current debt service payment obligations or for potential short term operating needs, through the Operating Reserve Fund.

Restricted assets by category as of June 30, 2020 and 2019 consisted of the following (in thousands):

	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
Capital and construction funds	\$ 145,358	\$ 92,025
Operating reserve funds	140,930	107,056
Debt service funds	255,475	239,876
Total	<u>\$ 541,763</u>	<u>\$ 438,957</u>

**Puerto Rico Aqueduct and Sewer Authority**  
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**(8) Capital Assets:**

Utility plant and other capital assets as of June 30, 2020 were as follows (in thousands):

	June 30, 2020			Ending balance
	Beginning balance	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 64,365	\$ 11	\$ -	\$ 64,376
Easement	10,591	142		10,733
Construction in progress	351,122	80,817	(32,804)	399,135
Total capital assets not being depreciated	<u>426,078</u>	<u>80,970</u>	<u>(32,804)</u>	<u>474,244</u>
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,545,689	24,006	(2,781)	9,566,914
Wells, tanks and meters	668,530	589	-	669,119
Buildings	83,234	111	-	83,345
Equipment, furniture, fixtures and vehicles	394,319	6,377	-	400,696
Total capital assets being depreciated	<u>10,691,772</u>	<u>31,083</u>	<u>(2,781)</u>	<u>10,720,074</u>
Less accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(4,456,511)	(207,429)	1,670	(4,662,270)
Wells, tanks and meters	(319,542)	(23,002)	-	(342,544)
Buildings	(46,037)	(1,363)	-	(47,400)
Equipment, furniture, fixtures and vehicles	(351,226)	(8,642)	-	(359,868)
Total accumulated depreciation	<u>(5,173,316)</u>	<u>(240,436)</u>	<u>1,670</u>	<u>(5,412,082)</u>
Total capital assets being depreciated, net	<u>5,518,456</u>	<u>(209,353)</u>	<u>(1,111)</u>	<u>5,307,992</u>
Total capital assets, net	<u>\$ 5,944,534</u>	<u>\$ (128,383)</u>	<u>\$ (33,915)</u>	<u>\$ 5,782,236</u>

**Puerto Rico Aqueduct and Sewer Authority**  
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**June 30, 2020 and 2019**

Utility plant and other capital assets as of June 30, 2019 were as follows (in thousands):

	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:	As restated			
Land	\$ 64,365	\$ -	\$ -	\$ 64,365
Easement	10,591	-	-	10,591
Construction in progress	323,418	62,869	(35,165)	351,122
Total capital assets not being depreciated	<u>398,374</u>	<u>62,869</u>	<u>(35,165)</u>	<u>426,078</u>
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,518,446	30,667	(3,424)	9,545,689
Wells, tanks and meters	668,142	388	-	668,530
Buildings and improvements	82,908	326	-	83,234
Equipment, furniture, fixtures and vehicles	392,918	1,401	-	394,319
Total capital assets being depreciated	<u>10,662,414</u>	<u>32,782</u>	<u>(3,424)</u>	<u>10,691,772</u>
Less: accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(4,223,128)	(235,318)	1,935	(4,456,511)
Wells, tanks and meters	(297,771)	(21,771)	-	(319,542)
Buildings and improvements	(44,677)	(1,360)	-	(46,037)
Equipment, furniture, fixtures and vehicles	(335,020)	(16,206)	-	(351,226)
Total accumulated depreciation and amortization	<u>(4,900,596)</u>	<u>(274,655)</u>	<u>1,935</u>	<u>(5,173,316)</u>
Total capital assets being depreciated, net	<u>5,761,818</u>	<u>(241,873)</u>	<u>(1,489)</u>	<u>5,518,456</u>
Total capital assets, net	<u>\$ 6,160,192</u>	<u>\$ (179,004)</u>	<u>\$ (36,654)</u>	<u>\$ 5,944,534</u>

During fiscal year 2019 the Authority restated the accumulated depreciation and the net value of some assets, resulting in an increase of accumulated depreciation of \$286 million as further described in Note 18.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

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#### (9) Accrued Liabilities:

Accrued liabilities as of June 30, 2020 and 2019 consisted of the following (in thousands):

	June 30	
	2020	2019
Payroll and related accruals	\$ 50,360	\$ 43,427
Legal, labor related and environmental contingencies	89,733	89,928
Contract retentions	10,582	11,167
Total	<u>\$ 150,675</u>	<u>\$ 144,522</u>

#### (10) Early Retirement Obligations:

On December 8, 2015, the Commonwealth enacted Act No. 211 (Act 211-2015) to establish a program for eligible employees of the Commonwealth who voluntarily retire early in an incentivized program.

Act 211-2015 provided for a compensation equivalent to 60% of each employee's salary, the liquidation of vacation and sick leave accrued balances, up to the maximum days as established by Act. No. 66 of 2014 for eligible employees.

In addition, employees will maintain health plan coverage and employer contribution for a maximum term of two years.

On August 23, 2017, Act 106-2017 repealed Act 211-2015, but all the rights and obligations created under Act 211-2015 remain in effect.

As of June 30, 2020 and 2019, unpaid long term benefits granted in Act 211-2015 were discounted by a rate of 2.40%.

The Authority's obligation under Act 211-2015 for the fiscal year ended on June 30, 2020 and 2019 was approximately \$34.3 million and \$39.1 million, respectively. During the year ended June 30, 2020, the cost (additions of new participants) related to this termination benefit was \$2.3 million. There was no cost for the year ended June 30, 2019. See Note 11.

**Puerto Rico Aqueduct and Sewer Authority**  
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**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**(11) Long-Term Debt:**

Long-term debt activity for the fiscal year ended June 30, 2020 was as follows (in thousands):

	June 30, 2020					
	Beginning balance	Additions/ amortization	Reductions	Ending balance	Due within one year	Due thereafter
Bonds payable:						
2011 Series APFC Commonwealth Appropriation Bonds	\$ 90,099	\$ -	\$ -	\$ 90,099	\$ -	\$ 90,099
2011 Series B PFC Commonwealth Appropriation Bonds	102,183	-	-	102,183	-	102,183
2011 Series B PFC Commonwealth Appropriation Bonds	162,700	-	-	162,700	-	162,700
2012 Series APFC Commonwealth Appropriation Bonds	56,247	-	-	56,247	-	56,247
<u>Senior Lien:</u>						
2008 Series A Revenue Bonds	1,244,000	-	(17,670)	1,226,330	18,750	1,207,580
2008 Series B Revenue Bonds	22,445	-	-	22,445	-	22,445
2008 Series A Revenue Refunding Bonds	159,055	-	-	159,055	-	159,055
2008 Series B Revenue Refunding Bonds	125,700	-	-	125,700	-	125,700
2012 Series A Revenue Bonds	1,733,395	-	(38,340)	1,695,055	-	1,695,055
2012 Series B Revenue Bonds	193,840	-	-	193,840	40,255	153,585
Rural Development Serial Bonds <sup>1</sup>	388,417	-	(388,417)	-	-	-
Sub total bonds	4,278,081	-	(444,427.00)	3,833,654	59,005	3,774,649
Add bond premium	23,963	-	(665)	23,298	703	22,595
Less bond discount	(15,212)	-	235	(14,977)	(249)	(14,728)
Total bonds	\$ 4,286,832	\$ -	\$ (444,857)	\$ 3,841,975	\$ 59,459	\$ 3,782,516
Notes payable:						
<u>Direct borrowings</u>						
Water Pollution Control and Safe Drinking Water Treatment Revolving Funds Loans	570,275	26,235	(5,833)	590,677	10,000	580,677
USDA Rural Development Loan <sup>1</sup>	-	403,723	(2,247)	401,476	1,981	399,495
Notes with GDB Debt Recovery Authority	57,743	-	-	57,743	20,500	37,243
Total notes	628,018	429,958	(8,080)	1,049,896	32,481	1,017,415
Other long term liabilities:						
Total Pension Liability	1,672,880	109,205	(93,144)	1,688,941	88,036	1,600,905
Accrued compensated absences	35,184	16,820	(9,241)	42,763	7,813	34,950
Total OPEB obligation	121,378	10,554	(6,728)	125,204	7,682	117,522
Early retirement obligation	39,107	2,321	(8,330)	33,098	7,885	25,213
Customers' deposits	91,136	8,896	(8,046)	91,986	8,065	83,921
Total other liabilities	1,959,685	147,796	(125,489)	1,981,992	119,481	1,862,511
Total - long-term obligations	\$ 6,874,535	\$ 577,754	\$ (578,426)	\$ 6,873,863	\$ 211,421	\$ 6,662,442

<sup>1</sup> The Rural Development Serial Bonds debt were modified on July 26, 2019 and converted into a new loan agreement incorporating accrued interest as of that date and is secured on a parity with the Authority's Revenue and Revenue Refunding Bonds (Senior Lien).

**Puerto Rico Aqueduct and Sewer Authority**  
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Long-term debt activity for the fiscal year ended June 30, 2019, was as presented below (in thousands):

	June 30, 2019					
	Beginning balance	Additions/ amortization	Reductions	Ending balance	Due within one year	Due thereafter
Bonds payable:						
2011 Series A PFC Commonwealth Appropriation Bonds	\$ 90,099	\$ -	\$ -	\$ 90,099	\$ -	\$ 90,099
2011 Series B PFC Commonwealth Appropriation Bonds	102,183	-	-	102,183	-	102,183
2011 Series B PFC Commonwealth Appropriation Bonds	162,700	-	-	162,700	-	162,700
2012 Series A PFC Commonwealth Appropriation Bonds	56,247	-	-	56,247	-	56,247
<u>Senior Lien:</u>						
2008 Series A Revenue Bonds	1,260,650	-	(16,650)	1,244,000	17,670	1,226,330
2008 Series B Revenue Bonds	22,445	-	-	22,445	-	22,445
2008 Series A Revenue Refunding Bonds	159,055	-	-	159,055	-	159,055
2008 Series B Revenue Refunding Bonds	125,700	-	-	125,700	-	125,700
2012 Series A Revenue Bonds	1,733,395	-	-	1,733,395	38,340	1,695,055
2012 Series B Revenue Bonds	230,545	-	(36,705)	193,840	-	193,840
Rural Development Serial Bonds	389,096	-	(679)	388,417	3,254	385,163
Sub total bonds	4,332,115	-	(54,034)	4,278,081	59,264	4,218,817
Add bond premium	24,596	-	(633)	23,963	666	23,297
Less bond discount	(15,435)	-	223	(15,212)	(235)	(14,977)
Less deferred loss on refunding	-	-	-	-	-	-
Total bonds	4,341,276	-	(54,444)	4,286,832	59,695	4,227,137
Notes payable:						
<u>Direct borrowing</u>						
Water Pollution Control and Safe Drinking Water Treatment Revolving Funds Loans	580,275	-	(10,000)	570,275	10,833	559,442
Notes with GDB	65,550	-	(7,807)	57,743	-	57,743
Total notes	645,825	-	(17,807)	628,018	10,833	617,185
Other long term liabilities:						
Net Pension Liability	1,407,287	419,092	(153,499)	1,672,880	91,017	1,581,863
Accrued compensated absences	40,560	7,944	(13,320)	35,184	9,241	25,943
Net OPEB obligation	123,784	4,411	(6,817)	121,378	3,957	117,421
Early retirement obligation	48,242	-	(9,135)	39,107	8,300	30,807
Customers' deposits	89,601	9,413	(7,878)	91,136	8,046	83,090
Total other liabilities	1,709,474	440,860	(190,649)	1,959,685	120,561	1,839,124
Total – long-term obligations	\$ 6,696,575	\$ 440,860	\$ (262,900)	\$ 6,874,535	\$ 191,089	\$ 6,683,446

**Puerto Rico Aqueduct and Sewer Authority**  
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**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**(12) Bonds Payable:**

Bonds payable as of June 30, 2020 and 2019, consisted of the following (in thousands):

	June 30	
	2020	2019
PFC Commonwealth Appropriation Bonds:		
Series 2011:		
Series A, 6.50% due in semiannual interest payments through August 1, 2028 and annual principal installments from August 1, 2027 to 2028	\$ 90,099	\$ 90,099
Series B, 5.50% – 6.00% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2024 to 2031	102,183	102,183
Series B, 5.50% – 6.00% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2024 to 2031	162,700	162,700
Series 2012:		
Series A, 3.10% – 5.35% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2015 to 2031	56,247	56,247
Revenue Refunding Bonds (Senior Lien):		
Series 2008:		
Series A and B, Term Bonds, 5.80% – 6.10% due in monthly interest payments through July 1, 2034 and annual principal payments from July 1, 2021 to 2034	284,755	284,755
Revenue Bonds (Senior Lien):		
Series 2008:		
Series A, Serial Bonds, 5.00%, due in semiannual interest payments through July 1, 2025 and annual principal payments from July 1, 2012 to July 1, 2025	25,240	25,240
Series A, Convertible Capital Appreciation Bonds, 6.125%, due in semiannual interest payments from January 1, 2012 through July 1, 2024 and annual principal payments from July 1, 2017 to 2024	105,965	123,635
Series A, Term Bonds, 5.00% – 6.00%, due in semiannual interest payments through July 1, 2047 and annual principal payments from July 1, 2026 to 2047	1,095,125	1,095,125
Series B, Serial Bonds, 6.15% due in monthly interest payments through July 1, 2038 and one principal payment on July 1, 2038	22,445	22,445

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	June 30	
	<u>2020</u>	<u>2019</u>
Series 2012:		
Series A, Serial Bonds, 4.00% - 5.50%, due in semiannual interest payments through July 1, 2030 and annual principal payments from July 1, 2015 to 2030	313,060	351,400
Series A, Term Bonds, 5.00% – 6.00%, due in semiannual interest payments through July 1, 2047 and annual principal payments from July 1, 2033 to 2047	1,381,995	1,381,995
Series B, Serial Bonds, 3.35% - 5.00% due in monthly interest payments through July 1, 2023 and annual principal payments from July 1, 2014 to July 1, 2023	86,725	86,725
Series B, Terms Bonds, 5.35% due in monthly interest payments through July 1, 2027 and one principal payment on July 1, 2027	107,115	107,115
Rural Development serial bonds <sup>1</sup>		
Serial bonds, 2.00% – 5.00%, due in semiannual interest payments through July 1, 2055 and semiannual principal payments from July 1, 2020 to 2055	-	388,417
Subtotal	3,833,654	4,278,081
Bond premiums	23,298	23,963
Bond discounts	(14,977)	(15,212)
Total	\$ <u>3,841,975</u>	\$ <u>4,286,832</u>

<sup>1</sup> The Rural Development Serial Bonds debt was modified on July 26, 2019 and converted into a new loan agreement incorporating accrued interest as of that date and is secured on a parity with the Authority's Revenue and Revenue Refunding Bonds (Senior Lien).



# **Puerto Rico Aqueduct and Sewer Authority**

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### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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#### **Act 164 PFC Bonds**

The PFC Bonds are limited obligations of PFC payable solely from the proceeds of principal and interest on certain promissory notes, including promissory notes of the Authority. On December 17, 2001, Act No. 164 ("Act 164") of the Commonwealth authorized certain departments, agencies, instrumentalities, and public corporations (the "Authorized Debtors") of the Commonwealth, including the Authority, to issue to PFC notes (the "Notes") that are payable solely from budgetary appropriations approved annually by the Legislature of Puerto Rico pursuant to certain legislation. The proceeds were used to restructure outstanding obligations with GDB.

Act 164 stipulates the Commonwealth's Office of Management and Budget ("OMB") should include the amounts required to pay debt service on the Notes in the proposed annual budget of the Commonwealth submitted by the Governor to the Legislature of Puerto Rico (the "Legislature"). However, the Legislature is not legally required to appropriate funds for such payments.

On July 31, 2007, December 20, 2007 and June 26, 2008, the Puerto Rico Sales Tax Financing Corporation ("COFINA"), issued its Sales Tax Revenue Bonds Series 2007A and 2007B, Series 2007C and Series 2008A, respectively, to refinance certain of the Act 164 PFC Bonds outstanding and the corresponding notes issued to PFC by certain of the Commonwealth's agencies and component units, including the Authority. The Series 2007A and B proceeds were deposited in escrow with The Bank of New York Mellon as master escrow agent. As a result, approximately \$180.2 million of the Authority's share of the Act 164 PFC Bonds were considered defeased. The proceeds of the Series 2007C Bonds were used, in part, to purchase and cancel approximately \$61.4 million of the Authority's share of the Act 164 PFC Bonds. The proceeds of the Series 2008A Bonds were used to purchase and cancel approximately \$127.4 million of the Authority's share of the Act 164 PFC Bonds. After the COFINA debt refunding, the Authority's share of the Act 164 PFC Bond balance was reduced to approximately \$369 million.

On August 18, 2011, December 8, 2011 and June 28, 2012, PFC issued 2011 Series A, 2011 Series B and 2012 Series A Refunding Bonds for the amount of \$242.4 million, \$437.6 million and \$410.6 million, respectively, for the purpose of refunding its outstanding bonds. The net proceeds from such refunding bonds, after payment of the cost of issuance and bond premium, were used to advance refund the Authority's share of the 2004 Series A PFC Bonds \$326.8 million. The Authority's share on these previous bond issuances was removed from the balance sheet. The difference between the proceeds and the net carrying amount of the old debt is presented as a deferred outflow of resources and is being charged to operations using the effective interest rate method.

The Authority's share of 2011 Series A, 2011 Series B and 2012 Series A PFC Refunding Bonds is included in the Authority's balance sheets as of June 30, 2020 and 2019.

On December 13, 2011, COFINA, issued its Sales Tax Revenue Bonds Series 2011C, to refinance certain of the Act 164 PFC bonds outstanding and the corresponding notes issued to PFC by certain of the Commonwealth's agencies and component units, including the Authority. As a result of this issuance, approximately \$121.5 million of the Authority's share of the Act 164 PFC Bonds were considered defeased.

As of June 30, 2011, the Authority's share of the Act 164 PFC Bonds was approximately \$341.6 million. As of June 30, 2012, following the issuance of the 2011 Series A and B, 2012 Series A PFC Refunding Bonds and COFINA 2011 Series C Refunding Bonds, there was no outstanding balance of Act 164 PFC Bond. 2011 Series A and B and 2012 Series A PFC Refunding Bonds.

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As of June 30, 2020, and 2019, the Authority's share for the 2011 Series A, 2011 Series B, 2011 Series B and 2012 Series A Refunding Bonds is approximately \$90.1 million, \$102.2 million, \$162.7 million and \$56.2 million, respectively.

Due to the non-appropriation of funds by the Legislature for the payments of the Notes in the Commonwealth's annual budget since fiscal year 2016 and the subsequent filing by the Oversight Board of a Title III case on behalf of the Commonwealth in July 2017, none of the payments on the Notes, or any corresponding payments on the PFC Bonds, that have come due and payable in fiscal year 2016 or thereafter has been paid.

Payment of Commonwealth Supported Obligations is not secured by a pledge of Authority Revenues under the MAT. The Authority has no legal obligation to pay its debt to PFC because such debt is payable solely from legislative appropriations received from the Commonwealth. As provided in the MAT, if the Authority is unable to make this payment, the obligation is not cumulative and, therefore, does not carry forward to future periods; failure to make the payments or deposits related to this debt is not an event of default under the MAT.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico entered an order (the "Confirmation Order") confirming the Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al. [ECF No. 19813-1] (the "Eighth Amended Plan"). The Eighth Amended Plan went effective on March 15, 2022. Under the Eighth Amended Plan, all claims against the Commonwealth arising from or related to indebtedness payable from appropriations of the Commonwealth Legislature are classified as "CW Appropriation Claims" and treated in Class 63 of the Eighth Amended Plan. CW Appropriation Claims include, among other things, "all notes from the Commonwealth or its agencies or instrumentalities held by PFC for the repayment of PFC indebtedness." CW Appropriations Claims did not receive a distribution pursuant to the Eighth Amended Plan, and each such CW Appropriations Claim is deemed discharged. The Confirmation Order further provides that "all laws, rules, and regulations giving rise to obligations of the Debtors discharged by the [Eighth Amended] Plan and [the] Confirmation Order pursuant to PROMESA are preempted by PROMESA and such discharge shall prevail over any general or specific provisions of territory laws, rules, and regulations. Such preempted laws include, without limitation, laws enacted prior to June 30, 2016, that provide for transfers or other appropriations after the enactment of PROMESA, 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, to the extent inconsistent with the [Eighth Amended] Plan's discharge of the Debtors' obligations." Accordingly, following the March 15, 2022 effective date, all such preempted laws are not enforceable to the extent they are inconsistent with the Eighth Amended Plan's discharge of the Commonwealth's obligations. Although the Eighth Amended Plan does not grant a release of the Authority's PFC Notes, as a result of the Eighth Amended Plan's discharge and preemption provisions, there will be no future appropriations related to the PFC indebtedness, including the Authority's Commonwealth Supported Obligations currently outstanding. As a result, the contingency that would trigger the Authority's contingent obligation to pay the PFC indebtedness once it receives appropriations will not occur. For additional information, refer to Note 21.

#### **2008 Series A and B Revenue Refunding Bonds**

On March 18, 2008, the Authority issued approximately \$284.8 million of Series A and B Revenue Refunding Bonds (the 2008 Revenue Refunding Bonds), guaranteed by the Commonwealth to refund the Authority's outstanding 1995 Revenue Refunding Bonds (also guaranteed by the Commonwealth) in the amount of approximately \$262.8 million (the "1995 Series Bonds"). The 2008 Revenue Refunding Bonds bear interest at rates ranging from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The 2008 Series A and B Revenue Refunding Bonds net proceeds of approximately \$279.5 million (after payment of approximately \$5.3 million in underwriters' discount, insurance, and other issuance costs) and other

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funds made available from sinking funds and investment accounts from the 1995 Series Bonds, were deposited in an irrevocable trust with an escrow agent to pay all future principal and interest payments of the 1995 Series Bonds to their respective dates of redemption or maturity. As a result, the 1995 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's balance sheet.

The defeasance of the 1995 Series Bonds increased the Authority's total debt service payments over the next 25 years by approximately \$292.8 million and resulted in an economic loss (difference between the present values of the old and new debt service payments) of approximately \$12.7 million. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$35.9 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through fiscal year 2020 using the effective interest method.

The 2008 Revenue Refunding Bonds are guaranteed by the Commonwealth and the Authority's net revenue, as defined in the corresponding trust indenture, is pledged toward the payment of debt service on these bonds. The 2008 Revenue Refunding Bonds are subordinated to all senior and senior subordinated debt. As of June 30, 2020, and 2019, the outstanding balance for the 2008 Series A and B refunding Bonds was \$284.8 million.

The 2008 Series A and B Revenue Refunding Bonds were fully refunded in December 2020, as explained in Note 21.

#### ***2008 Series A and B Revenue Bonds***

On March 18, 2008, the Authority issued approximately \$1,338.6 million of Revenue Bonds Series 2008A and 2008B (Senior Lien) (the "2008 Revenue Bonds").

The 2008 Series A and B Revenue Bonds net proceeds were used to repay certain outstanding bond anticipation notes, accrued interest and principal amount of lines of credit and to finance a portion of the Authority's CIP.

The 2008 Series A Revenue Bonds consisted of (1) \$93.2 million of serial bonds bearing interest at 5% per annum with maturity dates ranging from July 1, 2012 to July 1, 2025, (2) \$127.9 million of capital appreciation term bonds accruing interest at 6 1/8% per annum and with maturity date of July 1, 2024, and (3) \$1,095.1 million of term bonds bearing interest at rates ranging from 5% to 6% per annum with maturity dates ranging from July 1, 2028 to July 1, 2047. As of June 30, 2020 and 2019, the outstanding balance for the 2008 Revenue Bonds Series A was \$1,226.3 million and \$1,244.0 million, respectively, which included approximately \$28.0 million of accreted value.

The 2008 Series B Revenue Bonds consisted of \$22.4 million term bond bearing interest at 6.15% per annum with maturity date of July 1, 2038.

The 2008 Series A and B Revenue Bonds are classified as senior indebtedness. As of June 30, 2020 and 2019, the outstanding balance for the 2008 Revenue Bonds Series B was \$22.4 million.

Most of the 2008 Series A and B Revenue Bonds were refunded in December 2020, as explained in Note 21.

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#### **2012 Series A and B Revenue Bonds**

On February 29, 2012, the Authority issued approximately \$2,095.7 million of Series A and B Revenue Bonds (Senior Lien) (the "2012 Revenue Bonds").

The 2012 Series A Revenue Bonds of approximately \$1,800.4 million were issued to (1) repay certain lines of credit provided by GDB to the Authority as interim financing for a portion of its CIP, (2) finance a portion of the Authority's CIP, (3) make a deposit to a Budgetary Reserve Fund, (4) pay capitalized interest on the 2012 Series A Revenue Bonds through July 1, 2013, and (5) pay the costs of issuance and underwriters' discount.

The 2012 Series A Revenue Bonds consisted of (1) \$418.4 million of serial bonds bearing interest at rates ranging from 4.0% to 5.55% per annum with maturity dates ranging from July 1, 2015 to July 1, 2030, and (2) \$1,382.0 million of term bonds bearing interest at rates ranging from 5% to 6% per annum with maturity dates ranging from July 1, 2033 to July 1, 2047.

The 2012 Series B Revenue Bonds of approximately \$295.2 million were issued to (1) provide funds to repay a bond anticipation note issued by the Authority in the aggregate principal amount of \$241.0 million, the proceeds were used to repay certain of the Authority's outstanding indebtedness, (2) provide funds to repay certain lines of credit provided by GDB to the Authority to finance operating expenses and as interim financing for a portion of its CIP, (3) pay capitalized interest on Series B Bonds through July 1, 2013, and (4) pay the cost of issuance and underwriters' discount.

The 2012 Revenue Bonds Series B consisted of (1) \$188.1 million of serial bonds bearing interest at rates ranging from 3.35% to 5.00% per annum with maturity dates ranging from July 1, 2014 to July 1, 2023, and (2) \$107.1 million of term bonds bearing interest at 5.35% per annum with maturity date of July 1, 2027.

In connection with the 2012 Revenue Bond issuance, on January 24, 2012, the Authority's Board of Directors authorized the execution of an amended and restated MAT, dated as of February 15, 2012, by and between the Authority and the MAT Trustee. The MAT, as amended and restated, changed from a net revenue pledge to a gross revenue pledge securing the repayment of the Authority's Senior, Senior Subordinated, and Subordinated debt, incurred by the Authority under the terms thereof, and changed the rate covenant requirements as explained in the Financial Covenant Note.

The 2012 Revenue Bonds were issued as Senior Debt, pursuant to the terms of the MAT. As of June 30, 2020 and 2019, the outstanding balance for 2012 Series A and B was \$1,888.9 million and \$1,927.2 million, respectively.

The 2012 Revenue Bonds were fully refunded in December 2021 and June 2022 as explained in Note 21.

# Puerto Rico Aqueduct and Sewer Authority

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#### Rural Development Serial Bonds

The USDA Rural Development Program assists the Authority in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from the Authority, the proceeds of which are used by the Authority to finance such projects.

As of June 30, 2019, the USDA Rural Development Program Bonds consisted of twenty-seven (27) separate series, issued from 1983 through 2015, bearing interest ranging from 2.0% to 5.0% due in semiannual installments through 2055. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2019 was \$388.4 million.

The USDA Rural Development Program Bonds were guaranteed by the Commonwealth, pursuant Act No. 45 of the Legislative Assembly of Puerto Rico, approved on July 28, 1994, as amended ("Act No. 45"), and the Authority's net revenue was pledged toward the payment of debt service on the USDA Rural Development Program Bonds following the priorities defined in the MAT. Therefore, as of June 30, 2019, the USDA Rural Development Program Bonds were subordinated to all senior and senior subordinated debt as well as to Operating Expenses, the Operating Reserve Fund and the Capital Improvement Fund.

The USDA Rural Development Program and Authority agreed to several forbearance agreements, starting on July 1, 2016 and, as amended, until July 31, 2019. As part of the forbearance agreements requirements, the Authority made payments for a total of \$29.5 million.

The Rural Development Serial Bonds debt was modified on July 26, 2019 and converted into a new loan agreement incorporating accrued interest as of that date and is secured on parity with the Authority's Revenue and Revenue Refunding Bonds (Senior Lien).

#### Debt Service Payments

Future principal and interest payments on all bonds payable outstanding as of June 30, 2020 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2021	\$ 59,005	\$ 187,451	\$ 246,456
2022	78,054	205,204	283,258
2023	84,197	200,905	285,102
2024	83,409	196,427	279,836
2025	98,471	191,375	289,846
2026-2030	778,468	851,702	1,630,170
2031-2035	812,990	752,430	1,565,420
2036-2040	716,950	416,931	1,133,881
2041-2045	755,960	197,829	953,789
2046-2050	366,150	30,143	396,293
Total	<u>\$ 3,833,654</u>	<u>\$ 3,230,397</u>	<u>\$ 7,064,051</u>
Plus unamortized premium	23,298		
Less:			
Unamortized discount	(14,977)		
Bonds payable, net	<u>\$ 3,841,975</u>		

**Puerto Rico Aqueduct and Sewer Authority  
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**(13) Notes Payable:**

Notes payable as of June 30, 2020 and 2019, consisted of the following (in thousands):

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
<i>Direct borrowings:</i>		
Clean Water Pollution Control Revolving Loan Fund	\$ 399,811	\$ 381,553
Safe Drinking Water Treatment Revolving Loan Fund	190,866	188,722
USDA Rural Development Loans <sup>1</sup>	401,476	-
Notes with commercial banks	57,743	57,743
	<u>\$ 1,049,896</u>	<u>\$ 628,018</u>

<sup>1</sup> The Rural Development Serial Bonds debt was modified on July 26, 2019 and converted into a new loan agreement incorporating accrued interest as of that date.

**Puerto Rico Water Pollution Control Revolving Fund and Safe Drinking Water Treatment Revolving Fund Loans**

The Authority receives federal funds for its CIP through various loans (the “SRF Loans”) granted by the Clean Water State Revolving Fund Programs (“CW-SRF”) and the Drinking Water State Revolving Fund Programs (“DW-SRF”) (and together with the CW-SRF, the “SRFs”), created under the federal Clean Water Act of 1972 and Safe Drinking Water Act of 1974, as amended, administered by the Commonwealth’s Environmental Quality Board (“EQB”) (succeeded by the Puerto Rico Department of Natural and Environmental Resources or “PRDNER”) and the Puerto Rico Department of Health (“PRDOH”), respectively. The SRF Loans were secured by a Commonwealth guaranty under Act No. 45 of the Legislative Assembly of Puerto Rico, approved on July 28, 1994, as amended.

In this respect, PRDNER and PRDOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the EPA. The Puerto Rico Infrastructure Financing Authority (“PRIFA”), a public corporation and instrumentality of the Commonwealth, as operating agent for the SRFs, is authorized to assist PRDOH and PRDNER in the administration, financial and accounting activities of the SRFs.

On December 18, 2018, a Deed of Trust was entered into, by and among PRIFA, EQB (succeeded by PRDNER), and Banco Popular de Puerto Rico, as trustee (the “CWSRF Deed of Trust”); and on the same date a Deed of Trust was entered into, by and among PRIFA, DOH, and Banco Popular de Puerto Rico, as trustee (the “DWSRF Deed of Trust”).

The Authority has entered into revolving loan agreements with PRIFA to finance certain capital improvements to the water system.

# **Puerto Rico Aqueduct and Sewer Authority**

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The original SRF Loan agreements were evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. The Authority has pledged its net revenues on a basis subordinate in all respects to the Authority's outstanding bonds. If the Authority's pledged net revenues were not sufficient for the payment of principal and interest, the payments due under the SRF Loans were guaranteed by the Commonwealth under Act No. 45.

On June 30, 2016, the Authority executed a Forbearance Agreement (the "SRF Forbearance Agreement") with PRDOH, administrator of the DW-SRF Program, EQB and PRDNER, as administrators of the CW-SRF Program, and PRIFA, as operating agent for the SRFs, authorized to assist the PRDOH and EQB/PRDNER in the administration, financial and accounting activities of the SRFs. Under the SRF Forbearance Agreement, as further amended on several occasions, the payments due until July 1, 2019, inclusive, under the SRF Loans were deferred, and the parties thereto agreed to forbear from exercising, or consenting to the exercise of, any enforcement of rights or remedies available to each under the SRF Loans subject to certain conditions and partial payments.

On July 26, 2019, the Authority and AAFAF consummated definitive agreements modifying the Authority's debt obligations under the SRF Program in the amount of \$570 million plus \$26 million of new funds for ongoing capital improvement projects (the "SRF Agreements"). The SRF Agreements were approved by the Oversight Board, pursuant to Section 207 of PROMESA, and consolidated all the restructured debt into two SRF loan agreements consisting of two loans with a 30-year maturity term for years 1 through 10 bearing interest at 0% and \$10 million annual principal-only payment and 1% interest rate and \$27 million annual debt service thereafter.

The Authority's outstanding balance of the loan agreements as of June 30, 2020 and 2019, was \$590.7 million and \$570.3 million, respectively.

The new SRF loans were designated as Other System Indebtedness on a parity as to payment with other senior debt under the Authority's MAT and are not guaranteed by the Commonwealth.

#### **Rural Development Loan Agreement**

For fiscal year 2019, the RD bonds consisted of twenty-seven (27) separate series, issued from 1983 through 2015, bearing interest ranging from 2.0% to 5.0% per annum due in semiannual principal installments through 2055.

The RD and the Authority agreed to several forbearance agreements, starting on July 1, 2016 until July 31, 2019. Under the forbearance agreements, the Authority made payments totaling \$29.5 million.

On July 26, 2019, the Authority and RD agreed to modify the Authority's outstanding RD bonds, totaling \$403 million, including accrued interest as of that date. The agreement consolidated all the restructured RD bonds and converted them into a new loan with a 40-year maturity bearing interest at 2% per annum, with a \$10 million annual debt service requirement from years 1 through 10 and \$17 million annual debt service thereafter.

The restructured RD bond is designated as Other System Indebtedness on a parity as to payment with other senior debt under the Authority's MAT and is not guaranteed by the Commonwealth.

The Authority's outstanding balance of the RD bond as of June 30, 2020 was \$401.5 million. The USDA Rural Serial Bonds balance as of June 30, 2019 was \$389.1 million.

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#### **Note with GDB and GDB Debt Recovery Authority**

On February 29, 2012, the Authority entered into a line of credit agreement with GDB. This agreement provided an available maximum amount of \$150 million for the purpose of assisting with the Authority's cash flow needs during the transition period after amending and restating the MAT to provide, as security for the bonds outstanding thereunder, a gross revenue pledge in connection with the issuance of 2012 Revenue Bonds Series A and B (Senior Lien). On June 27, 2014, the Authority and GDB executed an Amended and Restated Loan Agreement (the "Loan Agreement") reducing the line of credit to the outstanding balance as of that date of \$72.3 million and converting the interim loan to a term loan due and payable on March 31, 2019. The Loan Agreement had an amortization period of fifteen (15) years, payable in nineteen (19) quarterly payments, commencing on June 30, 2014, plus a final balloon payment of the principal amount then outstanding on the maturity date.

GDB entered into a Restructuring Support Agreement under Title VI Process under PROMESA ("Qualifying Modification"), providing for the wind-down of GDB's operations. The Qualifying Modification provides for certain GDB creditors (primarily holders of GDB public bonds and deposit claims held by certain municipalities and certain municipal and non-public entities) to exchange their claims against GDB at a 45% discount for new GDB bonds. On August 24, 2017, the Governor signed into law Act No. 109 – "GDB Debt Restructuring Act", which provides for the determination of liabilities between any government entity and GDB, by automatically applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB, in a manner consistent with the Qualifying Modification - as described in Title VI of PROMESA.

The Loan Agreement was subsequently transferred to the GDB Debt Recovery Authority, a statutory public trust and governmental instrumentality created pursuant to Act 109-2017, as amended ("GDB-DRA") upon consummation of the GDB Qualifying Modification (the "Qualifying Modification") under Title VI of PROMESA on November 29, 2018. At the time of the transfer to the GDB-DRA, the outstanding principal amount under the Loan Agreement was \$57.5 million, plus accrued, and unpaid interest. For more information, refer to Note 21.



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Future principal and interest payments on all notes payable outstanding as of June 30, 2020 are as follows (in thousands):

Year ending June 30:	<i>Direct borrowings</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 32,481	\$ 8,019	\$ 40,500
2022	12,021	7,979	20,000
2023	12,061	7,939	20,000
2024	12,103	7,897	20,000
2025	7,145	7,855	15,000
2026-2030	76,087	41,090	117,177
2031-2035	164,670	57,100	221,770
2036-2040	175,727	46,043	221,770
2041-2045	187,626	34,144	221,770
2046-2050	186,734	21,333	208,067
2050-2054	73,383	11,354	84,737
2055-2059	72,617	3,677	76,294
Total	<u>\$ 1,012,655</u>	<u>\$ 254,430</u>	<u>\$ 1,267,085</u>

The GDB-DRA outstanding balance as of June 30, 2020 was \$57.3 million and for fiscal year 2021 current portion was recognized based on the onetime settlement payment of \$20.5 million.

#### (14) Pension Plan:

##### **General Information of Pension Plan**

Before the enactment of Act 106-2017, ERS was a multiple-employer, cost-sharing, hybrid, defined benefit and defined contribution pension plan sponsored by and reported as a component unit of the Commonwealth. The ERS is a statutory trust created by Act No. 447 of May 15, 1951 as amended ("Act 447-1951"). All regular employees of the Authority become members of the ERS as a benefit of their employment.

Members who had entered the ERS before January 1, 2000, participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1-1990").

In 1999, Act 447-1951 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan ("System 2000"). Members who entered the ERS on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. On April 4, 2013, Act 3-2013 was enacted and represented a comprehensive reform of the ERS, effective on July 1, 2013.

Act 3-2013 eliminated the lump sum distribution alternative and substituted a life annuity for it, payable to the System 2000 Participants. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

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accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447-1951 and Act 1-1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

Act 106-2017 approved a substantial pension reform for all of the Commonwealth's retirement systems, including the ERS. This reform modified most of the ERS's activities, eliminated actuarially determined employer contributions, created the legal framework to implement a PayGo system, and required the ERS to liquidate substantially all of its assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then is reimbursed for those payments by the participating employer, including the Authority. Future benefits will not be paid by the ERS.

Under Act 106-2017, the ERS's board of trustees was eliminated and a new Retirement Board was created. Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the ERS, the Teachers Retirement System ("TRS") and the Judiciary Retirement System ("JRS"). At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The Retirement Board is currently responsible for governing the ERS, the JRS, and TRS.

Act 106-2017 also created a Defined Contribution Plan, similar to a 401(k) plan, for ERS participants, which plan is managed by a private entity. Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 have been enrolled into this new Defined Contribution Plan program. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new Defined Contribution Plan, effective as of June 22, 2020.

### Total Pension Liability of the ERS

The total pension liability as of June 30, 2019 (the measurement date used for financial reporting for fiscal year 2020) was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019.

#### (1) Actuarial Methods and Assumptions

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

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	Not applicable
Salary increases	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 03-2017, four-year extension of Act No. 66-2014, and the current general economy

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

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates were assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date.
- Post-retirement Healthy Mortality - Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for males and 95% of the rates from the UP-1994 Mortality Table for females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflected 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 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for males and 95% of the rates from the UP-1994 Mortality Table for females. The base rates were projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

### (2) Discount Rate

The discount rate used to measure the total pension liability was 3.50% as of June 30, 2019. This rate represents the municipal bond return as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

### The Authority's Proportionate Share of Total Pension Liability of ERS

The Authority's proportionate percentage share of the total pension liability decreased to 6.796% for fiscal year 2020 from 6.831% for fiscal year 2019, and the Authority's share of the total pension liability was approximately \$1.7 billion for both fiscal years 2020 and 2019.

The Authority's proportion of ERS's total pension liability was based on the ratio of the Authority's actual benefit payments to the aggregate total of benefit payments paid by all participating employers. During the year ending on the measurement date.

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Notes to Financial Statements**  
**June 30, 2020 and 2019**

The following presents the total pension liability as of June 30, 2019, calculated using the discount rate of 3.50%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate (in thousands):

	<b>1% Decrease (2.50%)</b>	<b>Current Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total pension liability	\$ 1,920,594	\$ 1,688,941	\$ 1,500,743

Detailed information about the ERS's fiduciary net position is available in its Annual Financial Report which can be found on the ERS's website at [www.retiro.pr.gov](http://www.retiro.pr.gov).

**Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pension**

For the fiscal year ended June 30, 2019, the Authority's pension expense, as set forth in the actuarial report, was \$54.8 million.

As of June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (expressed in thousands):

	<b>Beginning of year balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>End of year balance</b>
Deferred outflows of resources:				
Changes of assumptions	\$ -	\$ 54,844	\$ -	\$ 54,844
Changes of proportion	4,020	-	804	3,216
Total	<u>\$ 4,020</u>	<u>\$ 54,844</u>	<u>\$ 804</u>	<u>\$ 58,060</u>
Deferred inflows of resources:				
Changes of assumptions	\$ 54,857	\$ -	\$ 11,193	\$ 43,664
Changes of proportion	-	7,201	-	7,201
Difference between actual and expected experience	50,597	6,663	-	57,260
Total	<u>\$ 105,454</u>	<u>\$ 13,864</u>	<u>\$ 11,193</u>	<u>\$ 108,125</u>

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

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Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities for the fiscal year ended June 30, 2019 will be recognized in the pension expense as follows (in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ (11,520)
2022	(11,520)
2023	(11,520)
2024	(11,520)
	<u>\$ (46,080)</u>

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion; therefore, the deferred outflows and deferred inflows of \$3 million and \$7 million, respectively, related to changes in proportion, have not been included in the table above.

Deferred outflows of resources related to pension benefit payments made by the Authority subsequent to the measurement date, which amounted to \$88.0 million as of June 30, 2020, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2021. This amount is also not included in the table above.

#### **(15) Other Postemployment Benefits:**

##### **Authority Health Plan Benefit**

The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to its retirees (the "Healthcare Plan") pursuant to collective bargain agreements. The Plan is administered by the Authority. The benefit consists of a fixed maximum monthly payment (annuity) to cover medical expenses. Based on the Healthcare 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. Participant groups covered are employees under the Collective Bargaining Agreement with "Unión Independiente Auténtica" ("UIA"), employees under the Collective Bargaining 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 Authority's employees. All employees with more than twenty (20) years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age.

Act No. 3-2013, an amendment to Act No. 447, established a new retirement age as follows:

- ▶ For those employees employed by the Authority before March 30, 1990, normal retirement age will be sixty-one (61) years old.
- ▶ For employees employed by the Authority on or after March 30, 1990 and before July 1, 2013, normal retirement age will be sixty-five (65) years old.

For the employees hired by the Authority after July 1, 2013, normal retirement age will be sixty-seven (67) years old.

The obligation ends in case of death before retirement and in case of total or permanent disability before retirement. The obligation also ends in case of death after retirement.

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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### *Employees Covered by Benefit Terms*

For determining OPEB Liability as of June 30, 2020 and June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	1,993
Active employees	<u>4,429</u>
Total	<u><u>6,422</u></u>

### *Funding Policy*

The contribution requirements of the Authority are established and may be amended by the Authority's Governing Board. The benefits are paid directly by the Authority to the retirees at a maximum rate of \$125 per month per retiree. The Healthcare Plan is financed on a pay-as-you-go basis and the amount contributed during the fiscal year ended June 30, 2020 and 2019 was approximately \$3.0 and \$3.1 million, respectively. There is no contribution requirement for plan members.

### *Annual OPEB costs and Total OPEB liability*

For fiscal year 2020, the Authority engaged an actuarial company to update the latest actuarial valuation report (as of June 30, 2019) and determine the liability for fiscal year 2020. Based on such report, the Authority's actuarial accrued liability increased to \$79.9 million as of June 30, 2020, from \$75.4 million as of June 30, 2019, and the funding ratio was 0%. For fiscal years 2020 and 2019 the Authority paid \$2.9 million and \$3.1 million, respectively for these non-pension post-employment benefits for its eligible retirees.

The OPEB Expense and OPEB Liability were computed as part of an actuarial valuation performed as of June 30, 2020, in accordance with parameters of GASB Statement No. 75 and based on current years' demographic data.

The following table illustrates the Net OPEB Liability as of June 30, 2020 and 2019 based on the latest actuarial report (in thousands):

OPEB Liability at beginning of year	<u>\$ 75,427</u>	<u>\$ 75,524</u>
Changes recognized in fiscal year		
Service cost	\$ 1,529	\$ 1,451
Interest cost	2,642	2,831
Beginning of year liability remeasurement	-	(2,853)
Difference between expected and actual experience	-	(2,316)
Changes in assumptions	3,322	3,862
Benefit payments	<u>(2,973)</u>	<u>(3,072)</u>
Net changes	4,520	(97)
OPEB Liability at end of year	<u><u>\$ 79,947</u></u>	<u><u>\$ 75,427</u></u>

**Puerto Rico Aqueduct and Sewer Authority**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Notes to Financial Statements**  
**June 30, 2020 and 2019**

*OPEB deferred outflows of resources and deferred inflows of resources*

The Authority is required by GASB Statement No. 75 to determine deferred outflows and inflows of resources in order to be amortized and recognized in the annual OPEB expense.

The following table illustrates the OPEB deferred outflows and inflows of resources as of June 30, 2020 and 2019 (in thousands):

	2020		2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Difference between actual and expected experience	\$ 5,741	\$ 2,062	\$ 6,099	\$ 2,189
Assumption changes	6,486	9,107	6,326	6,975
Total	<u>\$ 12,227</u>	<u>\$ 11,169</u>	<u>\$ 12,425</u>	<u>\$ 9,164</u>

The following table illustrates the list of amortizations for the OPEB deferred outflows and inflows of resources under GASB Statement No. 75 for the fiscal year ended June 30, 2020 (in thousands):

Date Established	Type of Base	Years		Balance		Annual Payment
		Original	Remaining	Original	Remaining	
6/30/2019	Assumptions	12.04	11.04	\$3,322.7	\$3,046.7	\$276.0
6/30/2018	Liability (Gain)/Loss	18.28	16.28	\$(2,315.7)	\$(2,062.3)	\$(126.7)
6/30/2018	Assumptions	18.28	16.28	\$3,861.9	\$3,439.5	\$211.3
6/30/2018	Assumptions	20.03	16.28	\$(2,853.5)	\$(2,541.3)	\$(156.1)
6/30/2016	Liability (Gain)/Loss	20.03	16.03	\$7,173.3	\$5,740.8	\$358.1
6/30/2016	Assumptions	20.03	16.03	\$(8,204.1)	\$(6,565.7)	\$(409.6)
<b>Total Charges</b>					<u>\$1,057.7</u>	<u>\$153.0</u>

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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OPEB deferred outflows and deferred inflows of resources to be registered in the OPEB expenses are as follows (in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 153
2022	153
2023	153
2024	153
2025	153
2026 and thereafter	293
	<u>\$ 1,058</u>

### *Actuarial Cost Method*

The actuarial cost method used by the Authority is the Entry Age Normal Level Percent of Pay cost method.

### *Actuarial Assumptions*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Net OPEB Liability of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

### *Economic Assumptions*

The discount rates considered for fiscal years ended June 30, 2020 and 2019, were 2.21% and 3.50%, respectively. In order to comply with GASB No.75, 20-year Municipal Bond Rate term investments (Bond Buyer US weekly yields 20 General Obligation Bond Index) were used to represent the Authority's expected long-term return on internal assets used to finance the payment of plan benefits.

As the retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience) without negotiation of a new contract with the unions or an express Governing Board approval, the medical increase rate was zero percent for the fiscal years ended June 30, 2020 and 2019. If the fixed benefit level increases in the future (by negotiation or plan amendment), the higher obligation will be recognized when the new contract or amendment is adopted.

The salary increase rate used as an assumption (not actual) is 2.50% as of June 30, 2020.

### *Demographic Assumptions*

For the fiscal years ended June 30, 2020 and 2019, the turnover table used for the valuation was the Withdrawal Table for Hourly Union Employees – five (5) years of service select period, which was based on the Society of Actuaries' 2003 pension plan turnover study.

The RP-2014 base table with generational mortality improvements using MP-2020 as of June 30, 2019 was updated to PUB-2010 amounts weighted mortality for "general" employees with generational mortality improvement projected using scale MP-2020 as of June 30, 2020.



# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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The Hunter disability table was used for the valuation.

### *Sensitivity of the Total OPEB Liability to Changes in Discount Rate*

The following table presents the total OPEB liability calculated using the discount rate of 2.21%, as well as what it would be if it were calculated using a discount rate of 1 percentage point lower or 1 percentage point higher than the current rate (dollars in thousands):

	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
Total OPEB liability as of June 30, 2020	\$ 90,979	\$ 79,947	\$ 70,392

### **ERS Medical Insurance Plan Contribution (ERS MIPC)**

The Authority also participates in the OPEB plan of the Commonwealth for retired employees, through the ERS MIPC, in accordance with local law. The ERS MIPC is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded, single employer, defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth, such as the Authority, not having their own post-employment benefit plans or in addition to their own post-employment plans some component units may have under special collective bargain agreements. For ERS MIPC, Commonwealth and Authority's employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

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

### *Actuarial Methods and Assumptions*

The total OPEB liability as of June 30, 2020 and 2019 was determined by the actuarial valuation as of July 1, 2018, with measurement date of June 30, 2019, and assumed no liability gains or losses.

The actuarial cost method used by the ERS is the Entry Age Normal method.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

The discount rate considered for fiscal years ended June 30, 2019 and 2018 was 3.50% and 3.87%, respectively. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience). The medical increase rate was zero percent for the fiscal years ended June 30, 2020 and 2019.

### *The Authority's Proportionate Share of Total OPEB Liability of ERS MIPC*

The Authority's proportionate percentage share of the total pension liability amounts to 5.43802% in fiscal year 2020 and 5.45638% in fiscal year 2019, which represented a share of the total ERS MIPC OPEB liability of \$45.3 million and \$45.9 million, respectively.

As the ERS MIPC is a single employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in 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. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

The following table illustrates the total ERS MIPC OPEB Liability under GASB Statement No. 75 for the fiscal year ended June 30, 2020, as informed by the ERS to the Authority (in thousands):

<u>Description</u>	<u>Amount</u>
OPEB Liability as of June 30, 2018	\$ 45,951
Outflow of resources as of June 30, 2019	-
Inflow of resources as of June 30, 2019	-
OPEB Expense (credit)	3,213
Actual payments fiscal year 2019	(3,752)
Amortization of changes in proportion	(155)
	<hr/>
OPEB Liability as of June 30, 2019 (measurement date)	\$ 45,257

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

The following presents the total ERS MIPC OPEB liability as of June 30, 2019, calculated using the discount rate of 3.50%, as well as what the total ERS MIPC OPEB liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate (in thousands):

	<u>1% Decrease (2.50%)</u>	<u>Current Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
Total OPEB liability as of June 30, 2020	\$ 49,638	\$ 45,257	\$ 41,536

### *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from OPEB Activities*

OPEB expense recognized by the Authority for the fiscal year ended June 30, 2020, related to ERS MIPC amounted to \$3.1 million.

Because all participants in the ERS MIPC 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 Authority subsequent to the measurement date, which amounted to \$3.7 million during fiscal year 2020, which has been recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2020.

Additional information on ERS is provided in its standalone financial statements for the fiscal year ended June 30, 2019, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

### **(16) Pledge Revenues and Financial Covenants:**

The Authority's Revenue Bonds are governed by the MAT and are collateralized by the pledge of, and a first lien on the Authority's Operating Revenues, as defined in the MAT. The Puerto Rico Water Pollution Control and Safe Drinking Water Treatment Revolving Fund Loans and USDA Rural Development Loan are secured on a parity with the Authority's Revenue Bond.

The MAT governing the Authority's Revenue Bonds contain the following events of default:

- (a) default in the due and punctual payment of the principal of or premium, if any, on any Bonds or Other System Indebtedness whether at maturity, upon termination or call for redemption or otherwise; or
- (b) default in the due and punctual payment of the interest on any Bonds or Other System Indebtedness; or
- (c) the Authority shall for any reason be determined to be incapable by a court, governmental entity or agency of competent jurisdiction of fulfilling or shall not have full power and authority to fulfill its obligations hereunder; or
- (d) an order or decree shall be entered, with the consent or acquiescence of the Authority, appointing a receiver or receivers of the Authority's water and sewage systems (the "Systems") or any part thereof or of the Authority's Revenues, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not have been vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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- (e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or Commonwealth of Puerto Rico statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable out of the Authority's Revenues and if said proceeding shall not have been discharged within ninety (90) days after the institution thereof, or if any such proceeding, having been instituted without the consent or acquiescence of the Authority, shall not be contested in good faith; or
- (f) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the MAT on the part of the Authority to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than ten per cent (10%) in principal amount of the Senior Bonds then outstanding; provided, however, if the default specified in this clause (f) shall be of a type that cannot be remedied within thirty (30) days, it shall not constitute an event of default if the Authority shall begin diligently to remedy such default within such thirty-day period.

In no event shall the failure to pay principal of or interest on Commonwealth Guaranteed Indebtedness or Commonwealth Supported Obligations be an event of default hereunder.

Upon the occurrence and continuation of an event of default, except for an event of default described in section (f) above, the Trustee may (and if requested by the holders of not less than 25% in aggregate principal amount of Senior Indebtedness (or if no Senior Indebtedness is then outstanding of Senior Subordinate Indebtedness) then outstanding shall) by written notice to the Authority, declare the entire unpaid principal of the bonds due and payable and, thereupon, the entire unpaid principal of the bonds shall forthwith become due and payable. Upon any such declaration, on the first business day of each month, the Trustee: (i) shall pay to the Authority, an amount of Authority's Revenues equal to the amount set forth in the applicable annual budget prepared in accordance with the MAT to pay current expenses of the Systems for such month and (ii) shall pay to the holders of the bonds and Other System Indebtedness, but only from the remaining Authority's Revenues and other moneys herein specifically pledged for payments of bondholders, the entire unpaid principal of and premium, if any, and accrued interest on the bonds and Other System Indebtedness. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the MAT, the principal of all bonds and Other System Indebtedness that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other events of default which may have occurred have been remedied, then the Trustee may, by written notice to the Authority, rescind or annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon. Senior Subordinate Indebtedness may not be accelerated if any Senior Indebtedness is Outstanding. Subordinate Indebtedness may not be accelerated if any Senior Indebtedness or Senior Subordinate Indebtedness is outstanding.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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In addition, the MAT contains the following other remedies with finance related consequences:

- (a) Upon the occurrence of an event of default (other than an event of default specified in section (f) above) and until delivery of the documents set forth in the following paragraph, amounts on deposit in the operating revenue fund shall be applied in accordance with the MAT.
- (b) Amounts on deposit in the operating revenue fund shall continue to be applied in accordance with the MAT until there shall have been filed with the Trustee (i) a certificate signed by the Executive President and approved by the Consulting Engineer that the Authority complied with the financial covenants set below for the most recent complete fiscal year and no event of default (other than an event of default under section (f) above) is continuing hereunder and (ii) a report of the Consulting Engineer as to the adequacy of existing rate and charges of the financial covenants for the then current fiscal year and the following fiscal year.

The amended and restated MAT governing the Authority's Revenue Bonds contains, financial covenants requiring the maintenance of certain debt service coverage ratios.

As stated in the MAT, the Authority has covenanted to establish and collect rates, fees and charges so that it meets the following four independent requirements:

- Operating Revenues (as defined per the MAT) shall be at least equal to 250% of annual debt service with respect to Senior Indebtedness for the current fiscal year;
- Operating Revenues shall be at least equal to 200% of annual debt service with respect to Senior Indebtedness and Senior Subordinate Indebtedness for the current fiscal year;
- Operating Revenues shall be at least equal to 150% of annual debt service with respect to all Bonds and Other System Indebtedness for the current fiscal year; and
- Authority Revenues (as defined per the MAT) shall be sufficient to pay current expenses, annual debt service on Authority indebtedness and to fund other amounts and deposits required by the MAT.

Indebtedness, as defined in the MAT, includes Commonwealth Guaranteed Indebtedness and Commonwealth Supported Obligations.

As of June 30, 2020 and 2019, the Authority rate covenant on all obligations was 1.02 and 1.21, respectively. As included in the Supplemental Schedule included herein.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

#### (17) Capital and Other Contributions:

Capital and Other contributions for the fiscal year ended June 30, 2020 and 2019 were as follows (in thousands):

	June 30	
	2020	2019
Contributions from governmental agencies and municipalities	\$ 736	\$ 3,434
Developer contributions	2,623	2,682
Other contributions	965	1,350
Federal grants		
US EPA Drinking Water state revolving funds	3,616	-
US EPA Clean Water state revolving funds	814	-
Federal Emergency Management Agency	832	70,424
	<u>\$ 9,586</u>	<u>\$ 77,890</u>

#### (18) Related Party Transactions:

Operating revenues for services provided to the Commonwealth and its component units amounted to approximately \$125.6 million and \$103.0 million during the fiscal years ended June 30, 2020 and 2019, respectively. The Authority's government accounts receivable for water and sewer services as of June 30, 2020 and 2019 was \$28.9 million and \$24.8 million, respectively. As of June 30, 2020, the account receivables from Central Government Accounts were \$11.7 million, and as of June 30, 2019 there was no outstanding balance. Further, operating expenses during the fiscal years ended June 30, 2020 and 2019 were approximately \$139.9 million and \$114.5 million, respectively, for Authority's electricity costs from Puerto Rico Electric Power Authority ("PREPA"), a component unit of the Commonwealth.

As of June 30, 2020, and 2019, the Authority had approximately \$8.2 million of receivables, from the Commonwealth and its component units, which are fully reserved. Such receivables are reported as accounts receivable net in the accompanying balance sheets.

The Authority had approximately \$9.7 million and \$4.2 million of excess of collections over billings from the Commonwealth, recorded as unearned revenue in the accompanying balance sheets as of June 30, 2020 and 2019, respectively.

As of June 30, 2020 and 2019, the Authority's accounts payable with PREPA and the ERS was \$44.0 million and \$24.0 million, respectively. The Authority has been working with both PREPA and ERS to settle the outstanding disputed balances for several years, and discussions are ongoing. As of the date of the issuance of these financial statements, the final resolution has not been reached.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit and term loans to the Authority in order to finance capital improvement projects and operational needs. As of June 30, 2020 and 2019, the Authority had a term loan with an outstanding principal balance of approximately \$57.7 million under this credit facility. On March 23, 2018, GDB ceased its operations and wound down in an orderly manner under Title VI of PROMESA. Subsequent to the date of these financial statements, the amount owed by the Authority under this credit facility was settled. For more information, please refer to Note 13.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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#### **(19) Labor Union Contracts:**

The Authority's employees are represented by two labor unions, UIA and HIEPAAA.

As of June 30, 2020, 2,890 employees were members of the UIA union and 118 were members of the HIEPAAA union. The remaining Authority's employees consist of (i) 1,089 management employees, (ii) 164 appointed employees and (iii) 321 employees under the pre-retirement program established by Act 211-2015 not rendering services to the Authority. The pre-retirement program provides government agencies and municipalities in Puerto Rico, such as the Authority, with a mechanism to help them generate savings in employee costs (payroll and fringe benefits), as well as to afford employees who enrolled in the ERS prior to April 1, 1990, the opportunity to receive certain benefits until they reach the optional retirement age, which for most people is 61 years.

During 2012, the Authority entered into new Collective Bargaining Agreements (each a "CBA" and together, the "CBAs") with UIA and HIEPAAA. The termination dates of these CBAs were December 31, 2015, and June 30, 2016, respectively. Several laws have been enacted or amended since 2014 affecting the Authority's labor relations. These laws currently have supremacy over any other law or agreement regarding employment matters.

On June 17, 2014, Act 66-2014, known as the "Fiscal Sustainability Act" was passed, declaring an island-wide state of emergency and implementing special fiscal and operational measures to allow the government and its instrumentalities more flexibility to achieve budgetary balance and phase out the financing of budget deficits. Chapters II and III of Act 66-2014 were in effect until July 1, 2017. Under Act 66-2014 the effective terms of the CBAs were extended until December 31, 2017. However, on January 23, 2017, under Act 3-2017 known as the "Law to Address the Economic, Fiscal and Budgetary Crisis to Guarantee the Operation of the Government of Puerto Rico", the effective terms of the CBAs were extended until June 30, 2021 for non-economic clauses and clauses not affected by the Act 3-2017. Economic clauses and non-economic clauses with economic impact are suspended during the Act 3-2017 applicability.

After the expiration of Act 3-2017, those unions that represented employees as of July 1, 2014, may begin negotiating new CBAs. Government entities are required to negotiate based on the legal framework applicable during the negotiations and consider, primarily, the fiscal and economic situation of the entity and of the government in general. Please refer to note 21 for recent developments related to the negotiation of the CBAs.

#### **(20) Commitments and Contingencies:**

##### **Environmental Matters**

Facilities and operations of the Authority's water and sewer systems are subject to regulations under Federal and Commonwealth environmental laws. The Authority is subject to two (2) court approved agreements to enforce compliance with such environmental laws, one with the PRDOH related to violations of the Safe Drinking Water Act ("SDWA") and the other with the United States Government, acting on behalf of EPA, related to violations of the Clean Water Act ("CWA").

##### *2006 Drinking Water Settlement Agreement.*

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. In December 2006, the Authority entered into a comprehensive settlement agreement with PRDOH resolving litigation brought against the

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Authority seeking enforcement of the administrative orders of PRDOH under the SDWA and the violations by the Authority of two of the prior consent agreements (the “2006 Drinking Water Settlement Agreement”). The 2006 Drinking Water Settlement Agreement was filed on December 15, 2006 with the Court of First Instance, Superior Court of San Juan in Civil Action KPE 2006-0858 and approved on March 15, 2007. It was 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 the Authority in its water treatment plants in accordance with agreed-upon schedules and for the payment of stipulated penalties for non-compliance. It obligates the Authority 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 the Authority to its customers meets all federal and Commonwealth regulatory standards. Additionally, the Authority 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 the Authority may be returned to the Authority under certain circumstances to be used to finance action directed at achieving or maintaining compliance with the Authority’s obligations under the 2006 Drinking Water Settlement Agreement and under local and federal laws applicable to the Water System. The Authority submits quarterly compliance progress reports to the PRDOH under the 2006 Drinking Water Settlement Agreement and self-assesses any applicable stipulated penalties.

The 2006 Drinking Water Settlement Agreement requires the implementation of short, mid and long-term remedial measures of the Water System. As of June 30, 2020, the Authority 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.



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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. Thirteen of the 18 Term 2 measures have been completed. Regarding the remaining five remedial measures, the Authority 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 supervising 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 the Authority 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. Please refer to Note 21 for more detail.

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

The Authority 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 \$14,500 per quarter. The Authority has also been required to pay stipulated penalties because of certain missing or late deliverables, remedial measures and mitigation measures.

During fiscal years 2020 and 2019 the Authority paid stipulated penalties of \$164,800 and \$726,600, respectively, under the 2006 Drinking Water Settlement Agreement. Stipulated penalties were paid by the Authority for failing to comply with remedial measures deadlines and parameters exceedances. As part of these penalties, the Authority deposited \$56,300 for fiscal year 2020 and \$111,200 for fiscal year 2019 in an escrow account for parameters exceedances. The escrow account is to be used for compliance projects with the approval of the PRDOH.

Through the date of the issuance of these financial statements, as mentioned above, the Authority has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement. The Authority anticipates, however, that it may have difficulties meeting future deadlines unless the PRDOH approves the prioritization system under that Settlement Agreement.

#### *2015 EPA Consent Decree*

On September 15, 2015, the Department of Justice (“DOJ”), acting at the request of the Administrator of EPA, filed a complaint (the “Complaint”) against the Authority and the Government of Puerto Rico, as a required party (pursuant to Section 309I of the CWA), in the United States District Court for the District of Puerto Rico (the “District Court”). The Complaint sought injunctive relief and the assessment of civil penalties against the Authority for alleged violations of the CWA. Specifically, the Complaint alleges the Authority violated Section 301(a) of the CWA, by discharging pollutants, and/or failing to comply with the terms of the National Pollutant Discharge Elimination System (“NPDES”) permits issued to the Authority facilities under Section 402 of the CWA, as well as failing to report unauthorized discharges required under such permits, and failing to meet operation and maintenance requirements for certain water treatment plants and wastewater treatment plants.

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Concurrently with the filing of the Complaint, DOJ filed a consolidated Consent Decree executed among the EPA, Authority and Government of Puerto Rico (the “2015 EPA Consent Decree”) settling the matters addressed in the Complaint, under the terms agreed upon by the Authority, DOJ and EPA. The 2015 EPA Consent Decree is the result of an extensive negotiation process aimed, among other things, at resolving the claims addressed in the Complaint and the requirements of previous consent decrees related to the allegations included in the Complaint, specifically with the goal of implementing a system-wide NPDES permit compliance plan, continuing the implementation of operational and maintenance plans in all of the Authority’s facilities, implementing remedial measures to address discharges and the alleged violations to the CWA occurring within the Authority’s wastewater collection system of the Puerto Nuevo Wastewater Treatment Plant (“WWTP”) in the Municipality of San Juan. On May 23, 2016, the District Court entered judgement approving the 2015 EPA Consent Decree. The Complaint was dismissed with prejudice and associated civil case was closed. Before the 2017 Hurricanes, the Authority had been in substantial compliance with the capital improvement and program deadlines of the 2015 EPA Consent Decree. In the aftermath of the 2017 Hurricanes, the Authority submitted a notification to EPA invoking the *force majeure* provisions of the 2015 EPA Consent Decree and indicating the possibility of some delays in projects and program due dates. In June 2018, the Authority requested time extensions for a period to be determined for certain obligations and stipulated penalties due under the 2015 EPA Consent Decree with the corresponding justifications due to lack of funding to reactivate the CIP, the ongoing debt renegotiation process and the impact of the 2017 Hurricanes. The Authority, DOJ and EPA are currently negotiating, among other things, a proposed amendment to the 2015 EPA Consent Decree to revise the compliance deadlines relating to certain programs and projects under the 2015 EPA Consent Decree. Although the Authority believes that the *force majeure* provision and its consequential stay of obligations and stipulated penalties under the 2015 EPA Consent Decree should be in effect until the proposed amendment is approved, the Authority’s liability through the execution of the proposed amendment is part of the current negotiations with EPA and DOJ.

Negotiations regarding the amendment of the 2015 EPA Consent Decree were commenced by the Authority in order to mitigate the high CIP costs mandated by 2015 EPA Consent Decree. Despite being in material compliance with the capital improvement project requirements the Authority is seeking to include a CIP prioritization system in order to, among other things: (i) reduce required annual project expenditures and extend compliance deadlines, (ii) incorporate other regulatory projects included in the Authority’s CIP not currently covered by a consent decree, and (iii) include the operation, maintenance and capital improvement program requirements related to the wastewater collection system of the Puerto Nuevo WWTP, including alleged combined sewer overflows. Please refer to Note 21 for more detail.

Prior to the *force majeure* clause entering into effect as described above, the Authority had been required to pay stipulated penalties for noncompliance with certain interim and final effluent limitations pursuant to the 2015 EPA Consent Decree. Since the *force majeure* clause entered into effect, however, the payment of stipulated penalties has not been required due to the resulting stay of this and other obligations under the 2015 EPA Consent Decree. Once this stay ends, the Authority anticipates that it will be required to pay stipulated penalties for noncompliance with certain interim and final effluent limitations similar to the amounts previously paid. The Authority may also be required to pay stipulated penalties for failure to meet deadlines for required programs and projects under the 2015 Consent Decree, unless these deadlines are revised, as recommended by the Authority in the proposed amendment to the 2015 EPA Consent Decree that the Authority is currently negotiating with EPA and DOJ as discussed above.

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#### Risk Management

The Authority purchases 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. Each commercial insurance policy maintained by the Authority contains specific policy limits and deductibles.

A summary of the property insurance maintained by the Authority for the period commencing on April 1, 2019 and ending on April 30, 2020 was as follows:

#### *Real and Personal Property*

Coverage	Limit	Deductible
Total Insurable Value	\$300 million	As stated below
Property – All Other Perils (AOP) (including Data Processing, In Transit and equipment breakdown)	\$150 million per occurrence, All Risks of Direct physical Loss or damage Insurance including Business interruption and Extra Expense, in excess of applicable deductibles.	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Windstorm	Included in \$150 million property coverage.	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Earthquake (EQ)	\$150 million Combined Single Limit for Property Damage and Business Interruption each and every occurrence, excess of applicable deductibles and excluding wind driven water.	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Flood	\$150 million Combined Single Limit for Property Damage and Business Interruption each and very occurrence, excess of applicable deductibles and excluding wind driven water.	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Business Interruption	Included in \$150 million property for AOP.	\$100 million each and every occurrence combined for Property Damage and Business Interruption,

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Coverage	Limit	Deductible
		including Windstorm, Flood, Earthquake and Boiler & Machinery
Extra Expense	Included in \$150 million property for AOP, subject to a \$35 million sublimit	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Contingent Business Interruption	Included in \$150 million property for AOP, subject to a \$35 million sublimit	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Professional Services Fees	Included in \$150 million property for AOP, subject to a \$2 million sublimit	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Newly Acquired Locations	Included in \$150 million property for AOP.	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Boiler and Machinery	Included in \$150 million property coverage	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery

The renewal of the real and personal property insurance policy starting on April 1, 2020 includes the same policy coverages and limits as the ones included above.

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*Liability*

<u>Coverage</u>	<u>Deductibles</u>	<u>Policy Limits</u>
Comprehensive general liabilities	\$100 thousand per occurrence	\$1 million per occurrence \$2 million per aggregate
Umbrella liability		
First excess general liability and automobile	Retention \$1 million	In excess of \$20 million up to \$20 million
Second excess general liability and automobile	\$0	From \$20 million to \$40 million
Pollution liability	\$250 thousand per occurrence	\$5 million per occurrence \$10 million per aggregate
Crime	\$10 thousand per occurrence	From \$500 thousand up to \$1 million \$2.5 million aggregate
Accident and health divers	\$0	\$250 thousand per occurrence \$1.7 million aggregate
EPLI	\$100 thousand per occurrence	\$5.0 million
Excess EPLI	\$0	Additional \$5.0 million

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#### *Owner Controlled Insurance Program*

The Authority also has an Owner Controlled Insurance Program (“OCIP”). The OCIP is an insurance program under which Commercial General Liability, Excess General Liability, Builders Risk, and Contractors Pollution Liability coverages 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 Project Site.

Each insurance policy maintained by the Authority contains specific policy limits and deductibles. A summary of the OCIP insurance policies maintained by the Authority is as follows:

Coverage	Deductible	Policy Limit
Comprehensive general liability:		
General liability	\$10 thousand per occurrence	\$2 million per occurrence, \$4 million aggregate
First excess liability	\$10 thousand per occurrence	\$25 million per occurrence, \$50 million aggregate
Second excess liability	\$ 0	\$25 million per occurrence, \$50 million aggregate
Builder's risk	\$20 thousand theft \$100 thousand - atmospheric events	\$100 million per occurrence
Contractor's pollution liability	\$25 thousand per occurrence	\$25 million per occurrence, \$25 million aggregate
Professional liability	\$250 thousand per occurrence	\$25 million per occurrence, \$50 million aggregate

Settled Liability and OCIP related claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal years 2020 and 2019.

#### **Operating Leases**

Certain commercial offices and warehouse facilities of the Authority are leased under operating lease agreements. During the fiscal years ended June 30, 2020 and 2019, the Authority incurred approximately \$2.9 million and \$3.1 million, respectively, in rent expense.

Future minimum non-cancelable lease payments on existing operating leases as of June 30, 2020, which have an initial term of one year or more, were as follows (in thousands):

2021	\$ 2,328
2022	2,153
2023	1,956
2024	1,555
2025	571
2026-2030	2,213
2031-2035	999
	\$ 11,775

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#### **Litigation**

The Authority 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 the Authority 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 the Authority. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies of \$89.7 million and \$89.9 million as of June 30, 2020 and 2019, respectively, presented within accrued liabilities in the accompanying balance sheets.

#### **COVID-19**

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus ("COVID-19") a global pandemic. As a result of the health threat and to contain the spread of COVID-19 across the island, the Governor issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the residents of Puerto Rico. The executive order authorizes the Secretary of the Department of Transportation and the Executive Director of the Office of Management and Budget of Puerto Rico to set aside moneys, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. The Governor has issued several extensions on the March order with various modifications to Puerto Rico's social distancing measures.

On April 9, 2020, Act 39-2020 became effective, which has prevented the Authority from disconnecting residential customer's water services due to non-payment during the public emergency and for two months after it is ended. On February 7, 2022, the Puerto Rico Department of Justice issued an opinion concluding that, as of July 1, 2021, the conditions permitting service disconnections under Act 39-2020 had been met. As a result, during March, 2022, the Authority recommenced the implementation of disconnection process for overdue accounts that do not have a payment plan agreed to with the Authority.

The COVID-19 pandemic, associated mitigation policies, and the resulting economic impact have presented certain challenges for the Authority, including but not limited to reductions in collections, increase in operational expenses, shortage of supplies and interruption to contracted services, workforce issues and delayed in implementation of CIP. Authority management has taken operational initiatives to support its liquidity, including promoting alternative payment options to improve collections, drawing down on previously collected insurance proceeds, and temporarily suspending deposits to its Capital Improvement Fund during the second half of fiscal year 2020, and during fiscal years 2021 and 2022.

The COVID-19 pandemic has significantly disrupted the global economy and has adversely affected the operations of the Authority and is likely to continue to adversely impact, the Authority's operation. Its continued impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, customers, service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

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#### **(21) Subsequent events:**

Subsequent events were evaluated through August 15, 2022, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2020 financial statements.

#### **(a) COVID-19**

As part of the actions taken by the Commonwealth to mitigate the adverse effect of the pandemic on the economic activity, on April 9, 2020, Act 39-2020 became effective, which prevented the Authority from disconnecting residential customer's water services due to non-payment during the public emergency and for two months after it is ended. On February 7, 2022, the Puerto Rico Department of Justice issued an opinion concluding that, as of July 1, 2021, the conditions permitting service disconnections under Act 39-2020 had been met. As a result, during March, 2022, the Authority recommenced the implementation of disconnection process for overdue accounts that do not have a payment plan agreed to with the Authority.

The Authority requested under the American Rescue Plan Act of 2021 (P.L. 117-2) funds to provide premium pay to eligible essential employees working in person and performing services to provide an essential service (water treatment and distribution and wastewater collection and treatment) during the COVID-19 emergency. On September 15, 2021 the Authority received \$7.5 million from the federal government for this purpose, representing \$2,000 per employee for 3,767 qualifying employees.

#### **(b) Environmental Compliance**

As a result of increased seismic activity in Puerto Rico in late 2019 and early 2020, as well as the recent COVID-19 pandemic, the Authority invoked the 2015 EPA Consent Decree and 2006 Drinking Water Settlement Agreement force majeure clauses. Although compliance with the capital improvement and program requirements was not affected, the Authority requested and obtained from both local and federal regulatory agencies extensions to deadlines for certain documentation and reporting requirements including Discharge Monitoring Reports and progress reports. As a result of structural damages at several facilities resulting from the 2019-2020 seismic activity in the southwestern part of Puerto Rico (the "2020 Earthquakes"), the Authority has had to implement alternate liquid sludge disposal methods for sludge produced by affected wastewater treatment facilities, including landfill disposal.

Although the Authority is committed to bringing the Systems into material compliance with applicable law, the Authority will not be able to comply fully with all the requirements of the 2015 EPA Consent Decree and 2006 Drinking Water Settlement Agreement due to the impact of the 2017 Hurricanes, the 2020 Earthquakes and the COVID-19 pandemic on project execution timelines. The Authority is currently negotiating a proposed amendment to the 2015 EPA Consent Decree to revise the schedule for completion of required projects that have been delayed due to these events and to incorporate deadlines or time frames that the Authority anticipates it would be able to meet. In addition, as noted above, the Authority expects to negotiate with PRDOH an amendment to the 2006 Drinking Water Settlement Agreement to provide for revised project completion time frames and project prioritization provisions consistent with agreements reached with EPA under the 2015 EPA Consent Decree. In the meantime, the Authority expects that it will continue to pay stipulated penalties and to make additional capital expenditures (some not included in the CIP) in the future. To prepare for this potential liability, the Authority makes a risk assessment of the average exposure for payment of stipulated penalties under the 2015 EPA Consent Decree and 2006 Drinking Water Settlement Agreement and creates a reserve for the amounts it believes should be sufficient to pay the stipulated penalties at current levels.



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#### **(c) Drought**

In early 2021 and 2022, the Authority implemented certain measures and operational adjustments to maximize water availability such as pressure management in the system, water production reduction and wells activation to protect and extend water sources availability as a result of lower than average rainfall in Puerto Rico during this period. Such actions helped the Authority to reduce the impact to the service, which combined with system interconnections allowed the Authority to avoid more drastic water rationing measures.

Moderate drought conditions recently affected most of Puerto Rico. On June 5, 2022, the Authority started a water rationing program for approximately 10,000 clients in the Municipalities of Canóvanas and Loíza served by the Canóvanas water treatment plant. Subsequently, the water rationing program was extended to around 10,000 additional clients in the Municipalities of Rio Grande, Juncos and Las Piedras served by the Juncos and El Yunque water treatment plants. Subject to the future rainfall and other weather conditions, and implementation of other mitigation measures, water rationing may be extended to additional clients around the island. The water rationing ended on July 2022 as a result of the rains received in Puerto Rico such month but still the risk of water rationing is present for some areas of Puerto Rico.

#### **(d) 2022 Fiscal Plan**

On May 20, 2022, the Oversight Board approved its latest 6-year fiscal plan for the Authority (the “2022 Fiscal Plan”) pursuant to PROMESA and the requirements imposed by the Oversight Board. The 2022 Fiscal Plan includes certain initiatives, such as, among others, periodic rate increases, a project for improving commercial services, reductions in electricity costs and physical water losses, and new federal funding. For more detail on the Authority’s financial projections and measures under implementation or to be implemented as required by the Oversight Board please refer to the 2022 Fiscal Plan for the Authority available at the Oversight Board webpage.

#### **(e) Rate Adjustments**

The Authority’s current rate structure was adopted through the public hearing process of Act 21-1985 and approved by the Governing Board pursuant to Resolution No. 2794, adopted July 3, 2013, as amended by Resolution No. 2825, adopted December 18, 2013. The Authority’s rate structure, set by its Governing Board, provides for an annual rate adjustment of up to 4.5% but not more than a cumulative 25% increase over time through the application of an “Annual Adjustment Coefficient” before additional Governing Board action and public hearings under Act 21-1985 will be required.

In 2017, the Oversight Board required the Authority to implement moderate, but consistent multi-year rate adjustments to ensure its costs are fully covered by service revenues. On August 1, 2017, the Authority’s Governing Board approved, through Resolution 3042, within the Annual Adjustment Coefficient parameters and authorization of the rate setting process of 2013, a moderate rate adjustment schedule for five years between fiscal year 2018 and fiscal year 2022 of 2.5%, 2.8%, 3.5% and 4.5% for residential, commercial, industrial and government clients, respectively.

The scheduled rate adjustments for fiscal years 2018 through 2022 have been implemented as planned, with the fifth scheduled rate adjustment taking effect on July 1, 2021.

Authority rate increases after July 1, 2021, may be implemented only after the Authority complies with the Act No. 21-1985 process.

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Therefore, the Authority reviewed its rates in accordance with Act 21-1985 procedures and requirements. Act 21-1985 mandates engaging an independent examiner to submit a report to the Governing Board. The Authority first engaged a third-party expert in water and sewer utility rate design to recommend an optimal rate structure aligned with industry standard cost allocation and rate design principles. Based on the recommendations from the consultant, the Authority proposed a new and simplified rate structure which was subject to the Act 21-1985 public hearing process and requirements. The public hearings were held on March 15, 16 and 17, 2022, and presided over by the independent examiner who listened to the arguments of the deponents and granted them the opportunity to present expert and documentary testimony. The independent examiner also received written comments from persons participating in the public hearings, and from persons or organizations wishing to comment on the proposed rates without participating in the hearings.

On May 16, 2022, the independent examiner issued a report to the Authority's Governing Board containing a list of all the objections, proposals, opinions, documents, studies, recommendations and any other pertinent data presented at the hearings, as well as his conclusions and recommendations. A copy of said report has been made publicly available after the required public notice of availability. Interested persons had until May 26, 2022 (10 days after the public notice of availability) to submit in writing to the Authority's Governing Board their comments on the report.

The proposed simplified rate structure (including only two charges – base charge and consumption charge) is designed to be revenue neutral. For fiscal year 2023 (beginning on July 1, 2022), the examiner's report proposes a 5% increase in the base charge (to take current inflation, energy price and supply-chain trends, among others, into account) and a 2% increase in the consumption charge.

On June 3, 2022, the Authority's Governing Board approved the simplified rate structure as proposed by the independent examiner, except the recommendation to increase the base charge by 5% in the first year, approving instead an initial 2% annual increase in all charges, subject to the receipt by the Authority of \$20 million upon the approval of proposed legislation by the Legislative Assembly ("*P. de la C. 1387*") to mitigate the rate increase impact on its customers, and subject to the approval thereof by the Oversight Board. The intention of this bill is to cover a portion of the increased water production costs, including electricity and chemicals costs, resulting from several exogenous factors including the pandemic's impact on the supply chain, significant inflationary pressures and the events in Ukraine. As *P. de la C. 1387* was not enacted by June 30, 2022 and the contemplated \$20 million was not received by the Authority, a 4.95% rate adjustment to the base charge for fiscal year 2023, as set forth in the 2022 Fiscal Plan, was implemented on July 1, 2022.

The new revised and simplified rate structure for fiscal year 2023 is published on the Authority's webpage.

### **(f) Voluntary Early Retirement Programs**

In recent years, the Government of Puerto Rico has implemented several early retirement programs for government workers, Authority's employees included. The most recent early retirement program was passed by the Legislature of Puerto Rico on August 3, 2020 ("*Act 80-2020*"). Under this program, that became effective in August 2020, eligible employees' pension calculation is based on 50% of the average annual salary during the last three years, and they are entitled to a \$100 per month reimbursement for their health plan cost until the age of 62, as well as the payment of the dollar value of their accrued sick leave and vacation leave. Positions that become vacant as a result of this retirement program will not be re-staffed unless approved by Puerto Rico's Office of Management and Budget or through transfer of other current public employees. The Authority had 1,131 employees eligible for the benefits under Act 80-2020. By the end of 2020, an informal Authority survey showed a total of 659 employees were willing to participate

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under the program; 49 of them resigned in the last 2 years. The Oversight Board has stated that Act 80-2020 is not consistent with the Government of Puerto Rico's fiscal plan, and its passage has not been approved by the Oversight Board.

#### **(g) SRF New Loans**

After the July 2019 successful debt modification of PRASA's outstanding loans under the SRF programs, with the agreement of and in collaboration with the EPA, the Authority regained access to funds from the SRF programs. On August 18, 2020, the Authority entered into a loan agreement with the PRDNER and PRIFA for loans totaling up to \$163 million to allow for funding of 28 wastewater capital improvement projects.

On September 17, 2021, the Authority signed a \$46 million financial agreement for DWSRF funding, of which \$22 million were loans and the remainder were subsidized loans (with principal and interest forgiveness). On October 28, 2021, a financial agreement for \$32 million for CWSRF funding was executed by the Authority, of which \$23.7 million were loans and the remainder were subsidized loans (with principal and interest forgiveness).

The loan portion of the financial agreements provides for a 30-year amortization after completion of the relevant projects, with a 1% interest rate as the amounts are borrowed by and disbursed to the Authority from time to time. The loans were designated as Senior Indebtedness under the MAT.

#### **(h) Government Development Bank (GDB) – Debt Restructuring Act**

On November 10, 2020, the Authority, AAFAF, GDB-DRA and the collateral monitor for GDB-DRA reached an agreement in principle, contingent on Oversight Board approval, to resolve and settle in full all Authority's obligations under the GDB-DRA Loan Agreement by a one-time Authority payment in the amount of \$20.5 million. On November 20, 2020, the Oversight Board approved the settlement, the Authority made that payment in full, the GDB-DRA Loan Agreement was terminated, and the Authority has no further obligation under it.

#### **(i) 2020 Debt Refunding**

On December 17, 2020, the Authority issued its Revenue Refunding Bonds Series 2020A and 2020B (Senior Lien) (the "2020 Senior Bonds") in the amount of \$1,351.3 million and \$18.8 million, respectively, for the purpose of refunding a portion of the outstanding bonds of the Authority. The proceeds of the 2020 Senior Bonds were used to (i) refinance a portion of the currently outstanding 2008 Revenue Bonds, Series A, and Series B (Senior Lien) issued under the MAT, excluding the non-callable convertible capital appreciation, (ii) refinance all of the Authority's currently outstanding Revenue Refunding Bonds, 2008 Series A and 2008 Series B, each guaranteed by the Commonwealth of Puerto Rico, and (iii) pay costs of issuance of the 2020 Senior Bonds. The par amount of the refunded bonds amounted to \$1,427.6 million.

The 2020 Senior Bonds bear coupons at rates ranging from 4% to 5% per annum with yields at the time of issuance ranging from 2.50% to 4.50% with maturity dates ranging from July 1, 2021 to July 1, 2047. The proceeds of the 2020 Senior Bonds totaling \$1,471.1 million, including \$101 million in premium, were used to (i) pay for \$10.4 million in underwriters' discount and other costs of issuance and (ii) deposit \$1,460.7 million in an irrevocable trust with an escrow agent to pay the outstanding principal and accrued interest for the refunded bonds on the applicable redemption date. As a result, the refunded bonds are considered to be defeased.

# **Puerto Rico Aqueduct and Sewer Authority**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **Notes to Financial Statements**

#### **June 30, 2020 and 2019**

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The defeasance of the refunded bonds resulted in a reduction in the Authority's total debt service payments over the next 27 years of approximately \$348.2 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$213.3 million.

The 2020 Senior Bonds are senior debt. Each purchaser of 2020 Senior Bonds consented by its purchase and execution of an investor letter to the terms and execution by the MAT Trustee of a Second Amended and Restated Master Agreement of Trust. The Second Amended and Restated Master Agreement of Trust will be executed and become effective upon the receipt of the written consent of (1) the holders of all outstanding Bonds of each lien priority under the MAT and (2) the Federal Lenders (as defined in the MAT (currently, RD and EPA)); and provide among other changes, to convert the security on the Authority's revenue from a gross revenue pledge to a net revenue pledge.

#### **(j) Disaster Recovery Funds**

On January 5, 2021, the President of the United States announced that FEMA would award federal grant funds to help rebuild Puerto Rico's water and wastewater treatment plants, pumping stations, dams, and reservoirs affected by Hurricane María. On January 8, 2021, the funds were obligated through an agreement (the "2021 FEMA Funding Agreement") by which FEMA agreed to pay \$3.66 billion to the Authority for recovery and resiliency capital projects related to damage suffered by the Authority during Hurricane María. The amount represents the federal government's 90% funding share of the \$4.07 billion fixed cost estimate for repairing such damage to the Authority's facilities. The Authority is required to meet a 10% cost share ("match") requirement for its FEMA-funded permanent work projects under the 2021 FEMA Funding Agreement. The Authority plans to meet its cost-share portion with federal Housing and Urban Development ("HUD") Community Development Block Grant – Disaster Recovery Flexible Match program ("CDBG-DR Program") funds, as they become available. On September 2, 2021 the Department of Housing of Puerto Rico and the Authority entered into a sub-award agreement for \$200 million under the CDBG-DR Non-Federal Match Program to fund the state match of the FEMA award.

#### **(k) 2021 and 2022 Debt Refunding**

On August 25, 2021, the Authority issued Revenue Refunding Bonds, Series 2021A, 2021B and 2021C (Senior Lien) in a total principal amount of \$1,089.8 million and on June 15, 2022, the Authority issued its Revenue Refunding Bonds, Series 2022A (Senior Lien) in a total principal amount of \$565.2 million (together, the "Refunding Bonds") to refinance in the aggregate all of the Authority's Revenue Bonds, Series 2012A and 2012B (Senior Lien) (the "Refunded Bonds") with an outstanding principal balance of \$1,806 million.

# Puerto Rico Aqueduct and Sewer Authority

## (A Component Unit of the Commonwealth of Puerto Rico)

### Notes to Financial Statements

#### June 30, 2020 and 2019

The Refunding Bonds consist of the principal amounts and under the transactions included below (in thousands):

Refunded Bonds	Transaction	New Series	Refunding Bonds Par	Closing Date
<b>2012A</b>	Tender of a portion of 2012 Series A senior revenue bonds for cash purchase by Authority	2021A	\$92,330	August 25, 2021
<b>2012A</b>	Exchange of a portion of 2012 Series A senior revenue bonds for new senior revenue refunding bonds	2021B	\$842,410	August 25, 2021
<b>2012B</b>	Current refunding of 2012 Series B senior revenue bonds	2021C	\$155,090	August 25, 2021
<b>Remaining 2012A</b>	Forward delivery current refunding of remaining 2012 Series A senior revenue bonds	2022A	\$565,180	June 15, 2022
			<b><u>\$1,655,010</u></b>	

The Refunding Bonds bear interest at rates ranging from 4% to 6% per annum with yields at the time of issuance or expected issuance ranging from 3.14% to 3.7% and maturity dates ranging from July 1, 2022 to July 1, 2047.

The proceeds of a portion of the Refunding Bonds issued on August 25, 2021, totaling \$260.1 million, including \$11.4 million in premium, together with \$1.3 million in Authority funds on hand, were used to (i) pay for \$7.3 million in underwriters' discount, dealer manager fees and other costs of issuance, (ii) pay on August 25, 2021, the purchase price of \$98.6 million (including \$0.6 million in accrued interest) for the Authority's 2012 Series A revenue bonds tendered for purchase and cancelled, and (iii) deposit on August 25, 2021, \$154.2 million in an irrevocable trust with an escrow agent to pay the outstanding principal and accrued interest for a portion of the Refunded Bonds on or prior to August 30, 2021. As a result of the irrevocable deposit in (iii) above and the payment of the purchase price and cancellation in (ii) above, that portion of the Refunded Bonds is in accordance with the MAT deemed to have been defeased and retired on August 25, 2021.

In addition, on August 25, 2021, the Authority issued \$842.4 million principal amount of Revenue Refunding Bonds, Series 2021B (Senior Lien) in exchange for \$920.7 million principal amount of Revenue Bonds, Series 2012A (Senior Lien) (the "2012 Purchased Bonds") tendered for exchange and cancelled. In connection with such tender and exchange, the Authority paid to the holders of the 2012 Purchased Bonds

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Notes to Financial Statements June 30, 2020 and 2019

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\$7.3 million of accrued interest. As a result of the tender and exchange and in accordance with the MAT, the 2012 Purchased Bonds were deemed to have been retired on August 25, 2021.

The proceeds of the Refunding Bonds issued on June 15, 2022, totaling \$643.1 million, including \$77.9 million in premium and \$15.5 million in other funds, were used to (x) pay for \$3.2 million in underwriters' discount and other costs of issuance and (y) deposit on June 15, 2022, \$655.4 million in an irrevocable trust with an escrow agent to pay on July 1, 2022 the outstanding principal and accrued interest for the remaining portion of the Refunded Bonds that was not defeased and deemed retired on August 25, 2021 as described above. After the irrevocable deposit in (y) above was made on June 15, 2022, that remaining portion of the Refunded Bonds were in accordance with the MAT, deemed to have been defeased and retired on June 15, 2022.

The 2021 and 2022 Debt Refunding resulted in (a) a reduction of the Authority's total debt service payments over the next 26 years of approximately \$569.7 million and (b) an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$385 million.

The Refunding Bonds are senior debt. Each purchaser of the Refunding Bonds consented by its purchase and execution of an investor letter to the terms and execution by the MAT Trustee of the Second Amended and Restated Master Agreement of Trust. The Second Amended and Restated Master Agreement of Trust will (1) be executed and become effective upon the receipt of the written consent of (a) the holders of all outstanding Bonds of each lien priority under the MAT and, (b) the Federal Lenders and (2) amend the MAT, among other changes, to convert the security on the Authority's outstanding revenue bonds from a gross revenue pledge to a net revenue pledge (resulting in the ongoing payment of Authority operating expenses ahead of the payment of debt service).

### (I) CBAs negotiation

On June 30, 2021, Act 9-2021 was enacted to guarantee a negotiation process for outstanding collective bargaining agreements with government agencies, such as the Authority, and allow for essential services continuity. Act 9-2021 stipulates that any collective agreement expired as of June 30, 2021 will be extended in terms of non-economic clauses or other clauses not affected by Act 9-2021, until the parties thereto conclude the negotiation of a new agreement. The extension of these agreement terms will preclude the holding of representation elections or the disqualification of an exclusive bargaining representative. If the exclusive representative of an appropriate unit covered by Act 9-2021 wishes not to extend the applicable collective bargaining agreement and to begin negotiations without an extended agreement, notice must be given to the employer under which the appropriate unit operates not later than 15 days after the enactment of Act 9-2021. This will not prevent the parties from agreeing to extend their collective bargaining agreement in the course of such negotiations, subject to any other legislation applicable to such agreement. The Authority did not receive notice regarding commencement of negotiations without an extended agreement within such 15-day period from any exclusive representative of an appropriate unit to any of the Authority's collective bargaining agreements covered by Act 9-2021.

On April 6, 2021, the Authority received a partial labor agreement proposal from UIA. UIA requested that the Authority provide it with financial information to develop a proposed comprehensive revision to the Authority's CBA with UIA incorporating amendments to clauses with economic impact. After further discussions by the parties, in February, 2022, the Authority and UIA signed a Negotiation Agreement. The Negotiation Agreement, by which the parties are participating in mediation before the Puerto Rico Department of Labor ("DOL"), provides for the negotiation of revised pay scales, subject to compliance with PROMESA and the 2022 Fiscal Plan.

# **Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)**

## **Notes to Financial Statements June 30, 2020 and 2019**

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Under the Negotiation Agreement, either party can notify the other of its intention to negotiate a revised CBA at least 90-days prior to each July 1, commencing with July 1, 2022. If such notification is not received at least 90 days before a July 1, the CBA will be extended for an additional year. As of April 1, 2022, the required 90-day notice had not been received, resulting in the extension of the UIA CBA until July 1, 2023.

The Negotiation Agreement also provides that the Authority will negotiate the impact on job status and salaries for UIA members in case the Authority's operations are privatized or it undertakes a public-private partnership project; the parties will promote payment of wage incentives starting in fiscal year 2023 for certain difficult recruitment positions such as plant operators and electro-mechanicals; payment of a \$600 premium by June 30, 2022 to recognize UIA members' employment commitment; and payment of Christmas bonus balances for fiscal years 2015 (by July 31, 2022) and 2016 (by July 31, 2023), without interest or penalties to active UIA members. On June 15, 2022, an agreement with the UIA was executed agreeing on (i) the pay scales with a revised minimum salary of \$9 per hour (based on a study performed by a third party, as modified by the UIA for scales over the minimum), (ii) a minimum salary increase ranging from \$85 to \$120 per month, based on the employee's seniority, and (iii) incentives for plant operators and electro-mechanicals with a valid license in place. These changes were implemented in July 1, 2022.

Regarding the CBA with HIEPAAA, neither party provided the required notice of its intention to negotiate a new collective bargaining agreement before the CBA would be deemed automatically extended for another year. As a result, and as stipulated by Act 9-2021, the HIEPAAA CBA has been deemed extended for an additional year to July 1, 2023.

In May 2022, PRASA and HIEPAAA signed a Negotiation Agreement which provides for a \$600 premium payment by June 30, 2022 to recognize members' employment commitment; provides that the parties will continue conversations in order to promote the implementation of the pay scales study as well as any compensation adjustment; and also as long as health plan matters are affected by Act 26-2017 and the 2022 Fiscal Plan, the Authority will maintain a Health Plan Committee in order to evaluate proposals and one (1) representative of the HIEPAAA will be a member of that Committee.

On August 12, 2022, an agreement with the HIEPAAA was executed agreeing on (i) the pay scales with a revised minimum salary of \$9.23 per hour (based on a study performed by a third party, as modified by the HIEPAAA), and (ii) a minimum salary increase ranging from \$85 to \$154 per month, based on the employee's seniority. Subject to the Authority's Governing Board ratification of the agreement, these changes will be implemented retroactively as of July 1, 2022.

### **(m) PFC Restructuring Support Agreement**

On January 20, 2022, AAFAF, on behalf of PFC, entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the "PFC Bonds"). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including commencement of the Title VI proceeding, obtaining the requisite votes required by Title VI of PROMESA, and Court approval of the restructuring. Upon the effective date of the PFC RSA, the outstanding PFC notes of the Authority described herein and of those other Commonwealth's instrumentalities and public corporations, where applicable, will be cancelled and considered extinguished.

**Puerto Rico Aqueduct and Sewer Authority  
(A Component Unit of the Commonwealth of Puerto Rico)**

**Notes to Financial Statements  
June 30, 2020 and 2019**

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**(n) PREPA Employees Transfer**

During May 2021, the Office of Administration and Transformation of the Human Resources of the Government of Puerto Rico advised the Authority that starting on June 1, 2021, in compliance with Act 120-2018 and Act 8-2017, the Authority was required to incorporate 66 PREPA employees in its payroll certain employees from PREPA.



Required Supplementary Information

**Puerto Rico Aqueduct and Sewer Authority  
(A Component Unit of the Commonwealth of Puerto Rico)**

**Schedule of the Authority's Proportionate Share of the Total Pension Liability (Unaudited)  
June 30, 2020 and 2019**

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*(In thousands)*

For the fiscal year ended June 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the total pension liability	Authority's covered- employee payroll	ERS plan's fiduciary position	ERS plan's fiduciary position as a percentate of the total pension liability
2020*	6.79642%	\$ 1,688,941	\$ -	n/a	n/a
2019*	6.83100%	\$ 1,672,879	\$ -	n/a	n/a
2018*	6.81390%	\$ 1,921,832	\$ -	n/a	n/a

Notes

- \* The amounts presented have a measurement date of the previous fiscal year-end.
- \* Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

**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 PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report

**Puerto Rico Aqueduct and Sewer Authority  
(A Component Unit of the Commonwealth of Puerto Rico)**

**Required Supplementary Information  
Schedule of Funding Progress for the Authority's Post-employment Healthcare Benefits  
(Unaudited)  
June 30, 2020 and 2019**

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*(In thousands)*

<b>Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Percentage of Covered Payroll</b>
June 30, 2020	\$ -	\$ 79,948	\$ 79,947	0%	\$ 117,545	68%
June 30, 2019	\$ -	\$ 75,427	\$ 75,427	0%	\$ 120,262	63%
June 30, 2018	\$ -	\$ 72,670	\$ 72,670	0%	\$ 128,331	57%
June 30, 2017	\$ -	\$ 74,549	\$ 74,549	0%	\$ 128,331	58%
June 30, 2016	\$ -	\$ 76,226	\$ 76,226	0%	\$ 143,209	53%
June 30, 2015	\$ -	\$ 75,326	\$ 75,326	0%	\$ 135,965	55%
June 30, 2014	\$ -	\$ 72,027	\$ 72,027	0%	\$ 148,131	49%

Notes

This schedule will be expanded to show 10 years once information becomes available in the future.

**Puerto Rico Aqueduct and Sewer Authority  
(A Component Unit of the Commonwealth of Puerto Rico)**

**Required Supplementary Information  
Schedule of the Authority's Proportionate Share of the ERS for Post-employment  
Benefits  
June 30, 2020 and 2019**

*(In thousands)*

For the fiscal year ended June 30,	Authority's proportion of total OPEB liability	Authority's proportionate share of total OPEB liability	Authority's covered-employee payroll	Authority's proportionate share of the net pension liability as percentage of covered-employee payroll	ERS plan's fiduciary net position	ERS plan's fiduciary net position as a percentage of the total pension liability
2020*	5.43802%	\$ 45,257	\$ -	n/a	n/a	n/a
2019*	5.45638%	\$ 45,951	\$ -	n/a	n/a	n/a
2018*	5.24269%	\$ 48,259	\$ -	n/a	n/a	n/a
2017*	5.16898%	\$ 47,581	\$ -	n/a	n/a	n/a

Notes

- \* The amounts presented have a measurement date of the previous fiscal year-end.
- \* Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

**Note:** Fiscal year 2017 was the first year that the new requirements of GASB Statement No.75 were implemented by the Authority. 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.

See accompanying independent auditors' report

**Supplemental Schedule  
Financial Results and Debt Coverage Calculation  
as required by the MAT**

# Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)

## Financial Results and Debt Coverage Calculation as required by the MAT As of June 30, 2020 and 2019

(In thousands)

	2020	2019
Revenues		
Service revenues (cash basis)	\$ 1,012,951	\$ 1,102,442
Other Income	1,440	1,496
Developers Contributions	1,515	2,064
Insurance Proceeds (BI)	50,000	50,000
Operating revenues (cash basis)	1,065,906	1,156,002
Total authority revenues	1,065,906	1,156,002
Operating expenses:		
Payroll and payroll related	271,910	130,295
Electricity	140,934	114,462
Other operating expenses	254,086	263,046
Total net operating expenses	666,930	507,803
FEMA Appropriations for Expenses	(6,268)	(60,519)
Subsidies (netted from revenues)	(5,414)	(5,204)
Non cash reserve and pension adjustments	(3,008)	145,928
Adjusted operating expenses	652,240	588,008
Total net revenues per MAT	\$ 413,666	\$ 567,994

### Debt service coverage calculation

<b>Operating revenues</b>	<b>\$ 1,065,906</b>	<b>\$ 1,156,002</b>
Senior debt (Net of funds available in the Senior Bond Fund of \$43.6M)	250,791	230,790
<b>Accumulated coverage ratio (Min 2.5x) - section 7.01 (i) MAT</b>	<b>4.25</b>	<b>5.01</b>
Senior subordinated debt	—	—
<b>Accumulated coverage ratio (Min 2.0x) - section 7.01 (ii) MAT</b>	<b>4.25</b>	<b>5.01</b>
All bonds and Other Systems Indebtedness	271,711	277,297
<b>Accumulated coverage ratio (Min 1.5x) - section 7.01 (iii) MAT</b>	<b>3.92</b>	<b>4.17</b>

### Rate Covenant Calculation

Total Obligations (Debt Service, Current Expense and MAT required deposits)	\$ 1,041,863	\$ 957,348
<b>Accumulated coverage ratio (Min 1.0x) - section 7.01 (iv) MAT</b>	<b>1.02</b>	<b>1.21</b>
Operating Reserve Fund	\$ 32,384	\$ 30,774
Capital Improvement/Construction Fund	\$ 85,528	\$ 61,269

## **Puerto Rico Aqueduct and Sewer Authority (A Component Unit of the Commonwealth of Puerto Rico)**

### **Financial Results and Debt Coverage Calculation as required by the MAT As of June 30, 2020 and 2019**

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The all obligations coverage ratio is calculated as required by section 7.01 of the MAT, by comparing Authority revenues with total obligations. Total Obligations include required debt service deposits, current expenses, and other deposits required by the MAT, such as those to the operating reserve fund and the capital improvement fund.

For the rate covenant calculation, the total debt service does not include debt service payable on the Commonwealth Supported Obligations because no debt service was due and payable by the Authority with respect to such Obligations. The Authority's obligation in respect of such Commonwealth Supported Obligations is contingent on its receipt from the Commonwealth of legislative appropriations earmarked to pay such debt service. In the absence of such appropriations, the MAT does not obligate the Authority to pay debt service on the Commonwealth Supported Obligations. Prior to July 26, 2019, the Authority's RD bond and SRF Loans were considered Commonwealth Guaranteed Indebtedness, and the debt service requirement was included in the above table in accordance with the terms of the related Forbearance Agreements from for rate covenant calculation purposes.

During fiscal year 2019, the Authority collected billings from fiscal year 2018, affected by the 2017 Hurricanes, and as a result the rate covenant on all obligations increased to 1.21x. The rate covenant on all obligations calculation was adjusted by a total of \$150.1 million, net of \$4.2 million of non-cash reserves, related to implementation of GASB Statement No. 73.

For fiscal year 2020 the rate covenant on all obligations was 1.02x.

**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**The Board of Directors of  
Puerto Rico Aqueduct and Sewer Authority:**

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We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Puerto Rico Aqueduct and Sewer Authority (the Authority) as of and for the fiscal years ended June 30 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 15, 2022.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However a material weaknesses or significant deficiencies may exist that were not identified.



#### **Compliance and Other Matters**

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

#### **Purpose of this Report**

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

San Juan, Puerto Rico,  
August 15, 2022.



CERTIFIED PUBLIC ACCOUNTANTS  
(OF PUERTO RICO)  
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