



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, 2023

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

## Table of Contents

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Report of Independent Certified Public Accountants.....	1-3
Unaudited Management's Discussion and Analysis.....	4-15
Audited Financial Statements:	
Balance Sheet .....	16-17
Statement of Revenues, Expenses and Changes in Net Position .....	18
Statement of Cash Flows.....	19-20
Notes to Financial Statements.....	21-68
Required Supplementary Information:	
Schedule of the Authority's Proportionate Share of the Total Pension Liability (Unaudited) .....	69
Schedule of Funding Progress for Postemployment Healthcare Benefits (Unaudited) .....	70
Schedule of the Proportionate Share of the ERS for Postemployment Benefits (Unaudited).....	71
Supplementary Information:	
Schedule of Financial Results, Debt Coverage and Rate Covenant Calculations per the 2012 Amended and Restated Master Agreement of Trust .....	72-73
Other Report:	
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.....	74-75

## Report of Independent Certified Public Accountants

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

### Opinion

We have audited the accompanying financial statements of **Puerto Rico Aqueduct and Sewer Authority** (the “Authority”), a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”), which comprise the balance sheet as of June 30, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Puerto Rico Aqueduct and Sewer Authority** as of June 30, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Puerto Rico Aqueduct and Sewer Authority**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter – Change in Accounting Principle

As discussed in Note (1) to the financial statements, effective July 1, 2022, **Puerto Rico Aqueduct and Sewer Authority** implemented new accounting guidance for leases in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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### **Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the **Puerto Rico Aqueduct and Sewer Authority's** ability to continue as going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of the **Puerto Rico Aqueduct and Sewer Authority's** proportionate share of the total pension liability on page 69, the schedule of funding progress for post-employment healthcare benefits on page 70, and the schedule of the proportionate share of the ERS for post-employment benefits on page 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the **Puerto Rico Aqueduct and Sewer Authority's** basic financial statements. The supplemental schedule of financial results, debt coverage and rate covenant calculations per the 2012 amended and restated master agreement of trust ("schedule") on pages 72-73 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 July 31, 2024 on our consideration of the **Puerto Rico Aqueduct and Sewer 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Puerto Rico Aqueduct and Sewer Authority's** 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 **Puerto Rico Aqueduct and Sewer Authority's** internal control over financial reporting and compliance.

San Juan, Puerto Rico,  
July 31, 2024.



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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, 2023**

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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 year ended on June 30, 2023. Please read it in conjunction with the Authority's financial statements, which follow this section. Numbers included are rounded to facilitate the readers' analysis.

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

This annual report includes, the reports of independent certified public accountants, the basic financial statements, the required supplementary information and supplementary information (including the unaudited management's discussion and analysis) 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 year ended June 30, 2023, which include the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the financial statements.

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

The balance sheet and the statement 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.

### **Implementation of New Accounting Standard for Leases Accounting**

As disclosed in Note 1 to the basic financial statements, in fiscal year 2023, the Authority adopted GASB Statement No. 96, *Leases Subscription – Based Information Technology Arrangements* (GASB Statement No. 96) which changed the method of accounting for Subscription-Based Information Technology Arrangements (SBITA). GASB Statement No. 96: (i) defines an SBITA; (ii) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (iii) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (iv) requires note disclosures regarding an SBITA. Refer to Notes 8 and 22 for SBITA disclosures.

### **Financial Highlights**

- Fiscal year 2023 financial results were affected by the passage of Hurricane Fiona, which made landfall along the extreme southwestern coast of Puerto Rico on September 18, 2022 as a Category 1 hurricane with winds of 85 mph, according to the National Hurricane Center. The hurricane resulted in massive amounts of rain, reaching more than 30 inches in some areas in the south and the central mountain region and in catastrophic flooding. As a result of the passage of Fiona, all of the island lost electric power, affecting PRASA's facilities and services provided. However, despite of the incremental costs, the Authority managed to minimize the impact on revenues.
- The Authority's net position in fiscal year 2023 was \$589.6 million, which increased by \$1,043.0 million, or 230% when compared to fiscal year 2022 net position of (\$453.4) million. The increase in net position incorporates the impact of the following material transactions during fiscal year 2023:

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

## Unaudited Management's Discussion and Analysis June 30, 2023

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- The benefit of the settlement of the participation of the Authority in the outstanding Public Finance Corporation (PFC) debt, which resulted in a gain of \$579 million as further described in Note 14; and
  - The reduction of pension expense by \$306.9 million based on the latest actuarial valuation report, which resulted in a pension credit during fiscal year 2023 of approximately \$223 million.
- Total operating revenues in fiscal year 2023 were \$1,143.5 million, an increase of \$59.6 million, or 5.5%, when compared to fiscal year 2022 total operating revenues of \$1,084.0 million. During fiscal year 2023, water and wastewater revenues increased by \$31.5 million, mainly as a result of rate adjustments and moderate increases in billed consumption and active clients. Bad debt expense decreased by \$28.1 million reflecting the results of the Authority's efforts to collect past due balances.
- Operating expenses decreased by \$236.0 million, or 24.3%, mainly due to a reduction in pension expense by \$306.9 million, netted by increases in depreciation and amortization by \$21.5 million, chemicals costs by \$19.7 million and maintenance and repairs costs by \$14.1 million. Also, payroll and related costs increased by \$16 million mostly as a result of salary increases. Most of the increases are associated to the impact of Hurricane Fiona. Electricity expense reduction incorporates, among others, an adjustment of disputed balances, related to the preferential rate with Puerto Rico Electric Power Authority (PREPA), resolved with the execution of an interagency agreement on March 8, 2023, netted partially by higher electricity costs.
- Nonoperating revenues (net of nonoperating expenses) were \$482.8 million during fiscal year 2023, an increase of \$665.0 million when compared to nonoperating expenses (net of nonoperating revenues) of \$182.2 million in fiscal year 2022. The increase in this net figure is mainly due to the gain on PFC debt settlement by \$579.0 million.
- Capital contributions increased by \$47.1 million, from \$103.3 million in fiscal year 2022 to \$150.4 million, primarily as a result of proceeds of funds obligated by the Federal Emergency Management Agency ("FEMA"), the America Rescue Plan Act ("ARPA"), the State Revolving Fund Program from the Environmental Protection Agency ("EPA") and the Community Development Block Grant ("CDBG") among others mostly for capital projects including recovery and reconstruction and environmental compliance related projects.
- Total assets and deferred outflow of resources increased by \$99.4 million to \$7,420.2 million, when compared to \$7,320.8 million in fiscal year 2022. This increase is mainly due to an increase in current and other assets of \$165.8 million, an increase in capital assets of \$21.6 million, and a decrease in deferred outflows of resources by \$88.1 million.
- Total liabilities and deferred inflow of resources decreased by \$943.6 million to \$6,830.6 million when compared to \$7,774.2 million in fiscal year 2022. The change was mainly the result of a decrease in noncurrent liabilities by \$1,072.9 million, mostly because of a reduction of \$559.2 million in pension liability and a reduction in outstanding bonds payable by \$524.0 million. Current liabilities decreased by \$37.5 million and deferred inflow of resources increased by \$166.8 million.

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

## Unaudited Management's Discussion and Analysis June 30, 2023

### Analysis of Financial Results

The following table provides a summary of the Authority's net position as of June 30, 2023 and 2022 (in thousands):

	June 30		
	2023	2022	Change
Current and other assets	\$ 1,556,345	\$ 1,390,496	\$ 165,849
Capital assets, net	5,594,600	5,572,981	21,619
Deferred outflow of resources	269,237	357,325	(88,088)
Total assets	<u>7,420,182</u>	<u>7,320,802</u>	<u>99,380</u>
Long-term debt outstanding	4,241,330	4,762,473	(521,143)
Other liabilities	2,311,831	2,901,123	(589,292)
Deferred inflow of resources	277,428	110,579	166,849
Total liabilities	<u>6,830,589</u>	<u>7,774,175</u>	<u>(943,586)</u>
Net position:			
Net investment in capital assets	1,494,066	1,005,959	488,107
Restricted	452,041	405,410	46,631
Unrestricted deficit	(1,356,514)	(1,864,742)	508,228
Total net position	<u>\$ 589,593</u>	<u>\$ (453,373)</u>	<u>\$ 1,042,966</u>

### Net Position

The Authority's net position as of June 30, 2023 was \$589.6 million. This is an increase of \$1,043.0 million, from the net position, as of June 30, 2022 of (\$453.4) million.

Total assets and deferred outflow of resources increased by \$99.4 million to \$7,420.2 million, when compared to \$7,320.82 million in fiscal year 2022. This increase is mainly due to an increase in current and other assets of \$165.8 million, an increase in capital assets of \$21.6 million and a decrease in deferred outflow of resources by \$88.1 million.

Current and other assets, increased by \$165.8 million mainly due to the net effect of the following: (1) increase in cash and cash equivalents of \$80.9 million mainly as a result of increase in funds for capital projects and in funds deposited in the Rate Stabilization Account (RSA); (2) increase of investments by \$95.8 million due to funds deposited in U.S. Treasury Bills which did not exist in prior year, (3) increase in net accounts receivables by \$14.1 million, (4) increase in receivables from federal agencies of \$14.0 million, resulting from increase in capital contributions and (5) decrease in restricted cash of \$44.2 million mostly due to the release of restrictions on the deposit of \$45.0 million to comply with certain tax regulations following the issuance of 2020 bonds, which release was effective on July 1, 2022.

Capital assets increased by \$21.6 million to \$5,594.6 million, primarily as a result of an increase in capital assets being depreciated of \$136.4 million and an increase of construction in progress by \$145.9 million, offset by the increase in accumulated depreciation and amortization by \$261.4 million.

Deferred outflow of resources decreased by \$88.1 million, mainly as result of the change of actuarial assumptions required by GASB Statements No. 73 and 75, resulting in a decrease of \$75.6 million in the deferred outflow related to pension and other post-employment benefits. Also, deferred loss on bonds refunding decreased by \$12.5 million as a



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

## Unaudited Management's Discussion and Analysis June 30, 2023

result of the amortization of the losses during the period and the elimination of deferred losses related to the PFC debt that was settled during fiscal year 2023.

Total liabilities and deferred inflow of resources decreased by \$943.6 million to \$6,830.6 million when compared to \$7,774.2 million in fiscal year 2022.

Long-term debt outstanding decreased by \$521.1 million mostly as a result of the PFC debt settlement, eliminating the principal outstanding related to such bonds by \$411.2 million, the principal payments for bonds and notes made during the fiscal year by \$106.1 million, offset by and the incurrence of new State Revolving Fund ("SRF") loans by \$23.3 million.

Other liabilities decreased by \$589.3 million, to \$2,311.8 million, as a result of (i) a decrease of \$559.6 million in pension liability as a result of the latest actuarial report and assumptions, including a change in allocation methodology and an increase in the discount rate, as further detailed in Note 16, (ii) a decrease of accrued interest by \$161.8 million mostly as a result of the PFC debt settlement, (iii) a decrease of accrued liabilities by \$25.4 million and (iv) an increase of \$166.0 million in unearned revenues due to the receipt in advance of federal funds for PRASA's system recovery and reconstruction projects.

Deferred inflows of resources increased by \$166.8 million as a result of the latest actuarial valuation of pensions and other post-employment benefits liability.

### Capital Assets

Capital assets as of June 30, 2023 and 2022 were as follows (in thousands):

	June 30		Change
	2023	2022	
Capital assets being depreciated	\$ 10,953,671	\$ 10,817,275	\$ 136,396
Accumulated depreciation and amortization	(6,135,034)	(5,873,595)	(261,439)
	4,818,637	4,943,680	(125,043)
Land	64,761	64,436	325
Construction in progress	700,037	554,129	145,908
Easement	11,165	10,736	429
Capital assets, net	<u>\$ 5,594,600</u>	<u>\$ 5,572,981</u>	<u>\$ 21,619</u>

The increase of \$21.6 million in capital assets is due to the net effect of: (i) increase of \$136.4 million in capital assets being depreciated, as a result of transfers from construction in progress to plant in service, (ii) an increase of \$261.4 million in accumulated depreciation and amortization mainly due to current year depreciation, and (iii) a net increase of \$145.9 million in construction in progress. Additions to construction in progress during fiscal year 2023 amounted to \$286.4 million mainly due to the following:

- \$82.3 million in renewal and replacement projects
- \$204.1 million in the Authority's capital improvement program

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

## **Unaudited Management's Discussion and Analysis June 30, 2023**

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The Authority had \$700.0 million in construction in progress as of June 30, 2023. During fiscal year 2023, the Authority continued with the implementation of its capital improvement program, including the regulatory and compliance projects with the state revolving funds from EPA, as well the reconstruction and resiliency projects, which are being financed as part of the FEMA's obligation of \$3.7 billion under the Federal Accelerated Award Strategies ("FAAST") program.

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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, 2023

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### Debt Administration

Long-term debt for the fiscal years ended June 30, 2023 and 2022 were as follows (in thousands):

	<b>2023</b>	<b>2022</b>	<b>Change</b>
Bonds payable:			
Commonwealth Appreciation Bonds			
2011 Series A Bonds	\$ -	\$ 90,099	\$ (90,099)
2011 Series B Bonds	-	102,183	(102,183)
2011 Series B (Superaqueduct)	-	162,700	(162,700)
2012 Series A Bonds	-	56,247	(56,247)
Revenue Bonds			
2008 Series A Capital Appreciation Bonds	46,195	67,315	(21,120)
2020 Series A Bonds	1,305,545	1,318,020	(12,475)
2020 Series B Bonds	17,095	18,050	(955)
2021 Series A Bonds	85,270	92,330	(7,060)
2021 Series B Bonds	827,510	842,410	(14,900)
2021 Series C Bonds	155,090	155,090	-
2022 Series A Bonds	527,685	565,180	(37,495)
Add premium on bonds refunding	270,972	298,101	(27,129)
Total bonds	<u>3,235,362</u>	<u>3,767,725</u>	<u>(532,363)</u>
Notes payable:			
Water Pollution Control and Drinking Water Treatment Revolving Funds Loans			
USDA Rural Development Loan Agreement	611,492	598,211	13,281
USDA Rural Development Loan Agreement	394,476	396,537	(2,061)
Total notes	<u>1,005,968</u>	<u>994,748</u>	<u>11,220</u>
Long-term debt outstanding	<u>4,241,330</u>	<u>4,762,473</u>	<u>(521,143)</u>
Other long term liabilities:			
Lease liability	9,557	10,152	(595)
Subscription liability <sup>1</sup>	1,719	1,883	(164)
Total Pension liability	1,299,006	1,858,641	(559,635)
Total OPEB obligation	99,898	108,060	(8,162)
Accrued compensated absences	45,576	41,382	4,194
Customer deposits	98,599	97,232	1,367
Early retirement obligation	13,594	19,166	(5,572)
Total other liabilities	<u>1,567,949</u>	<u>2,136,516</u>	<u>(568,567)</u>
Total – long-term obligations	<u>5,809,279</u>	<u>6,898,989</u>	<u>(1,089,710)</u>
Current portion	<u>(229,317)</u>	<u>(244,259)</u>	<u>14,942</u>
Long-term obligations, less current portion	<u>\$ 5,579,962</u>	<u>\$ 6,654,730</u>	<u>\$ (1,074,768)</u>

<sup>1</sup>Beginning balance includes changes made due to the implementation of GASB Statement No. 96, Subscription Based Information Technology Arrangement (SBITA).

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

## Unaudited Management's Discussion and Analysis June 30, 2023

The Authority's long-term debt decreased by \$521.1 million, or 10.9%, from \$4,762.5 million as of June 30, 2022, to \$4,241.3 million as of June 30, 2023, mostly due to the reduction of bonds payable as explained below.

### Bonds Payable

Bonds outstanding as of June 30, 2023 decreased by \$532.4 million, of which \$411.2 million are the result of the PFC Qualifying Modification, further explained in Note 14, which went effective on January 12, 2023, cancelling and extinguishing the Authority's obligation under the PFC Bonds. The remaining reduction is due to principal payments made during 2023 amounting to \$94 million and the amortization of bond premiums.

### Notes Payable

#### *State Revolving Fund*

The Authority finances a portion of the cost of design and construction of certain capital improvements projects by borrowings from the Clean Water State Revolving Fund ("CWSRF") and the Drinking Water State Revolving Fund ("DWSRF") programs (collectively State Revolving Fund, a "SRF").

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 Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), created under the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (P.L. 114-187) ("PROMESA"), 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.

After the July 2019 debt modification of the Authority's outstanding loans with the SRFs, in collaboration and agreement with the EPA, the Authority regained access to funds from the SRFs. Since then and until June 30, 2023, the Authority entered into the financial assistance agreements with the SRFs, expressed in millions, as follows:

<b>Date</b>	<b>Program</b>	<b>Loan</b>	<b>Subsidized Loans</b>	<b>Total</b>
18-Aug-20	CWSRF	\$ 163.20	\$ -	\$ 163.20
30-Aug-21	DWSRF	22.20	24.10	46.30
28-Oct-21	CWSRF	23.78	8.30	32.08
2-Sep-22	DWSRF	5.60	6.20	11.80
24-Jan-23	CWSRF	22.50	1.60	24.10
12-Jun-23	DWSRF	54.50	7.50	62.00
		<b>\$ 291.78</b>	<b>\$ 47.70</b>	<b>\$ 339.48</b>

The loan portion of these agreements provides for a 30-year principal amortization after completion of the relevant projects, with a 1% interest rate.

The SRF loans are designated as Senior Indebtedness under the Master Agreement of Trust ("MAT") and the total outstanding balance as of June 30, 2023 and 2022 amounted to \$611.5 million and \$598.2 million, respectively.

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

## **Unaudited Management's Discussion and Analysis June 30, 2023**

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### *Rural Development*

The USDA Rural Development ("USDA RD") Program assists the Authority in the financing and construction of aqueduct and sewer facilities in rural areas.

On July 26, 2019, the Authority and AAFAF consummated definitive agreements restructuring the Authority's then outstanding debt with USDA RD. The debt was restructured into a new loan agreement of \$403 million, incorporating accrued interest as of that date. The agreement was approved by the Oversight Board pursuant to Section 207 of PROMESA. The restructured USDA RD debt was designated as Other System Indebtedness on a parity as to payment with other senior indebtedness under the Authority's MAT.

The balance of the loan agreement with USDA RD as of June 30, 2023 and 2022 was \$394.5 million and \$396.5 million, respectively.

### Pension Liability

Pension liability as of June 30, 2023, decreased by \$559.6 million, or 30.1%, to \$1,299.0 million compared to \$1,858.6 million as of June 30, 2022, as a result of the latest actuarial report, including a change in the allocation methodology and updated discount rate, as further detailed in Note 16.

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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, 2023

#### 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, 2023 and June 30, 2022 (in thousands):

	Years ended June 30		Change
	2023	2022	
Operating revenue:			
Revenues from water and sewer, net	\$ 1,143,502	\$ 1,083,950	\$ 59,552
Total Operating Revenues	1,143,502	1,083,950	59,552
Operating expenses:			
Payroll and payroll related expenses	200,168	184,146	16,022
Pension (credit) expense	(223,220)	83,722	(306,942)
Electricity	150,816	167,346	(16,530)
Repairs and maintenance of capital assets	71,882	57,810	14,072
Professional and consulting services	38,627	36,120	2,507
Chemicals	70,521	50,838	19,683
Insurance	22,881	22,512	369
Materials and replacements	16,984	15,400	1,584
Other operating expenses	117,566	105,580	11,986
Operating expenses (excluding depreciation and amortization)	466,225	723,474	(257,249)
Depreciation and amortization	266,224	244,747	21,477
Cost of assets disposition	1,349	1,537	(188)
Total operating expenses	733,798	969,758	(235,960)
Operating income	409,704	114,192	295,512
Nonoperating revenue (expenses), net	482,822	(182,177)	664,999
Net income (loss) before capital contributions	892,526	(67,985)	960,511
Capital contributions	150,440	103,272	47,168
Increase in net position	1,042,966	35,287	1,007,679
Net position at beginning of year	(453,373)	(488,660)	35,287
Net position, end of year	\$ 589,593	\$ (453,373)	\$ 1,042,966

The net position increased by \$1,043.0 million, from (\$453.4) million in fiscal year 2022, to \$589.6 million in fiscal year 2023.

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

## Unaudited Management's Discussion and Analysis June 30, 2023

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Major fluctuations that resulted in the net position increase when compared fiscal year 2023 to fiscal year 2022 operating results are as follows:

Increase in operating revenues	\$ 59,552
Decrease in operating expenses	235,960
Increase in net nonoperating revenue	664,999
Increase in capital contributions	<u>47,168</u>
Net change	<u>\$ 1,007,679</u>

Operating revenues increased by \$59.6 million, or 5.5%, when comparing the Authority's operating revenues for fiscal year 2023 with fiscal year 2022, as a result of the implementation of rate adjustments by 2% during the fiscal year, moderate increase in billed consumption and customer account, and improved collections rate leading to a lower bad debt expense reserve.

Operating expenses decreased by \$236.0 million or 24.3% primarily due to the net effect of the following:

- Decrease of pension expense of \$306.9 million as a result of a pension credit of \$223.2 million when compared to a pension expense in fiscal year 2022 of \$83.7 million. The change is the result of the most recent actuarial valuation of the pension liability, including a change in the liability allocation methodology, reducing the Authority's participation ratio in the Government pension liability and an increase of the discount rate from 2.16% to 3.54%.
- Decrease in electricity expense by \$16.65 million, as a result of a \$26.1 million adjustment of a disputed balance with PREPA, which include the preferential rate adjustment of \$21.8 million, as settled by an Interagency Agreement dated March 8, 2023. The reduction was offset by an increase in the cost of \$15 million as a result of higher energy costs by an average of 2.9 cents per kWh.
- Increase of \$21.5 million in depreciation and amortization expense as a result of the capital improvement program resulting in an increase in assets being depreciated.
- Increase of \$19.7 million in chemicals expense, mostly due to increase in chemicals costs and increased consumption to treat water to address changes in raw water after the passage of Hurricane Fiona.
- Increase of \$16.0 million in payroll and payroll-related expenses, mainly as a result of the implementation of salary adjustments and incremental overtime costs as a result of emergency works required to address the impact of Hurricane Fiona.
- Increase of \$14.0 million in repairs and maintenance to, among others, address the impact of Hurricane Fiona throughout PRASA's system.
- Increase of \$12.0 million in other operating expenses, as a result of incremental rentals expense by \$9 million, including emergency generators units, \$3.3 million in water transport increase and other increases to address the impact of Hurricane Fiona. Additionally, as a result of the Interagency Agreement reached with PREPA in March 2023 and the adjustments of disputed balances for raw water purchases, such expense resulted in a credit balance of \$8.2 million for fiscal year 2023.

Nonoperating revenues (net of nonoperating expenses) were \$482.8 million during fiscal year 2023, an increase of \$665.0 million when compared to net nonoperating expenses of \$182.2 million in fiscal year 2022. The change is mainly the result of the gain on PFC debt settlement by \$579.0 million, a reduction of \$57.4 million in interest expense as a result of the impact of the PFC debt settlement and the full impact of the refundings completed as of June 30, 2022, and an increase of \$22.0 million in interest income as a result of higher interest rates.

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

## **Unaudited Management's Discussion and Analysis June 30, 2023**

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Capital contributions increased by \$47.2 million, from \$103.3 million in fiscal year 2022 to \$150.4 million, primarily as a result of proceeds of funds obligated by the FEMA, ARPA, EPA and CDBG among others mostly for capital projects including recovery and reconstruction and environmental compliance related projects.

### **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 details, refer to Note 23.

#### **2024 Fiscal Plan**

On June 11, 2024, the Oversight Board approved a 15-year fiscal plan for the Authority (the "PRASA Fiscal Plan") pursuant to PROMESA. The PRASA's 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 an aggressive execution of the capital improvement program. For more details on PRASA's financial projections and measures under implementation or to be implemented, please refer to PRASA's 2024 Fiscal Plan published in the Oversight Board webpage.

#### **Rate Adjustments**

On July 1, 2022, after following the process required by Act 21-1985, the Authority implemented a new rate structure and charges, simplifying its rate to only two charges – base charge and consumption charge. The new rate increased the base charge by 4.95% and the consumption charges by 2%. As recommended by the Officer Examiner appointed to run the public hearing process required by Act 21-1985, the revised rate also incorporates an annual increase for subsequent years of at least 2% but not more than 5% annually, up to a limit of 30% cumulative. On July 1, 2023 and 2024 the 2% rate adjustment for fiscal years 2024 and 2025 was implemented.

#### **New State Revolving Fund ("SRF") Loans**

On June 7, 2024, the Authority entered into a \$44.2 million financial agreement with CWSRF for clean water projects, including \$41.2 million in loans and \$3 million in subsidized loans or grants.

The loan portion of this agreement provides for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans are designated as Senior Indebtedness under the MAT.

#### **Employees and Labor Relations**

On March 31, 2023, the Union Independiente Autentica ("UIA") requested the negotiation of several economic and non-economic clauses. On September 15, 2023, the Authority reached a negotiation agreement with the UIA to negotiate several economic and non-economic clauses of the Collective Bargain Agreement ("CBA") that are clauses of interest for both, the UIA and the Authority (including the implementation of the upcoming New Classification Plan). The first topics to be negotiated were UIA's request for adjustment in payment of meal allowances and the Authority's request for use of information collected by technological equipment used by UIA's employees. The parties will not negotiate a new CBA, the negotiations are rather limited to the issues identified and agreed by the parties.



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

## **Unaudited Management's Discussion and Analysis June 30, 2023**

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On November 17, 2023, the Authority reached an agreement related to those two initial topics (meal allowance and the use by PRASA of information from technology devices). The agreement was approved by the UIA Executive Committee and by the Authority's Governing Board and is subject to the Oversight Board approval. The Authority will continue negotiations with the UIA at the Department of Labor ("DOL") in 2024 regarding other topics that were included in the Negotiation Agreement signed on September 15, 2023.

### **Consent Decree Amendment**

The Modification to the Consent Decree was approved by the Department of Justice (DOJ), lodged in the District Court, and finally published in the Federal Register on July 6, 2023 for a thirty (30) day period of public comments, which ended on August 7, 2023. Four persons and/or entities commented. DOJ and the Authority considered those comments and made several additional amendments to the Modification to the Consent Decree. The amended Modification to the Consent Decree was filed in the District Court on February 7, 2024. The District Court approved the Modification to the Consent Decree on March 22, 2024.

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

This financial report is designed to provide the Authority's customers, creditors, and other interested people, with a general overview of PRASA 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 Sheet**  
**June 30, 2023**

(In thousands)

**Assets and Deferred Outflow of Resources**

**Current assets:**

Cash and cash equivalents	\$ 491,586
Restricted cash and cash equivalents	373,091
Investments	95,840
Accounts receivable, net	244,836
Receivables from federal agencies	54,537
Materials and supplies inventory, net	47,465
Prepayments and other assets	<u>18,315</u>
Total current assets	1,325,670

**Restricted cash and cash equivalents** 219,745

**Right of use lease assets, net** 9,247

**Right of use subscription assets, net** 1,683

**Capital assets:**

Capital assets being depreciated	10,953,671
Accumulated depreciation and amortization	<u>(6,135,034)</u>
Depreciable assets, net	4,818,637
Land and other nondepreciable assets	75,926
Construction in progress	<u>700,037</u>
Total capital assets, net	<u>5,594,600</u>
Total noncurrent assets	<u>5,825,275</u>

**Deferred outflows of resources:**

Loss on debt refunding	35,639
Pension related	216,886
Other post-employment benefits related	<u>16,712</u>
Total deferred outflows of resources	<u>269,237</u>
Total assets and deferred outflows of resources	<u><u>\$ 7,420,182</u></u>

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

**Balance Sheet**  
**June 30, 2023**

(In thousands)

**Liabilities, Deferred Inflow of Resources and Net Position**

**Current liabilities:**

Bonds payable	\$ 105,667
Notes payable	12,103
Accounts payable	227,890
Accrued liabilities	117,262
Accrued interest	132,755
Unearned revenue	265,975
Lease liability	2,407
Subscription liability	171
Total pension liability	86,033
Customers' deposits	7,320
Compensated absences, postemployment and other benefits	15,616
	<hr/>
Total current liabilities	973,199

**Noncurrent liabilities:**

Bonds payable	3,129,695
Notes payable	993,865
Lease liability	7,150
Subscription liability	1,548
Total pension liability	1,212,973
Customers' deposits	91,279
Compensated absences, postemployment and other benefits	143,452
	<hr/>
Total noncurrent liabilities	5,579,962

**Deferred inflows of resources:**

Pension related	253,838
Other post-employment benefit related	23,590
	<hr/>
Total deferred inflows of resources:	277,428
	<hr/>
Total liabilities and deferred inflows of resources	6,830,589

**Net Position:**

Net investment in capital assets	1,494,066
Restricted for environmental compliance, capital activity and other	452,041
Unrestricted deficit	(1,356,514)
	<hr/>
Total net position	589,593
	<hr/>
Total liabilities and net position	\$ 7,420,182
	<hr/> <hr/>

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

**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2023**

*(In thousands)*

**Operating revenues:**

Water	\$ 753,618
Sewer	389,884
	<hr/>
Total net operating revenues	1,143,502

**Operating expenses:**

Payroll and payroll related	200,168
Pension credit	(223,220)
Electricity	150,816
Repairs and maintenance of capital assets	71,882
Chemicals	70,521
Professional and consulting services	38,627
Insurance	22,881
Materials and replacements	16,984
Other operating expenses	117,566
	<hr/>
Total operating expenses (excluding depreciation and amortization)	466,225
Depreciation and amortization	266,224
Cost of assets disposition	1,349
	<hr/>
Total operating expenses	733,798
	<hr/>
Operating income	409,704

**Nonoperating revenues (expenses):**

Interest expense, net of bond premium, discount and deferred refunding loss amortization	(130,207)
Gain on PFC debt settlement	579,037
Interest income	24,832
Other income	9,160
	<hr/>
Total non-operating revenues, net	482,822

Gain before capital contributions	<hr/> 892,526
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**Capital contributions--**

Federal grants and other contributions	<hr/> 150,440
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Change in net position	1,042,966
Net position at beginning of year	<hr/> (453,373)
Net position at end of year	<hr/> <u>\$ 589,593</u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2023**

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*(In thousands)*

**Cash flows from operating activities:**

Cash received from customers	\$ 1,027,132
Cash paid to suppliers	(543,562)
Cash paid to employees and payroll related	<u>(299,462)</u>
Net cash provided by operating activities	184,108

**Cash flows provided by noncapital financing activities --**

Net cash from other income	9,160
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**Cash flows from capital and related financing activities:**

Additions to utility plant and other capital assets	(280,802)
Proceeds from and advances of capital contributions	320,459
Proceeds from issuance of notes payable	23,281
Payments of bonds and notes	(106,066)
Interest paid on bonds, notes and lines of credit	<u>(138,254)</u>
Net cash used in capital and related financing activities	(181,382)

**Cash flows from investing activities --**

Interest received on investments	<u>24,832</u>
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**Net change in cash and cash equivalents** 36,718

**Cash and cash equivalents, beginning of year** 1,047,704

**Cash and cash equivalents, end of year** \$ 1,084,422

**For purposes of the statements of cash flows, cash and cash equivalents include:**

Unrestricted	\$ 491,586
Restricted	<u>592,836</u>
	<u><u>\$ 1,084,422</u></u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2023**

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*(In thousands)*

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 409,704
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	266,224
Cost of assets disposition	1,349
Bad debt expense	289
Change in assets and liabilities:	
Increase in investments	(95,840)
Increase in accounts receivable	(17,170)
Increase in accounts receivable from federal agencies	(14,024)
Increase in materials and supplies inventory	(1,334)
Increase in prepayments and other current assets	(2,731)
Decrease in accounts payable	(7,939)
Decrease in unearned revenue	(5,014)
Decrease in lease liability	(3,182)
Decrease in subscription liability	(247)
Decrease in accrued compensated absences and early retirement obligation	(12,149)
Decrease in accrued liabilities	(24,829)
Increase in customers' deposits	1,366
Decrease in pension liabilities	(310,365)
Total adjustments	<u>(225,596)</u>
Net cash provided by operating activities	<u>\$ 184,108</u>

**Material non cash operating and financing transactions**

Gain on PFC debt settlement	<u>\$ 579,037</u>
Pension liability changes	<u>\$ 336,415</u>

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

## Notes to Financial Statements June 30, 2023

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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, as amended, and reenacted (the “Act”), for the purpose of owning, operating, and developing all of the public water and sewer systems in Puerto Rico (the “System”). The Authority provides water and wastewater services to the government, 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 in kind donations 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, 2023, include the financial position and operations of PRASA Holdings LLC, which is a limited liability company incorporated under the laws of the State of Delaware on March 6, 2014. PRASA Holdings, LLC was created, pursuant to Act No. 228 enacted on November 1, 2011, and Authority Resolution No. 2826, 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.

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, with the purpose 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 year ended June 30, 2023, PRASA Holdings, LLC did not have operational activities. However, it has total assets and net position of \$0.5 million as of June 30, 2023.

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

The accounting and financial 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 accounting 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, 2023**

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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 sheet, and revenues are recorded when utility services are provided to customers and expenses are recorded at the time liabilities are incurred.

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. As of June 30, 2023, there were no cash equivalents.

### **Investments**

Investments are reported at fair value, in the statement of net position. The changes in the fair value of investments are reported in the statement of revenues, expenses and changes in net position as a component of interest income in non-operating activities.

Based on GASB Statement No. 72, *Fair Value Measurement and Application*, measurements of the fair value should be organized into a hierarchy based on the level of inputs used to measure fair value. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad categories—Level 1, Level 2, and Level 3 inputs—considering the relative reliability of the inputs.

Inputs within Level 1 of the fair value hierarchy are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs of the fair value hierarchy are unadjusted quoted prices in active markets for identical assets or liabilities. The Authority values its investments based on Level 1 input data using quoted market prices and quotations received from independent broker/dealers or pricing service organizations.



# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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#### **Receivables**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, the current receivable aging, 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 \$0.6 million as of June 30, 2023.

#### **Right of Use Lease Assets**

The right of use lease assets represents the right to use an asset over the life of a lease in which the Authority is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. The right of use lease assets is amortized over the shorter of the asset useful life or the term of the lease.

#### **Right of Use Subscription Assets**

The Authority recognizes a Right of Use Subscription Asset for subscription-based information technology arrangements ("SBITA") with a duration of over a year. The subscription asset is initially measured as the sum of: (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term, if any. The right of use subscription assets is amortized over the term of the subscription.

#### **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 and administrative costs. Based on GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the interest during construction on debt financed construction is expensed as incurred.

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.

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

## Notes to Financial Statements June 30, 2023

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

Description	Useful Life
Wells and tanks	Fifty (50) years
Vehicles, computer and software, tools and laboratory equipment	Five (5) years
Furniture and fixtures, water meters, construction equipment	Ten (10) years
Water and sewer plants and pump station	Thirty (30) years
Buried infrastructure	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.

The Authority follows GASB Statement 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 year ended June 30, 2023.

### Unearned Revenue

Unearned revenue arises from water and sewer services paid in advance by government, residential, commercial or industrial clients. It also includes advances received from federal funds for capital improvements, which are funds received before the eligibility requirements are met.

### Lease Liability

At the commencement of a lease, the Authority measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

### Subscription Liability

At the commencement of an arrangement for subscription based information technology, the Authority measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

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

## Notes to Financial Statements June 30, 2023

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### Customers' Deposits

The Authority requires deposits from its customers before the service connection is activated. Deposits are recorded as a liability in the statement of net position, until termination of service. At the moment of termination or cancellation of the service, the balance of the customer deposit is applied to the account outstanding balance. Any excess of the deposit over the outstanding balance is refunded to the customer.

### 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 do 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.

### 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.

### Long-term Debt, Debt Issuance Costs, and Deferred Refunding Loss

Long-term debt on the balance sheet is reported net of related premiums and discounts. Premium and discounts incurred in the issuance of long-term debts are deferred and amortized to expense over the life of the related debt using the effective interest method.

Debt issuance costs are classified as nonoperating expenses. For debt refunding, the excess of reacquisition cost over the carrying value of refunded long-term debt is recorded as a deferred outflow of resources and amortized to operating expenses using the effective interest method over the remaining life of the original debt or the life of the new debt, whichever is shorter.

### Deferred Outflows and Inflows of Resources

In addition to assets, the Balance Sheet reports 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 sheet in a separate section following liabilities. This separate financial statement element, *deferred inflows of resources*, represents an

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

## Notes to Financial Statements June 30, 2023

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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 net position.

The Authority has the following deferred outflows/inflows of resources:

### Deferred outflows

- Unamortized loss from debt refunding. See Note 14.
- Difference between expected and actual experience, changes in proportions or assumptions, and pension and other post-employment benefits payments subsequent to the measurement date of the applicable benefit. See Notes 16 and 17.

### Deferred inflows

- Difference between actual and expected pension liability experience. See Note 16.
- Changes in proportions, assumptions about future economic and demographic factors related to other post-employment benefits obligation. See Note 17.

## **Federal Grants and Other Contributions**

Contributions are recognized when qualifying expenditures are incurred and conditions under the agreement are met. Contributions received before eligibility requirements are met, other than timing, are considered unearned revenue. Contributions received before timing requirements are met are considered deferred inflows of resources.

The Authority receives contributions for capital projects from developers, customers, the Commonwealth Governmental Agencies, and Federal Agencies, such as the US Department of Agriculture (“USDA”) (through the RD program) and the Environmental Protection Agency (“EPA”) (through the SRF programs). The Authority also receives contributions from the Federal Emergency Management Agency (“FEMA”) and other federal agencies, such as the Department of Housing, 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. The Authority also received funds from the American Rescue Plan Act (“ARPA”) as included in Note 19.

## **Pension Costs**

As further disclosed in Note 16, 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 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 Authority started applying the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, an amendment of Certain Provisions of GASB Statements No. 67 and 68*, was applied on fiscal year 2019. GASB Statement No. 73 maintains the “accrual basis” model under GASB

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

## Notes to Financial Statements June 30, 2023

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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 or credit, as applicable. 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.

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.

The Authority's share of the total pension liability, based on the valuation at end of the prior fiscal year was 5.86393% for fiscal year 2023, and its share of the total pension liability recorded as of June 30, 2023 was \$1,299.0 million. Disclosures required under GASB Statement No. 73 can be found in Note 16.

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

### **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 basis, 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

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

## Notes to Financial Statements June 30, 2023

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MIPC plan are inactive, there are no deferred inflows or outflows as any modification due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year.

Changes in the total OPEB liability during the period are recorded as OPEB expense or credit, as applicable, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, during 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 17.

### 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, and right of use lease and subscription assets net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other related 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 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 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 2023:

- GASB Statement No 91, *Conduit Debt Obligations*, witch original effective date was postponed by GASB Statement No. 95 to fiscal year 2023. This statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with

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

## Notes to Financial Statements June 30, 2023

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(1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB Statement No 91 clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The adoption of this statement had no impact on the Authority's financial statements.

- GASB Statement No 94, *Public-Private and Public-Public Partnerships & Availability Payments Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is defined under this Statement as an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is defined as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs) in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The adoption of this statement had no impact on the Authority's financial statements.
- GASB Statement No 96, *Subscription Based Information Technology Arrangements (SBITA)*, which changes the method of accounting for Subscription-Based Information Technology Arrangements. GASB Statement No 96: (i) defines an SBITA; (ii) establishes that SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (iii) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (iv) requires note disclosures regarding an SBITA. Refer to Note 8 for SBITA disclosures. The cumulative effect of this adoption was not material as of July 1, 2022.
- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2023

#### Future Adoption of Accounting Standards

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

GASB Statement No	GASB Statement Name	Adoption Required in Fiscal Year
99	Omnibus 2022 (financial guarantees and derivative instruments reporting)	2024
100	Accounting Changes and Error Corrections, an amended of GASB Statement No 62	2024
101	Compensated Absences	2025
102	Certain Risks Disclosures	2025
103	Financial Reporting Model Improvements	2026

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

#### (2) Deposits and Investments:

##### *Deposits*

As of June 30, 2023, the carrying amount of deposits with financial institutions of the Authority consisted of the following (in thousands):

	Amounts	
	Carrying amount	Bank balance
Unrestricted deposits in commercial banks in Puerto Rico	\$ 491,586	\$ 492,756
Restricted deposits in commercial banks in Puerto Rico	592,836	592,836
Total	<u>\$ 1,084,422</u>	<u>\$ 1,085,592</u>

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

##### *Investments*

As of June 30, 2023, investments included short-term investments in US Treasury Bills amounting to \$95.8 million valued at fair value (level 1) with a maturity of 6-months or less.

#### (3) Deposits and Investments Custodial Credit Risk and Others:

##### Custodial Credit Risk

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.



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

## Notes to Financial Statements June 30, 2023

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Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. During fiscal year 2023, the Authority was not exposed to custodial credit risk.

### Credit Risk

US Treasury Bills are held in trust by The Bank of New York Mellon and Banco Popular de Puerto Rico in a fiduciary capacity and are supported by the U.S. Government, therefore are not deemed to have significant credit risk.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The Authority's investment are in US Treasury Bills and mature within six months or less.

#### **(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, 2023 consisted of the following (in thousands):

Water and sewer services:	
Residential, industrial, and commercial	\$ 910,276
Government agencies and municipalities	101,178
	<u>1,011,454</u>
Other receivables:	
Central government	1,007
Other government agencies	3,410
Private entities	33,122
	<u>37,539</u>
Less allowance for uncollectible accounts	<u>(804,157)</u>
Total	<u>\$ 244,836</u>

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

Receivables from federal agencies of approximately \$54.5 million as of June 30, 2023, consist primarily of amounts to be received from FEMA and the Department of Housing (CDBG Program) as reimbursement for costs incurred by the Authority mostly for disaster recovery efforts, such as the 2017 Hurricanes and Hurricane Fiona in 2022. Management expects this receivable to be collected; therefore the balance has not been reserved.

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

Material and supplies inventory was approximately \$47.5 million as of June 30, 2023 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 components of the Authority's system.

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

## Notes to Financial Statements June 30, 2023

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### (7) Restricted Assets:

Restricted assets consist of the following:

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

**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.

These funds also include funds received from FEMA and other federal agencies 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.

**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.

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

The Authority’s restricted cash and cash equivalents included \$373.1 million as of June 30, 2023, 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, 2023 consisted of the following (in thousands):

Capital and construction funds	\$ 124,329
Operating reserve funds	205,210
Debt service funds	<u>263,297</u>
	<u>\$ 592,836</u>

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

**Notes to Financial Statements**  
**June 30, 2023**

**(8) Right of Use Assets:**

**Right of Use Lease Assets**

The Authority has several lease contracts with a duration of over a year, which are presented as a right of use (ROU) based on the present value of the future payments as required by GASB Statement No 87. The changes in the Authority's right of use lease assets for the year ended June 30, 2023 are as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Right of use lease assets:			
Building	\$ 7,434	\$ 2,149	\$ 9,583
Commercial Offices	3,445	-	3,445
Equipment	1,895	-	1,895
	<u>12,774</u>	<u>2,149</u>	<u>14,923</u>
Less acumulated amortization for:			
Building	(1,519)	(1,683)	(3,202.00)
Commercial Offices	(978)	(604)	(1,582)
Equipment	(446)	(446)	(892)
	<u>(2,943)</u>	<u>(2,733)</u>	<u>(5,676)</u>
Right to use lease assets, net	<u>\$ 9,831</u>	<u>\$ (584)</u>	<u>\$ 9,247</u>

**Right of Use Subscription Assets**

The Right of Use Subscription Asset for subscription-based information technology arrangements ("SBITA") over a year are recorded at the present value of future payments, as required by GASB Statement No 96.

Changes in the Authority's right of use subscription assets for the year ended June 30, 2023 are as follows (in thousands):

	<u>Beginning Balance<sup>1</sup></u>	<u>Additions</u>	<u>Ending Balance</u>
SBITAs			
HUB Advanced Networks	\$ 1,883	\$ -	\$ 1,883
Less acumulated amortization for:			
HUB Advanced Networks	-	(200)	(200)
	<u>-</u>	<u>(200)</u>	<u>(200)</u>
Subscription Assets, net	<u>\$ 1,883</u>	<u>\$ (200)</u>	<u>\$ 1,683</u>

<sup>1</sup> Beginning balance includes the impact of the implementation of GASB Statement No. 96, SBITAs.

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

**Notes to Financial Statements**  
**June 30, 2023**

**(9) Capital Assets:**

Changes in the Authority's utility plant and other capital assets for the year ended June 30, 2023, were as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	\$ 64,437	\$ 324	\$ -	\$ 64,761
Easement	10,735	430	-	11,165
Construction in progress	554,129	286,412	(140,504)	700,037
Total capital assets not being depreciated	<u>629,301</u>	<u>287,166</u>	<u>(140,504)</u>	<u>775,963</u>
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,645,210	109,811	(3,011)	9,752,010
Wells, tanks and meters	680,027	6,984	-	687,011
Buildings	83,373	4,191	-	87,564
Equipment, furniture, fixtures and vehicles	408,665	18,421	-	427,086
Total capital assets being depreciated	<u>10,817,275</u>	<u>139,407</u>	<u>(3,011)</u>	<u>10,953,671</u>
Less accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(5,062,977)	(230,795)	1,852	(5,291,920)
Wells, tanks and meters	(385,221)	(19,638)	-	(404,859)
Buildings	(50,122)	(1,644)	-	(51,766)
Equipment, furniture, fixtures and vehicles	(375,275)	(11,214)	-	(386,489)
Total accumulated depreciation	<u>(5,873,595)</u>	<u>(263,291)</u>	<u>1,852</u>	<u>(6,135,034)</u>
Total capital assets being depreciated, net	<u>4,943,680</u>	<u>(123,884)</u>	<u>(1,159)</u>	<u>4,818,637</u>
Total capital assets, net	<u>\$ 5,572,981</u>	<u>\$ 163,282</u>	<u>\$ (141,663)</u>	<u>\$ 5,594,600</u>

**(10) Accrued Liabilities:**

Accrued liabilities as of June 30, 2023 consisted of the following (in thousands):

Payroll and related accruals	\$ 28,788
Legal, labor related and environmental contingencies	71,767
Contract retentions	16,707
	<u>117,262</u>
	<u>\$ 117,262</u>

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

## Notes to Financial Statements June 30, 2023

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### (11) Unearned Revenue:

Unearned revenue includes payments for services in advance by clients and it also includes advances received from federal programs for capital improvements, which are funds received before the eligibility requirements are met. Contributions revenue is recognized when qualifying expenditures are incurred and conditions under the agreement are met, other than timing.

Unearned revenue as of June 30, 2023 consisted of the following (in thousands):

Payments received in advance - customer accounts	\$	30,004
Advance of funds from Federal Programs		<u>235,971</u>
	\$	<u>265,975</u>

### (12) Early Retirement Obligations:

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

Act 211-2015 provides for a compensation equivalent to 60% of each employee's salary, the payment 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, 2023, unpaid long term benefits granted in Act 211-2015 were discounted by a rate of 3.3%. The Authority's obligation under Act 211-2015 for the fiscal year ended on June 30, 2023 was approximately \$13.6 million.

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

## Notes to Financial Statements June 30, 2023

### (13) Long-Term Debt:

Long-term debt activity for the fiscal year ended June 30, 2023 was as follows (in thousands):

	Beginning balance	Additions	Payments/ Amortization	Decreases	Ending balance	Due within one year	Due thereafter
Commonwealth Appropriation Bonds:							
2011 Series A PFC Bonds	\$ 90,099	\$ -	\$ -	\$ (90,099)	\$ -	\$ -	\$ -
2011 Series B PFC Bonds	102,183	-	-	(102,183)	-	-	-
2011 Series B PFC Bonds (SA)	162,700	-	-	(162,700)	-	-	-
2012 Series A PFC Bonds	56,247	-	-	(56,247)	-	-	-
Revenue Bonds:							
2008 Series A Revenue Bonds	67,315	-	(21,120)	-	46,195	22,410	23,785
2020 Series A Revenue Bonds	1,318,020	-	(12,475)	-	1,305,545	13,370	1,292,175
2020 Series B Revenue Bonds	18,050	-	(955)	-	17,095	1,025	16,070
2021 Series A Revenue Bonds	92,330	-	(7,060)	-	85,270	-	85,270
2021 Series B Revenue Bonds	842,410	-	(14,900)	-	827,510	-	827,510
2021 Series C Revenue Bonds	155,090	-	-	-	155,090	47,965	107,125
2022 Series A Revenue Bonds	565,180	-	(37,495)	-	527,685	-	527,685
Sub total bonds	3,469,624	-	(94,005)	(411,229)	2,964,390	84,770	2,879,620
Add bond premium	298,101	-	(24,106)	(3,023)	270,972	20,897	250,075
Total bonds	3,767,725	-	(118,111)	(414,252)	3,235,362	105,667	3,129,695
Notes Payable (Direct borrowings):							
Water Pollution Control and Safe Drinking Water Treatment							
Revolving Funds Loans	598,211	23,281	(10,000)	-	611,492	10,000	601,492
USDA Rural Development Loans	396,537	-	(2,061)	-	394,476	2,103	392,373
Total notes	994,748	23,281	(12,061)	-	1,005,968	12,103	993,865
Total long-term debt	4,762,473	23,281	(130,172)	(414,252)	4,241,330	117,770	4,123,560
Other long term liabilities:							
Lease liability	10,152	2,149	(2,744)	-	9,557	2,407	7,150
SBITA liability <sup>1</sup>	1,883	-	(164)	-	1,719	171	1,548
Total pension liability	1,858,641	-	(87,613)	(472,022)	1,299,006	86,033	1,212,973
Total OPEB liability	108,060	-	(6,558)	(1,604)	99,898	5,826	94,072
Accrued compensated absences	41,382	14,742	(10,548)	-	45,576	4,917	40,659
Early retirement obligation	19,166	-	(5,572)	-	13,594	4,873	8,721
Customers' deposits	97,232	8,089	(6,722)	-	98,599	7,320	91,279
Total other liabilities	2,136,516	24,980	(119,921)	(473,626)	1,567,949	111,547	1,456,402
Total long-term obligations	\$ 6,898,989	\$ 48,261	\$ (250,093)	\$ (887,878)	\$ 5,809,279	\$ 229,317	\$ 5,579,962

<sup>1</sup> Beginning balance include changes made due to the implementation of GASB Statement No 96, Subscription Based Information Technology Arrangement (SBITA)

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

**Notes to Financial Statements**  
**June 30, 2023**

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**(14) Bonds Payable:**

Bonds payable as of June 30, 2023, consisted of the following (in thousands):

Revenue Bonds (Senior Lien):

Series 2008:

Series A, Serial Bonds, Convertible Capital Appreciation Bonds, 6.125%, due in semiannual interest payments and annual principal payments from July 1, 2017 to 2024	\$ 46,195
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Revenue Refunding Bonds (Senior Lien):

Series 2020:

Series A, Serial Bonds, 4.00% - 5.00%, due in semiannual interest payments through July 1, 2025 and annual principal payments from July 1, 2021 to July 1, 2025	59,585
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Series A, Term Bonds, 5.00%, due in semiannual interest payments and annual principal payments from July 1, 2030 to 2047	1,245,960
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Series B, Term Bonds, 4.50%, due in semiannual interest payments and annual principal payments from July 1, 2021 to 2024	17,095
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Series 2021:

Series A, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029	11,985
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Series A, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2042	73,285
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Series B, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029	128,420
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Series B, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2047	699,090
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Series C, Serial Bonds (Taxable), 2.75%-3.75% due in semiannual interest payments and annual principal payments from July 1, 2023 to July 1, 2027	155,090
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Series 2022:

Series A, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029	74,815
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Series A, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2047	452,870
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Subtotal	2,964,390
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Bond premium	270,972
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Total	<u>\$ 3,235,362</u>
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# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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#### **PFC Commonwealth Appropriations Bonds**

The PFC Bonds were 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 were 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.

On January 20, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF by its Spanish acronym), 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 (collectively, the “PFC Bonds”). The PFC RSA contemplated a restructuring and discharge of the PFC Bonds under a Qualifying Modification (the “PFC Qualifying Modification”) 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 would be cancelled and extinguished under the PFC Qualifying Modification and the Authority would be discharged from any liability arising from or related to such promissory notes.

On October 25, 2022, AAFAF, on behalf of PFC, and the Oversight Board launched solicitation of the PFC Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. On December 30, 2022, the U.S. District Court entered the *Findings of Fact, Conclusions of Law, and Order Approving Qualifying Modification for the Puerto Rico Public Finance Corporation Pursuant to Section 601(M)(1)(D) of PROMESA*. The PFC Qualifying Modification went effective on January 12, 2023. A notice of Effective Date was filed with the District Court.

Upon the effective date of the PFC Qualifying Modification, the outstanding debt of the Authority related to PFC Bonds was cancelled and considered extinguished. This transaction resulted in the adjustment of the outstanding balance of PFC Bonds principal and accrued interest of \$411.2 million and \$174.2 million, respectively. Also, the unamortized balances for premium and deferred loss related to the PFC Bonds were eliminated, resulting in a total gain on PFC Bonds settlement of \$579.0 million.

#### **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 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 Capital Improvement Program (“CIP”).

The 2008 Revenue Bonds Series A 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.



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

## **Notes to Financial Statements June 30, 2023**

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

The 2008 Revenue Bonds were classified as senior indebtedness under the Authority's MAT.

On December 17, 2020, the Authority issued its Revenue Refunding Bonds Series 2020A and 2020B (Senior Lien) (the "2020 Revenue Refunding Bonds") in the amount of \$1,351.3 million and \$18.8 million, respectively, for the purpose of refunding a portion of the currently outstanding 2008 Revenue Bonds, excluding the non-callable convertible capital appreciation bonds, as further described below.

As a result of the refunding, a balance of \$1,142.81 million of the 2008 Revenue Bonds was considered defeased. Refer for further details to 2020 Revenue Refunding Bonds section below.

As a result of the refunding, the balance of \$1,248.77 million as of June 30, 2020 for the 2008 Revenue Bonds was reduced to \$87.2 million as of June 30, 2021, which is the balance of the 2008 non-callable convertible capital appreciation bonds as of such date, which were not part of the refunded debt. The outstanding balance as of June 30, 2023 was \$46.2 million, paid in full on July 1, 2024.

### **2020 Refunding Bonds**

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

The 2020 Senior Bonds bear interest 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 dates.

As a result of the refunding, the corresponding liability of the applicable refunded 2008 Revenue Bonds were considered defeased and removed from the Authority's balance sheet. A deferred loss on refunding of \$14.9 million was recorded, as a result of the difference between the reacquisition price and the net carrying amount of the refunded bonds. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the remaining life of the 2020 Senior Bonds using the effective interest method.

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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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The 2020 Senior Bonds are senior indebtedness under the MAT. 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.

As of June 30, 2023 the outstanding balance for the 2020 Senior Bonds was \$1,322.6 million.

#### **2021 and 2022 Refunding 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 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 Revenue Bonds Series B 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.

On August 25, 2021, the Authority issued its 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 its 2022 Series A senior revenue refunding bonds in a total principal amount of \$565.2 million (together, the "2021 and 2022 Refunding Bonds"), to refinance the total outstanding balance of the Authority's 2012 Series A and B senior revenue bonds originally issued on February 29, 2012 (the "Refunded Bonds") with an outstanding principal balance as of the refunding date of \$1,806 million.

The issuance of the 2021 and 2022 Refunding Bonds 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)

### Notes to Financial Statements

#### June 30, 2023

The 2021 and 2022 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
2012A	Tender of a portion of 2012 Revenue Bonds Series A for cash purchase by Authority	2021A	\$ 92,330	August 25, 2021
2012A	Exchange of a portion of 2012 Revenue Bonds Series A for 2021 Series B Refunding Bonds	2021B	842,410	August 25, 2021
2012B	Current refunding of 2012 Revenue Bonds Series B	2021C	155,090	August 25, 2021
Remaining 2012A	Forward delivery current refunding of remaining 2012 Revenue Bonds Series A	2022A	<u>565,180</u> <b><u>\$1,655,010</u></b>	June 15, 2022

The 2021 and 2022 Refunding Bonds bear interest at rates ranging from 4% to 5% per annum with yields at the time of 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 Revenue Bonds 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 Refunding Bonds, Series 2021B (Senior Lien) in exchange for \$920.7 million principal amount of 2012 Revenue Bonds, Series 2012A (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 \$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 issuance of the 2021 and 2022 Refunding Bonds 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)

### Notes to Financial Statements

#### June 30, 2023

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The Refunding Bonds are senior indebtedness under the MAT. 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 (as defined in the MAT (currently, RD and EPA)) 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).

As of June 30, 2023 the outstanding balance for the 2021 and 2022 Refunding Bonds was \$1,595.6 million.

#### Debt Service Payments

Future principal and interest payments on all bonds payable outstanding as of June 30, 2023 are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
2024	\$ 84,770	\$ 138,115	\$ 222,885
2025	90,010	134,135	224,145
2026	91,860	129,495	221,355
2027	98,960	125,130	224,090
2028	101,935	120,844	222,779
2029-2033	591,795	522,075	1,113,870
2034-2038	667,845	360,851	1,028,696
2039-2043	776,440	196,715	973,155
2044-2048	460,775	55,818	516,593
Total	2,964,390	\$ 1,783,178	\$ 4,747,568
Plus unamortized premium	270,972		
Bonds payable, net	\$ 3,235,362		

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

## Notes to Financial Statements June 30, 2023

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### (15) Notes Payable (Direct Borrowings):

Notes payable as of June 30, 2023, consisted of the following (in thousands):

Clean Water State Revolving Fund Loans	\$	430,526
Drinking Water State Revolving Fund Loans		180,966
USDA Rural Development Loans		<u>394,476</u>
	\$	<u>1,005,968</u>

### **Puerto Rico Clean Water State Revolving Fund and Drinking Water State 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 Environmental and Natural Resources or “PRDNER”) and the Puerto Rico Department of Health (“PRDOH”), respectively.

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”).

On July 26, 2019, the Authority and AAFAF consummated definitive debt restructuring modifying the Authority’s then outstanding SRF Loans 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 SRF Loans into two SRF loans (the “2019 SRF Loans”) with a 30-year maturity and for years 1 through 10 bearing interest at 0% and requiring \$10 million annual principal-only payments and for years 11 through 30 bearing interest at 1% per annum and requiring \$27 million annual debt service thereafter.

After the July 2019 debt modification, 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 for the funding of 28 wastewater capital improvement projects, bearing interest at 1% per annum and amortizing principal over a 30-year period after each project completion.

On August 30, 2021, the Authority signed a \$46 million financial assistance agreement for DWSRF funding for drinking water projects, consisting of a \$22.2 million loan at a 1% interest rate with a 30-year amortization after project completion and a \$24.1 million subsidized loan with no principal repayment and 0% interest rate.

On October 28, 2021, the Authority executed a financial assistance agreement for \$32 million of CWSRF funding for wastewater projects, consisting of a loan of \$23.8 million at a 1% interest rate with a 30-year

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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amortization after project completion and a subsidized loan with no principal repayment and 0% interest rate by \$8.3 million.

On September 2, 2022, the Authority executed a financial assistance agreement for a maximum amount up to \$11.8 million of DWSRF funding for water projects, consisting of a \$5.6 million loan at a 1% interest rate with a 30-year amortization after project completion and a \$6.2 million of subsidized loan with no principal repayment and 0% interest rate.

On January 24, 2023, the Authority executed a financial assistance agreement for a maximum amount up to \$24.1 million of CWSRF funding for wastewater projects, consisting of a loan of \$22.5 million at a 1% interest rate with a 30-year amortization after project completion and a subsidized loan with no principal repayment and 0% interest rate by \$1.6 million.

On June 12, 2023, the Authority executed a financial assistance agreement for a maximum amount up to \$62.0 million of DWSRF funding for water projects, consisting of a loan of \$54.5 million at a 1% interest rate with a 30-year amortization after project completion and a subsidized loan with no principal repayment and 0% interest rate by \$7.5 million.

All of the above SRF Loans, are designated as Other System Indebtedness on a parity as to payment with other senior indebtedness under the Authority's MAT and are not guaranteed by the Commonwealth.

The Authority's outstanding balance under the SRF loans as of June 30, 2023 was \$611.5 million.

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

The USDA Rural Development ("RD") assists the Authority in the financing and construction of aqueduct and sewer facilities in rural areas.

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

The RD Loans are also designated as Other System Indebtedness on a parity as to payment with other senior indebtedness under the Authority's MAT and are not guaranteed by the Commonwealth.

The Authority's outstanding balance of the RD Loans was \$394.5 million as of June 30, 2023.

# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2023

#### Debt Service Payments

Future principal and interest payments on all notes payable outstanding as of June 30, 2023 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2024	\$ 12,103	\$ 7,897	\$ 20,000
2025	12,145	7,855	20,000
2026	12,188	7,812	20,000
2027	12,232	7,768	20,000
2028	12,277	7,723	20,000
2029-2033	131,910	53,329	185,239
2034-2038	171,207	50,563	221,770
2039-2043	182,761	39,009	221,770
2044-2048	195,198	26,572	221,770
2049-2053	111,221	14,626	125,847
Permanent Loans	955,153	<u>\$ 230,494</u>	<u>\$ 1,185,647</u>
Construction Loans	<u>50,815</u>		
Total notes payable	<u>\$ 1,005,968</u>		

Construction loans are related to SRF new loans to finance projects still under construction or recently completed, and therefore, such balance did not have a principal amortization schedule as of the end of fiscal year 2023.

#### (16) 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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who, as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 froze all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

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 was transferred to the member accounts in the new Defined Contribution Plan, effective as of June 22, 2020.

Pursuant to the Commonwealth Plan of Adjustment, among other things, all accrued pension benefits for active and retired public employees were preserved and will continue to be paid through the PayGo system pursuant to Act 106-2017. However, JRS and TRS participants will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

In addition, effective March 15, 2022, all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act 106-2017. As a result of the payment of those refunds, all claims related to the System 2000 Program have been discharged.

Furthermore, under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of \$5 million on the Commonwealth Effective Date (March 15, 2022) to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.



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

## Notes to Financial Statements June 30, 2023

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### Total ERS Pension Liability

The total pension liability as of June 30, 2022 (the measurement date used for financial reporting for fiscal year 2023) was determined by an actuarial valuation as of July 1, 2021 that was rolled forward to June 30, 2022.

### Allocation Methodology

Effective with the June 30, 2022 measurement date, the proportionate share as of measurement date is based on the ratio of the total pension liability determined directly for each agency based on each agency's members to the total pension liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date was based on the ratio of each agency's actual benefit payment to the total actual benefit payments paid during the year ending on the measurement date.

### Actuarial Method and Key Assumptions

The actuarial cost method used for the valuation was the Entry Age Normal.

The discount rate for June 30, 2022 was 3.54%. This 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.

Salary increases are assumed on a basis of 3% per year. No compensation increases are assumed until July 1, 2022 as a result of Act 3-2017, four-year extension of Act 66-2014, and the current general economy.

The mortality tables used in the actuarial valuations used for fiscal year 2023 (based on the valuation as of June 30, 2023) were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127-1958, the Pub-S2010 Employee Mortality Rates were assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

All deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG2010 disabled retirees rates, adjusted by 80% for males and 100% for females, The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-retirement Beneficiary Mortality – Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2023

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

The Authority's proportionate percentage share of the total pension liability decreased to 5.86393% for fiscal year 2023 from 6.83718% for fiscal year 2022, and the Authority's share of the total pension liability decreased from \$1,858.6 million for the valuation reported in fiscal year 2022 to \$1,299.0 million for the valuation reported in fiscal year 2023.

The Authority's proportion of ERS's total pension liability was based on the proportion of the Authority's members to the total pension liability for all Central Government members as of the measurement date. In prior years the allocation was based on the Authority's actual benefit payments to the aggregate total of benefit payments paid by all participating employers during the year ending on the applicable measurement date.

The following presents the total pension liability reported as of June 30, 2023, calculated using the discount rate of 3.54%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.54%) or 1 percentage point higher (4.54%) than the current rate (in thousands):

	<b>1% Decrease (2.54%)</b>	<b>Current Discount Rate (3.54%)</b>	<b>1% Increase (4.54%)</b>
Total pension liability	<u>\$ 1,453,627</u>	<u>\$ 1,299,006</u>	<u>\$ 1,170,470</u>

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

For the fiscal year ended June 30, 2023, the Authority's pension credit, as set forth in the actuarial report, was \$226.1 million.

As of June 30, 2023, 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 outflow of resources:				
Changes of assumptions	\$ 190,265	\$ -	\$ (85,421)	\$ 104,844
Changes in proportion	2,969	6,744	-	9,713
Differences between actual and expected experience	14,971	1,325	-	16,296
Total	<u>\$ 208,205</u>	<u>\$ 8,069</u>	<u>\$ (85,421)</u>	<u>\$ 130,853</u>
Deferred inflow of resources:				
Changes of assumptions	\$ 21,963	\$ 80,229	\$ -	\$ 102,192
Changes in proportion	8,018	116,085	-	124,103
Differences between actual and expected experience	55,373	-	(27,830)	27,543
Total capital assets, net	<u>\$ 85,354</u>	<u>\$ 196,314</u>	<u>\$ (27,830)</u>	<u>\$ 253,838</u>

# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2023

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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, 2023 will be recognized in the pension expense as follows (in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ (48,355)
2025	<u>39,760</u>
	<u>\$ (8,595)</u>

The previous amounts do not include specific deferred outflows and deferred inflows of \$9,713 and \$124,103, respectively (in thousands), related to changes in proportion.

Deferred outflows of resources related to pension benefit payments made by the Authority subsequent to the measurement date, which amounted to \$86.0 million as of June 30, 2023, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2024.

#### **(17) 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 Authority's 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, 2023

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### *Employees Covered by Benefit Terms*

For determining OPEB Liability as of June 30, 2023, the employees covered by the benefit were as follows:

Inactive employees currently receiving benefit payments	\$ 2,228
Active employees	<u>4,373</u>
Total	<u>\$ 6,601</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, 2023 was approximately \$2.9 million. There is no contribution requirement for plan members.

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

The Authority's actuarial accrued liability was \$67.3 million as of June 30, 2023, and the funding ratio was 0%.

The OPEB Expense and OPEB Liability were computed as part of an actuarial valuation performed as of June 30, 2023.

The following table illustrates the Total OPEB Liability as of June 30, 2023 (in thousands):

OPEB Liability at beginning of year	\$ 63,903
Changes recognized in fiscal year	
Service cost	1,253
Interest cost	2,256
Actual experience	3,646
Changes in assumptions	(853)
Benefit payments	<u>(2,878)</u>
Net changes	<u>3,424</u>
OPEB Liability at end of year	<u>\$ 67,327</u>

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

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

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

**Notes to Financial Statements**  
**June 30, 2023**

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

The following table illustrates the OPEB deferred outflows of resources and deferred inflows of resources under GASB Statement No. 75 for the fiscal year ended June 30, 2023 (in thousands):

	<u>Deferred outflow of resources</u>	<u>Deferred inflow of resources</u>
Difference between actual and expected experience	\$ 7,964	\$ 5,967
Assumption changes	5,366	17,623
Total	<u>\$ 13,330</u>	<u>\$ 23,590</u>

The following table illustrates the list of amortizations for the OPEB deferred outflows of resources and deferred inflows of resources under GASB Statement No. 75 for the fiscal year ended June 30, 2023 (in thousands):

Date Established	Type of Base	Years		Balance		Annual Payment
		Original	Remaining	Original	Remaining	
6/30/2022	Liability (Gain)/Loss	10.45	9.45	\$ 3,646.2	\$ 3,297.3	\$ 348.9
6/30/2022	Assumptions	10.45	9.45	(852.9)	(771.3)	(81.6)
6/30/2021	Assumptions	10.45	8.45	(11,677.1)	(9,442.2)	(1,117.4)
6/30/2020	Liability (Gain)/Loss	10.19	7.19	(6,072.1)	(4,284.4)	(595.9)
6/30/2020	Assumptions	10.19	7.19	484.0	341.4	47.5
6/30/2019	Assumptions	12.04	8.04	3,322.7	2,218.8	276.0
6/30/2018	Liability (Gain)/Loss	18.28	13.28	(2,315.7)	(1,682.3)	(126.7)
6/30/2018	Assumptions	18.28	13.28	3,861.9	2,805.6	211.3
6/30/2018	Assumptions	18.28	13.28	(2,853.5)	(2,073.0)	(156.1)
6/30/2016	Liability (Gain)/Loss	20.03	13.03	7,173.3	4,666.4	358.1
6/30/2016	Assumptions	20.03	13.03	(8,204.1)	(5,336.9)	(409.6)
	<b>Total Charges</b>				<u>\$ (10,260.6)</u>	<u>\$ (1,245.5)</u>

# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2023

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OPEB deferred outflows of resources and deferred inflows of resources will be recognized as OPEB expense are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2024	\$ (1,245.5)
2025	(1,245.5)
2026	(1,245.5)
2027	(1,245.5)
2028	(1,245.5)
Total Thereafter	<u>(4,033.1)</u>
Total to be amortized	<u>\$ (10,260.6)</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 the fiscal year ended June 30, 2023 was 3.65%. 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 year ended June 30, 2023. 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 assumed for the actuarial valuation (not actual) was 2.50% as of June 30, 2023.

#### *Demographic Assumptions*

For the fiscal year ended June 30, 2023, 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 "PUB-2010 headcount weighted mortality for general employees with generational mortality improvement projected using scale MP-2021" mortality table was used for the valuation as of June 30, 2023.

The Hunter disability table was used for the valuation.

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

## Notes to Financial Statements June 30, 2023

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### *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 3.65%, 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):

	<b>1% Decrease (2.65%)</b>	<b>Current Discount Rate (3.65%)</b>	<b>1% Increase (4.65%)</b>
Total OPEB liability as of June 30, 2023	\$ 75,719	\$ 67,327	\$ 60,267

### **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, 2023 was determined by the actuarial valuation as of July 1, 2021, with measurement date of June 30, 2022, 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 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.

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

## Notes to Financial Statements June 30, 2023

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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 the reporting year ended June 30, 2023 (based on the measurement year ended on June 30, 2022) was 3.54%. 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 year ended June 30, 2023.

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

The Authority's proportionate percentage share of the total ERS MIPC OPEB liability amounted to 4.6824% for fiscal year 2022, as reported for fiscal year 2023. The Authority participation in the ERS MIPC OPEB liability was \$32.6 million for fiscal year 2023, based on the measurement date of June 30, 2022.

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 reported on June 30, 2023 (based on the measurements date of June 30, 2022), as informed by the ERS to the Authority (in thousands):

OPEB liability at beginning of year	\$	44,157
OPEB credit		(1,740)
Benefit payments		(3,562)
Amortization of changes in proportion		(6,284)
OPEB Liability at end of year	\$	<u>32,571</u>



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

## Notes to Financial Statements June 30, 2023

The following presents the total ERS MIPC OPEB liability recorded as of June 30, 2023 (based on the valuation as of June 30, 2022), calculated using the applicable discount rate of 3.54%, 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 (2.54%) or 1 percentage point higher (4.54%) than the current rate (in thousands):

	<b>1% Decrease (2.54%)</b>	<b>Current Discount Rate (3.54%)</b>	<b>1% Increase (4.54%)</b>
Total OPEB liability as of June 30, 2023	\$ 35,452	\$ 32,571	\$ 30,094

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

The actuarial report for the fiscal year ended June 30, 2023, related to ERS MIPC reflected an OPEB benefit of \$8.0 million which are presented in payroll and payroll related in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

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 \$3.4 million during fiscal year 2023, which will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2024.

Additional information on ERS is provided in its standalone financial statements, 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.

### **(18) 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 SRF Loans and USDA RDL Loans are secured on a parity with the Authority's Revenue Bonds.

The MAT contains 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

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

## Notes to Financial Statements June 30, 2023

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- (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
- (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, 2023

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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 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 MAT 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 by 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.

As of June 30, 2023, the Authority rate covenant on all obligations was 1.12x, as included in the Supplemental Schedule included herein.

### **(19) Capital and Other Contributions:**

Capital and other contributions for the fiscal year ended June 30, 2023 were as follows (in thousands):

Federal grants:		
Federal Emergency Management Agency	\$	107,765
US EPA Clean Water State revolving		15,931
USDA Rural Development Program		1,394
ARPA Funds		9,558
Contributions from governmental agencies and municipalities		9,368
Developer contributions		2,994
Other contributions		3,430
		<hr/>
	\$	150,440

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

## Notes to Financial Statements June 30, 2023

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### **(20) Related Party Transactions:**

Operating revenues for services provided to the Commonwealth and its component units amounted to approximately \$104.4 million during the fiscal year ended June 30, 2023. The Authority's accounts receivable for water and wastewater service from central government agencies and component units was \$29.0 million as of June 30, 2023. As of June 30, 2023, the Authority had approximately \$1.0 million of other receivables, from the Commonwealth.

The Authority had approximately \$4.3 million of excess of collections over billings from the Commonwealth, recorded as unearned revenue in the accompanying balance sheet as of June 30, 2023.

The Authority's cost for electricity purchased from LUMA, the private operator of the Puerto Rico Electric Power Authority ("PREPA"), which is a component unit of the Commonwealth, was \$172.6 million during the fiscal year ended June 30, 2023.

The electricity expense for fiscal year 2023 was adjusted as a result of an interagency agreement, resulting in the following:

- PREPA adjusted from its books an alleged balance of \$21.8 million related to the preferential rate application as stipulated by Act 50-2013 and PRASA agreed to pay PREPA the undisputed amount of \$37.8 million as follows:
  - The electricity portion of the undisputed amount by \$20.2 million was paid by PRASA in 6 (six) equal monthly payments of approximately \$3.3 million.
  - The water portion of the undisputed amount by \$17.6 million was paid by PRASA in 6 (six) equal monthly payments of approximately \$2.9 million starting no later than 30 days after the sixth payment of the electricity portion of the undisputed amount.
- The disputed amount of \$9.8 million was solved as follows:
  - Electricity disputed amount (\$9.4 million): PREPA adjusted \$4.7 million of the disputed amount related to electricity services. The remaining balance of \$4.7 million was paid by PRASA in 1 (one) single payment after the execution of the agreement.
  - Water purchase disputed amounts (\$0.42 million) – PREPA adjusted the balances disputed by PRASA as they corresponded to sites not under contract or billing errors.

As a result of the Interagency Agreement with PREPA, all outstanding debt for electricity related and water purchases concepts was settled as of May 31, 2021 (as LUMA commenced operations on June 1, 2021) and September 30, 2022, respectively. The electricity expense for fiscal year 2023 reflects the credit of \$26.5 million (\$21.8 million of preferential rate and \$4.7 million of adjusted disputed amounts).

Additionally, the Authority purchased \$7.6 million of raw water from PREPA during fiscal year ended June 30, 2023. The water purchase expense for fiscal year 2023 includes a credit as a result of the adjustments of costs accrued on prior years based on the agreement with PREPA.

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

## Notes to Financial Statements June 30, 2023

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As of June 30, 2023, the Authority's accounts payable with PREPA was \$31.5 million, of which \$26.5 million is for current balances related to electricity services billed for May and June 2023 and the accounts payable with ERS was \$7.4 million reflecting the current balance for the pension paygo invoice for the month of June 2023.

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

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

As of June 30, 2023, the Authority headcount was 4,551, of which 2,969 employees were members of the UIA union and 112 were members of the HIEPAAA union. The remaining Authority employees consisted of (i) 1,077 management employees, (ii) 177 appointed employees and (iii) 216 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 employees is 61 years.

During 2012, the Authority entered into a 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 were suspended during 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

On April 6, 2021, the Authority received a partial labor agreement proposal from the UIA. UIA requested that the Authority provide it with financial information to develop a proposed comprehensive revision to the UIA CBA incorporating amendments to clauses with economic impact.

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.

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

## Notes to Financial Statements June 30, 2023

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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.

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 Fiscal Plan. The Negotiation Agreement also provides that the parties will promote payment of wage incentives starting in fiscal year 2023 for certain difficult recruitment positions such as plant operators and electro-mechanics; 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.

Regarding the CBA with HIEPAAA, on May 17, 2022, the Authority and HIEPAA signed a Negotiation Agreement.

As a result of Act 9-2021, the UIA and HIEPAAA CBAs have been deemed extended for an additional year to July 1, 2025.

On July 1, 2022, based on a comprehensive analysis from a third-party as agreed with UIA, HIEPAAA and Managers Association, new pay scales were implemented for the Authority employees, providing for a minimum salary increase. As of such date, also an incentive for licensed plant operators and electro-mechanicals was implemented. On March 31, 2023, the UIA requested the negotiation of several economic and non-economic clauses. On September 15, 2023, the Authority reached a negotiation agreement with the UIA to negotiate several economic and non-economic clauses of the CBA that are clauses of interest for both, the UIA and the Authority (including the implementation of the upcoming New Classification Plan). The first topics to be negotiated were UIA's request for adjustment in payment of meal allowances and the Authority request for use of information collected by technological equipment used by UIA's employees. The parties will not negotiate a new CBA, the negotiations are rather limited to the issues identified and agreed by the parties.

Please refer to Note 23 for recent developments related to the negotiation of the CBAs.

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

#### **Environmental Matters**

Facilities and operations of the Authority's potable 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").

As further detailed below, and as a result of the 2017 Hurricanes, the seismic activity in Puerto Rico in late 2019 and early 2020, as well as the recent COVID-19 pandemic, the Authority invoked the force majeure clauses under the two agreements with the regulatory agencies (PRDOH and EPA). Although compliance with the majority of 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 measures, projects, documentation and reporting requirements including Discharge Monitoring Reports and progress

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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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 Authority has had to implement alternate liquid sludge disposal methods for sludge produced by affected wastewater treatment facilities, including landfill disposal.

#### *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 Authority seeking enforcement of the administrative orders of PRDOH under the SDWA and the alleged 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, 2021, 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.

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 was December 31, 2021, but the Authority has negotiated with PRDOH modifications to certain due dates, which have been submitted to the court via motion and approved by it. Please refer to Note 22 for more detail.

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

## Notes to Financial Statements June 30, 2023

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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). The Authority has also been required to pay stipulated penalties because of certain missing or late deliverables, remedial measures and mitigation measures.

To 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.

### *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 309(e) 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.

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. Negotiations regarding the amendment of the 2015 EPA Consent Decree were commenced by the Authority, DOJ and EPA in order to revise the compliance deadlines related to certain programs and projects under the 2015 EPA Consent Decree. In February 2023 the DOJ and the Authority reached an agreement on the amendments, which has been approved by the Authority’s Governing Board in February of 2023.



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

## Notes to Financial Statements June 30, 2023

In addition, the Authority has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement with PRDOH. Also, the Authority has negotiated on a case by case basis the stoppage of some imposed penalties and established new compliance dates for some remedial measures. In the meantime, the Authority expects that it will continue to pay stipulated penalties and make additional capital expenditures (some not included in the CIP) in the future.

### 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, 2022 and ending on April 30, 2023 was as follows:

#### *Real and Personal Property*

Coverage	Limit	Deductible
Stop Loss Limit	\$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 deductible.	\$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)	\$300 million Combined Single Limit for Property Damage and Business Interruption each and every occurrence, excess of applicable deductible 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	\$300 million Combined Single Limit for Property Damage and Business Interruption each and every occurrence, excess of	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery

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

**Notes to Financial Statements**  
**June 30, 2023**

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Coverage	Limit	Deductible
	applicable deductibles and excluding wind driven water.	
Business Interruption	Coverage afforded under Primary Limit and 1 <sup>st</sup> Layer Limit	\$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Extra Expense	Coverage afforded under Primary Limit and 1 <sup>st</sup> Layer Limit	\$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, 2023 includes the same policy coverages and limits as the ones included above.

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

**Notes to Financial Statements  
June 30, 2023**

***Liability***

<b>Coverage</b>	<b>Limit</b>	<b>Deductible</b>
Comprehensive general liability	\$1 million per occurrence \$2 million per aggregate	\$100 thousand per occurrence
Umbrella Liability	\$60 million per occurrence \$60 million per aggregate	\$5 thousand retention
Pollution Liability	\$10 million per pollution condition	\$250 thousand per occurrence
Crime	From 100 thousand up to \$1 million	\$5 thousand per occurrence
Travel Accident	\$2.5 million aggregate	\$100.00
Divers	\$750 thousand aggregate	\$100.00
EPLI	\$5 million	\$100 thousand per occurrence
Excess EPLI	\$5million	\$0

***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:

<b>Coverage</b>	<b>Limit</b>	<b>Deductible</b>
Comprehensive general liability	\$1 million per occurrence \$2 million per aggregate	\$100 thousand per occurrence
Builder Risk	Maximum project value under schedule of project \$30 million aggregate	5% earthquake, 2% wind, 2% flood

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

## Notes to Financial Statements June 30, 2023

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Coverage	Limit	Deductible
Contractor's Pollution Liability	\$20 million per occurrence	\$25 thousand per occurrence
	\$20 million aggregate	
Professional Liability	\$25 million per occurrence	\$150 thousand per occurrence
	\$25 million aggregate	

Settled Liability and OCIP related claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year 2023.

### Lease Liability

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial assets, for a minimum contractual period of greater than one year, in an exchange or exchange like transaction.

The Authority leases facilities, office equipment and other assets under long-term, noncancellable lease agreements recorded in accordance with GASB Statement No. 87. The lease terms range from 2 years to 20 years.

As of June 30, 2023, the Authority had minimum principal and interest payment requirements in its lessee activity as follows (expressed in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 2,407	\$ 322	\$ 2,729
2025	2,323	227	2,550
2026	1,805	143	1,948
2027	873	96	969
2028	712	76	788
2029-2033	1,437	152	1,589
	<b>\$ 9,557</b>	<b>\$ 1,016</b>	<b>\$ 10,573</b>

### Subscription Liability

The Authority has entered into a 10 year subscription-based information technology long-term arrangement for infrastructure virtualization. This arrangement have met the criteria established by GASB 96 "Subscription Based Information Technology Arrangements" thus the Authority has recorded a right to use subscription asset and a subscription liability.

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

## Notes to Financial Statements June 30, 2023

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Subscription liability as of June 30, 2023 amounts to \$1.7 million. Principal and interest requirements to maturity as of June 30, 2023 are as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 171	\$ 83
2025	179	76
2026	188	68
2027	196	59
2028	206	50
2029-2033	779	106
	<u>\$ 1,719</u>	<u>\$ 442</u>

### 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 \$71.8 million as of June 30, 2023, presented within accrued liabilities in the accompanying balance sheets.

### (23) Subsequent events:

Subsequent events were evaluated through July 31, 2024, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2023 financial statements.

#### (a) Environmental Matters

The Modification to the Consent Decree was approved by the Department of Justice (DOJ), lodged in the District Court, and finally published in the Federal Register on July 6, 2023 for a thirty (30) day period of public comments, which ended on August 7, 2023. Four persons and/or entities commented. DOJ and the Authority considered those comments and made several additional amendments to the Modification to the Consent Decree. The amended Modification to the Consent Decree was filed in the District Court on February 7, 2024. The District Court approved the Modification to the Consent Decree on March 22, 2024.

#### (b) 2024 Fiscal Plan

On June 11, 2024, the Oversight Board approved the latest fiscal plan for the Authority (the "PRASA Fiscal Plan") pursuant to PROMESA. PRASA Fiscal Plan includes financial projections for a 15-year term ending on fiscal year 2038 incorporating certain initiatives, such as, among others, an improved metering system, physical water losses reduction, federal funding maximization, projects to reduce electricity costs and an 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 2024 Fiscal Plan for the Authority published on the Oversight Board webpage.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2023**

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#### **(c) Rate Adjustments**

On July 1, 2022, after following the process required by Act 21-1985, the Authority implemented a new rate structure and charges, simplifying its rate to only two charges, base charge and consumption charge. The revised implemented rate provides for an annual increase for subsequent years of at least 2% but not more than 5% annually, up to a limit of 30% cumulative. On July 1, 2023 and 2024 the 2% rate adjustment for fiscal years 2024 and 2025 were implemented.

#### **(d) New State Revolving Fund (“SRF”) Loans**

On June 7, 2024, the Authority entered into a \$44.2 million financial agreement for CWSRF funding for clean water projects, including \$41.2 million in loans and \$3 million in subsidized loans or grants.

The loan portion of this agreement provides for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans are designated as Senior Indebtedness under the MAT.

#### **(e) Obligation of funds for meter replacement**

On April 11, 2024, FEMA announced the award of \$790 million for the Advanced Meter Infrastructure project (the “AMI Project”), which aims to (i) install new, non-mechanical meters in order to implement real-time smart meter technologies, (ii) identify physical water loss sources and implement plans to decrease commercial water losses, and (iii) improve customer service operation and efficiency. The total award requires a state match of \$79 million.

#### **(f) Employees and Labor Relations**

On March 31, 2023, the UIA requested the negotiation of several economic and non-economic clauses. On September 15, 2023, the Authority reached a negotiation agreement with the UIA to negotiate several economic and non-economic clauses of the CBA that are clauses of interest for both, the UIA and the Authority (including the implementation of the upcoming New Classification Plan). The first topics to be negotiated were UIA’s request for adjustment in payment of meal allowances and the Authority request for use of information collected by technological equipment used by UIA’s employees. The parties will not negotiate a new CBA, the negotiations are rather limited to the issues identified and agreed by the parties.

On November 17, 2023, the Authority reached an agreement related to those two initial topics (meal allowance and the use by PRASA of information from technology devices). The agreement was approved by the UIA Executive Committee and by the Authority’s Governing Board and is subject to the Oversight Board approval. The Authority will continue negotiations with the UIA at the DOL in 2024 regarding other topics that were included in the Negotiation Agreement signed on September 15, 2023.

## **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, 2023**

(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 percentage of the total pension liability
2023*	5.86393%	\$ 1,299,005	\$ -	n/a	n/a
2022*	6.83718%	\$ 1,858,641	\$ -	n/a	n/a
2021*	6.76758%	\$ 1,899,647	\$ -	n/a	n/a
2020*	6.79642%	\$ 1,688,941	\$ -	n/a	n/a
2019*	6.83100%	\$ 1,672,879	\$ -	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. Benefits are not determined based on payroll.

**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 the 10-year period 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, 2023**

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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, 2023	\$ -	\$ 67,327	\$ 67,327	0%	\$ 128,720	52%
June 30, 2022	\$ -	\$ 63,903	\$ 63,903	0%	\$ 116,624	55%
June 30, 2021	\$ -	\$ 75,060	\$ 75,060	0%	\$ 113,711	66%
June 30, 2020	\$ -	\$ 79,948	\$ 79,948	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%

**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 Postemployment Benefits  
(Unaudited)  
June 30, 2023**

(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
2023*	4.68240%	\$ 32,571	\$ -	n/a	n/a	n/a
2022*	5.53269%	\$ 44,157	\$ -	n/a	n/a	n/a
2021*	5.42999%	\$ 47,492	\$ -	n/a	n/a	n/a
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. Benefits are not determined based on payroll.

**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 the 10-year period 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  
Debt Coverage Calculation and Rate Covenant  
as required by the MAT**

# Puerto Rico Aqueduct and Sewer Authority

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

### Supplementary Information

#### Schedule of Financial Results, Debt Coverage and Rate Covenant Calculations

#### June 30, 2023

Revenues	
Water and Sewer	\$ 910,412
Government	200,337
Service revenues (cash basis)	<u>1,110,749</u>
Other Income	1,369
Developers Contributions	<u>2,213</u>
Operating revenues (cash basis)	<u>1,114,331</u>
Operating expenses:	
Payroll and payroll related	200,168
Pension credit	(223,220)
Electricity	150,816
Other operating expenses	<u>338,461</u>
Total net operating expenses	466,225
FEMA / ARPA appropriations for expenses	(19,683)
Subsidies (netted from revenues)	(8,758)
Non cash reserve adjustments <sup>1</sup>	<u>258,587</u>
Adjusted operating expenses	<u>696,371</u>
Total net revenues per MAT	<u>\$ 417,960</u>

<sup>1</sup> Presented to exclude the impact of non cash transactions, such as contingencies and reserves increases, and the impact of the following one time adjustments:

- \$26.5 million and \$12.8 million for electricity and water purchases credits as a result of the agreement with PREPA for adjustment of prior year accruals

- \$223.2 million for pension credit recorded as a result of the updated actuarial valuation

#### Debt service coverage calculation

<b>Operating revenues available for Senior, Senior Subordinated and Subordinated</b>	<b>\$ 1,114,331</b>
Senior debt	244,521
<b>Accumulated coverage ratio (Min 2.5x) - section 7.01 (a) (i) MAT</b>	<b>4.56</b>
Senior subordinated debt	-
<b>Accumulated coverage ratio (Min 2.0x) - section 7.01 (a) (ii) MAT</b>	<b>4.56</b>
All bonds and Other Systems Indebtedness	244,521
<b>Accumulated coverage ratio (Min 1.5x) - section 7.01 (a) (iii) MAT</b>	<b>4.56</b>

#### Rate covenant calculation

<b>Total Authority Revenues</b>	<b>1,114,331</b>
Debt Service	244,521
Current Expenses	696,371
Other Deposits	
Operating Reserve Fund	13,218
Capital Improvement Fund	20,476
Rate Stabilization Account	<u>20,000</u>
<b>Total obligations</b>	<b>\$ 994,586</b>
<b>Accumulated coverage ratio (Min 1.0x) - section 7.01 (iv) MAT</b>	<b>1.12</b>

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

**Supplementary Information  
Schedule of Financial Results, Debt Coverage and Rate Covenant Calculations  
June 30, 2023**

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The all obligations coverage ratio is calculated as required by section 7.01(a) 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.

The coverage ratio on all obligations was 1.12x for fiscal year 2023.

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

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

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Puerto Rico Aqueduct and Sewer Authority**, which comprise the balance sheet as of June 30, 2023, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the **Puerto Rico Aqueduct and Sewer Authority's** basic financial statements, and have issued our report thereon dated July 31, 2024.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the **Puerto Rico Aqueduct and Sewer Authority's** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the **Puerto Rico Aqueduct and Sewer 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 a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the 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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Report on Compliance and Other Matters**

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

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Puerto Rico Aqueduct and Sewer Authority**'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 **Puerto Rico Aqueduct and Sewer Authority**'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico,  
July 31, 2024.

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