



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, 2024

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

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## Report of Independent Certified Public Accountants

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

### 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, 2024, 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, 2024, 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.

### 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.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in 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 the **Puerto Rico Aqueduct and Sewer Authority's** post-employment healthcare benefits on page 70, and the schedule of the **Puerto Rico Aqueduct and Sewer Authority's** 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 March 24, 2025 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, 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,  
March 24, 2025.



DLLP217-246

Puerto Rico Aqueduct and Sewer Authority

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

## **Unaudited Management's Discussion and Analysis June 30, 2024**

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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, 2024. 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, 2024, 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.

### **Financial Highlights**

- The Authority's net position in fiscal year 2024 was \$1,284.1 million, which increased by \$694.5 million, or 117.8% when compared to fiscal year 2023 net position of \$589.6 million, mainly as a result of increase in capital contributions received for the reconstruction and recovery of the Authority's infrastructure after the impact of recent natural disasters.
- Total operating revenues in fiscal year 2024 were \$1,149.3 million, an increase of \$5.8 million, or 0.5%, when compared to fiscal year 2023 total operating revenues of \$1,143.5 million. During fiscal year 2024, water and wastewater revenues increased by \$25.8 million, mainly as a result of rate increase adjustments.
- Operating expenses increased by \$53.8 million, or 7.3%, mainly due to a reduction in the pension credit of \$31.2 million and an increase in depreciation and amortization expense and cost of asset disposition by \$22.9 million.
- Nonoperating expenses (net of nonoperating revenues) were \$86.2 million during fiscal year 2024, a change of \$569.1 million when compared to nonoperating revenues (net of nonoperating expenses) of \$482.8 million in fiscal year 2023. The decrease in this net figure is mainly due to the non-recurring benefit of the Public Finance Corporation (PFC) debt settlement, which generated a revenue of \$579.0 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, 2024**

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- Capital contributions increased by \$268.6 million, from \$150.4 million in fiscal year 2023 to \$419.0 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 \$203.2 million to \$7,623.4 million, when compared to \$7,420.2 million in fiscal year 2023. This increase is mainly due to an increase in capital assets of \$161.1 million, an increase of the non-current portion of restricted assets of \$200.6 million, a reduction of current assets of \$74.3 million, and a decrease in deferred outflows of resources by \$84.2 million.
- Total liabilities and deferred inflow of resources decreased by \$491.3 million to \$6,339.3 million when compared to \$6,830.6 million in fiscal year 2023. The change was mainly the result of a decrease in noncurrent liabilities of \$220.2 million due to the payments of debt service obligations, a decrease in current liabilities of \$25.5 million and a decrease of deferred inflow of resources of \$245.6 million.

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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, 2024

### Analysis of Financial Results

The following table provides a summary of the Authority's net position as of June 30, 2024 and 2023 (in thousands):

	June 30		
	2024	2023	Change
Current and other assets	\$ 1,671,682	\$ 1,545,415	\$ 126,267
Capital assets, net	5,766,609	5,605,530	161,079
Deferred outflow of resources	185,087	269,237	(84,150)
Total assets	<u>7,623,378</u>	<u>7,420,182</u>	<u>203,196</u>
Long-term debt outstanding	4,153,160	4,241,330	(88,170)
Other liabilities	2,154,278	2,311,831	(157,553)
Deferred inflow of resources	31,816	277,428	(245,612)
Total liabilities	<u>6,339,254</u>	<u>6,830,589</u>	<u>(491,335)</u>
Net position:			
Net investment in capital assets	1,736,718	1,494,066	242,652
Restricted	816,838	452,041	364,797
Unrestricted deficit	(1,269,432)	(1,356,514)	87,082
Total net position	<u>\$ 1,284,124</u>	<u>\$ 589,593</u>	<u>\$ 694,531</u>

### Net Position

The Authority's net position as of June 30, 2024 was \$1,284.1 million. This is an increase of \$694.5 million, from the net position, as of June 30, 2023 of \$589.6 million.

Total assets and deferred outflow of resources increased by \$203.1 million to \$7,623.4 million, when compared to \$7,420.2 million in fiscal year 2023. This increase is mainly due to an increase in current and other assets of \$126.3 million, an increase in capital assets of \$161.1 million and a decrease in deferred outflow of resources by \$84.2 million.

The increase of current and other assets of \$126.3 million reflects the net effect of the following, among others: (1) decrease in cash and cash equivalents and investments of \$311.2 million mainly as a result of the use of funds for the capital improvement program; (2) decrease in net accounts receivables by \$5.6 million as a result of increased emphasis in collection efforts, (3) increase in receivables from federal agencies of \$82.0 million, resulting from increase in capital contributions and (4) increase in restricted cash of \$358.6 million mostly due to advances from FEMA for capital projects.

Capital assets increased by \$161.1 million to \$5,766.6 million, primarily as a result of an increase in capital assets being depreciated of \$164.7 million and an increase of construction in progress by \$266.4 million, offset by the increase in accumulated depreciation and amortization by \$271.3 million.



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

## Unaudited Management's Discussion and Analysis June 30, 2024

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Deferred outflow of resources decreased by \$84.2 million, mainly as result of the change of actuarial assumptions required by GASB Statements No. 73 and 75, resulting in a decrease of \$81.6 million in the deferred outflow related to pension and other post-employment benefits. Also, deferred loss on bonds refunding decreased by \$2.6 million as a result of the amortization of the losses during the period.

Total liabilities and deferred inflow of resources decreased by \$491.3 million to \$6,339.3 million when compared to \$6,830.6 million in fiscal year 2023.

Long-term debt outstanding decreased by \$88.2 million mostly as a result of payments of principal for bonds and notes made during the fiscal year by \$101.4 million, the amortization of bond premiums by \$21.5 million and the incurrence of new State Revolving Fund ("SRF") loans by \$34.8 million.

Other liabilities decreased by \$157.6 million, to \$2,154.3 million, mainly as a result of (i) a decrease of \$117.0 million in pension liability as a result of the latest actuarial report and assumptions, including an increase in the discount rate, as further detailed in Note 17, (ii) a decrease unearned revenues by \$25.9 million, (iii) a decrease of accrued liabilities by \$19.8 million and (iv) an increase of \$18.5 million in accounts payable..

Deferred inflows of resources decreased by \$245.6 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, 2024 and 2023 were as follows (in thousands):

	<b>June 30</b>		
	<b>2024</b>	<b>2023</b>	<b>Change</b>
Capital assets being depreciated	\$ 11,135,188	\$ 10,970,476	\$ 164,712
Accumulated depreciation and amortization	(6,412,199)	(6,140,909)	(271,290)
	4,722,989	4,829,567	(106,578)
Land	65,784	64,761	1,023
Construction in progress	966,459	700,037	266,422
Easement	11,377	11,165	212
Capital assets, net	<u>\$ 5,766,609</u>	<u>\$ 5,605,530</u>	<u>\$ 161,079</u>

The increase of \$161.1 million in capital assets is due to the net effect of: (i) increase of \$164.7 million in capital assets being depreciated, as a result of transfers from construction in progress to plant in service, (ii) an increase of \$271.3 million in accumulated depreciation and amortization mainly due to current year depreciation, and (iii) a net increase of \$266.4 million in construction in progress. Additions to construction in progress during fiscal year 2024 amounted to \$448.0 million mainly due to the following:

- \$76.7 million in renewal and replacement projects
- \$354.2 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, 2024**

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The Authority had \$966.5 million in construction in progress as of June 30, 2024. During fiscal year 2024, the Authority continued with the implementation of its capital improvement program, including regulatory and compliance projects with funding from the SRF program from EPA, as well as 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, 2024**

**Debt Administration**

Long-term debt for the fiscal years ended June 30, 2024 and 2023 were as follows (in thousands):

	<u>June 30,</u>		<u>Change</u>
	<u>2024</u>	<u>2023</u>	
Bonds Payable			
Revenue Bonds:			
2008 Series A Capital Appreciation Bonds	\$ 23,785	\$ 46,195	\$ (22,410)
2020 Series A Bonds	1,292,175	1,305,545	(13,370)
2020 Series B Bonds	16,070	17,095	(1,025)
2021 Series A Bonds	85,270	85,270	-
2021 Series B Bonds	827,510	827,510	-
2021 Series C Bonds	107,125	155,090	(47,965)
2022 Series A Bonds	527,685	527,685	-
Sub total bonds	<u>2,879,620</u>	<u>2,964,390</u>	<u>(84,770)</u>
Add bond premium	249,458	270,972	(21,514)
Total bonds	<u>3,129,078</u>	<u>3,235,362</u>	<u>(106,284)</u>
Notes payable:			
Water Pollution Control and Safe			
Drinking Water Treatment			
Revolving Funds Loans	631,709	611,492	20,217
USDA Rural Development Loan Agreements	392,373	394,476	(2,103)
Total notes	<u>1,024,082</u>	<u>1,005,968</u>	<u>18,114</u>
Total long-term debt outstanding	<u>4,153,160</u>	<u>4,241,330</u>	<u>(88,170)</u>
Other long term liabilities:			
Lease liability	9,755	9,557	198
Subscription liability	1,548	1,719	(171)
Total pension liability	1,182,049	1,299,006	(116,957)
Total OPEB obligation	96,225	99,898	(3,673)
Accrued compensated absences	40,245	45,576	(5,331)
Early retirement obligation	9,033	13,594	(4,561)
Customers' deposits	100,159	98,599	1,560
Total other liabilities	<u>1,439,014</u>	<u>1,567,949</u>	<u>(128,935)</u>
Total long-term obligations	<u>5,592,174</u>	<u>5,809,279</u>	<u>(217,105)</u>
Current portion	<u>(232,390)</u>	<u>(233,812)</u>	<u>1,422</u>
Long-term obligations, less			
current portion	<u>\$ 5,359,784</u>	<u>\$ 5,575,467</u>	<u>\$ (215,683)</u>

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

## Unaudited Management's Discussion and Analysis June 30, 2024

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The Authority's long-term debt decreased by \$88.2 million, or 2.1%, from \$4,241.3 million as of June 30, 2023, to \$4,153.2 million as of June 30, 2024, mostly due to a reduction of bonds payable and an increase of notes payable, as explained below.

### Bonds Payable

Bonds outstanding as of June 30, 2024 decreased by \$106.3 million due to principal payments made during fiscal year 2024 amounting to \$84.8 million and the amortization of \$21.5 of premiums on bond refunding.

### 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.

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, 2024, the Authority entered into the financial assistance agreements with the SRFs, expressed in thousands, as follows:

<u>Date</u>	<u>Program</u>	<u>Loan</u>	<u>Subsidized Loans</u>	<u>Total</u>
18-Aug-20	CWSRF	\$ 163,200	\$ -	\$ 163,200
30-Aug-21	DWSRF	22,200	24,100	46,300
28-Oct-21	CWSRF	23,783	8,300	32,083
2-Sep-22	DWSRF	5,600	6,200	11,800
24-Jan-23	CWSRF	22,500	1,600	24,100
12-Jun-23	DWSRF	54,500	7,500	62,000
7-Jun-24	CWSRF	41,210	3,010	44,220
		<u>\$ 332,993</u>	<u>\$ 50,710</u>	<u>\$ 383,703</u>

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

## **Unaudited Management's Discussion and Analysis June 30, 2024**

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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 subsidized loans portion are granted as loans with no principal repayment and 0% 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, 2024 and 2023 amounted to \$631.7 million and \$611.5 million, respectively.

### *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, including 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, 2024 and 2023 was \$392.4 million and \$394.5 million, respectively.

### Pension Liability

Pension liability as of June 30, 2024, decreased by \$117.0 million, or 9%, to \$1,182.0 million compared to \$1,299.0 million as of June 30, 2023, as a result of the latest actuarial report, including the updated discount rate, as further detailed in Note 17.

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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, 2024

### 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, 2024 and June 30, 2023 (in thousands):

	Years Ended June 30		Change
	2024	2023	
Operating revenue:			
Revenues from water and sewer, net	\$ 1,149,328	\$ 1,143,502	\$ 5,826
Operating expenses:			
Payroll and payroll related expenses	199,309	200,168	(859)
Pension credit	(192,041)	(223,220)	31,179
Professional and consulting services	42,040	38,627	3,413
Chemicals	76,601	70,521	6,080
Materials and replacements	17,842	16,984	858
Repairs and maintenance of capital assets	67,732	71,882	(4,150)
Electricity	149,237	150,816	(1,579)
Insurance	25,739	22,881	2,858
Other operating expenses	110,675	117,566	(6,891)
Operating expenses (excluding depreciation and amortization)	497,134	466,225	30,909
Depreciation and amortization	275,105	266,224	8,881
Cost of assets disposition	15,342	1,349	13,993
Total operating expenses	787,581	733,798	53,783
Operating income	361,747	409,704	(47,957)
Nonoperating (expenses) revenue, net	(86,238)	482,822	(569,060)
Net income before capital contributions	275,509	892,526	(617,017)
Capital contributions	419,022	150,440	268,582
Increase in net position	694,531	1,042,966	(348,435)
Net position at beginning of year	589,593	(453,373)	1,042,966
Net position, end of year	\$ 1,284,124	\$ 589,593	\$ 694,531

The net position increased by \$694.5 million, from \$589.6 million in fiscal year 2023, to \$1,284.1 million in fiscal year 2024.

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

## Unaudited Management's Discussion and Analysis June 30, 2024

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Major fluctuations that resulted in an increase in the net position when compared fiscal year 2024 to fiscal year 2023 operating results are as follows:

	<u>Amount</u>
Increase in operating revenues	\$ 5,826
Increase in operating expenses	(53,783)
Change in nonoperating results	(569,060)
Increase in capital contributions	<u>268,582</u>
Net change	<u>\$ (348,435)</u>

Operating revenues increased by \$5.8 million, or 0.5%, when comparing the Authority's operating revenues for fiscal year 2024 with fiscal year 2023, as a result of the implementation of rate adjustments by 2% as affected by an increase in bad debt expense.

Operating expenses increased by \$53.8 million or 7.3% primarily due to the net effect of the following:

- Decrease of pension credit by \$31.2 million as a result of a pension credit change from \$223.2 million in fiscal year 2023 to \$192.0 million in fiscal year 2024. The change is the result of the most recent actuarial valuation of the pension liability.
- Increase of \$6.1 million in chemicals expense, mostly due to increase in chemicals prices.
- Decrease of \$6.9 million in other operating expenses, mainly due to a reduction of labor contingencies by \$20.3 million and an increase of \$14.2 million in water purchases as the 2023 results were affected by a onetime credit from an Interagency Agreement reached with PREPA in March 2023 and the adjustments of disputed balances for raw water purchases.
- Increase in depreciation and amortization by \$8.9 million.
- Increase of cost of asset disposition of \$14.0 million mainly due to the discontinuance and write-off of certain construction in progress costs after evaluation of projects completed.

Nonoperating expenses (net of nonoperating revenues) were \$86.2 million during fiscal year 2024, a change of \$569.1 million when compared to nonoperating revenues (net of nonoperating expenses) of \$482.8 million in fiscal year 2023. The decrease in this net figure is mainly due to the non-recurring benefit of the PFC debt settlement, which generated a revenue of \$579.0 million in fiscal year 2023.

Capital contributions increased by \$268.6 million, from \$150.4 million in fiscal year 2023 to \$419.0 million, primarily as a result of proceeds of funds obligated by FEMA, ARPA, the SRF Program from the 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 24.

#### 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

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

## **Unaudited Management's Discussion and Analysis June 30, 2024**

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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, 2024 the 2% rate adjustment for fiscal year 2025 was implemented.

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

On October 4, 2024, the Authority entered into two financial assistance agreements with DWSRF for drinking water projects totaling \$29.9 million, including \$17.7 million in loans and 12.2 million in subsidized loans or grants.

On February 27, 2025, the Authority entered into a financial assistance agreement with DWSRF for projects to address emerging contaminants and lead totaling \$35.9 million, including \$14.5 million in loans and \$21.4 million in subsidized loans or grants.

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

### **Employees and Labor Relations**

The UIA requested PRASA to grant a salary increase as proposed by House Bill No.1894 which was finally vetoed on May 10, 2024. After the veto the UIA made demonstrations and held a work stoppage. To solve the labor-management conflict, and to allow the implementation of a new Classification Plan, PRASA made a proposal of a one-time payment of \$1,000.00 which was finally accepted by the UIA. On October 7, 2024, the Oversight Board approved the one-time payment, conditioned to among others that no additional negotiations with economic impact will be held until the approval of a new Classification Plan, subsequently agreed by the UIA under a stipulation dated November 27, 2024.

The Oversight Board is reviewing the updated Compensation and Classifications Plans. Once approved by the Oversight Board, negotiations with the UIA on such matter should commence.

### **Hurricane Ernesto**

Late on August 13, 2024 and during August 14, 2024, tropical storm Ernesto impacted Puerto Rico by unleashing torrential rain and damaging winds. The center of the storm passed within 40 miles of San Juan, with maximum sustained winds of 70 miles per hour in the east region and gusts of almost 90 miles in the Municipality of Culebra. The island experienced heavy flooding, with nearly 10 inches of rain, swollen rivers, and flooded roads. After passing north of Puerto Rico, Ernesto became a Category 1 hurricane. The island's eastern and central regions were the most impacted.

The President of the US declared a state of emergency for Puerto Rico and ordered Federal assistance to supplement Commonwealth and local response efforts due to the emergency conditions resulting from tropical storm Ernesto. The President's action authorizes the Department of Homeland Security, Federal Emergency Management Agency (FEMA), to coordinate all disaster relief efforts which have the purpose of alleviating the hardship and suffering caused by the emergency on the local population, and to provide appropriate assistance for required emergency measures, authorized under Title V of the Stafford Act, to save lives and to protect property and public health and safety, and to lessen or avert the threat of a catastrophe in 38 of the 78 municipalities in the Commonwealth of Puerto Rico.



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

## **Unaudited Management's Discussion and Analysis June 30, 2024**

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Specifically, FEMA was authorized to identify, mobilize, and provide at its discretion, equipment and resources necessary to alleviate the impacts of the emergency. Emergency protective measures (Category B), limited to direct Federal assistance, will be provided at 75 percent Federal funding.

### **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.

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

**Balance Sheet**  
**June 30, 2024**

(In thousands)

**Assets and Deferred Outflow of Resources**

**Current assets:**

Cash and cash equivalents	\$ 276,205
Restricted cash and cash equivalents	531,074
Accounts receivable, net	239,220
Receivables from federal agencies	136,557
Materials and supplies inventory, net	48,285
Prepayments and other assets	<u>20,005</u>
Total current assets	1,251,346

**Restricted cash and cash equivalents**

420,336

**Capital assets:**

Capital assets being depreciated	11,135,188
Accumulated depreciation and amortization	<u>(6,412,199)</u>
Depreciable assets, net	4,722,989
Land and other nondepreciable assets	77,161
Construction in progress	<u>966,459</u>
Total capital assets, net	<u>5,766,609</u>
Total noncurrent assets	<u>6,186,945</u>

**Deferred outflows of resources:**

Loss on debt refunding	33,058
Pension related	136,653
Other post-employment benefits related	<u>15,376</u>
Total deferred outflows of resources	<u>185,087</u>
Total assets and deferred outflows of resources	<u><u>\$ 7,623,378</u></u>

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

**Balance Sheet  
June 30, 2024**

(In thousands)

<u>Liabilities, Deferred Inflow of Resources and Net Position</u>	
<b>Current liabilities:</b>	
Bonds payable	\$ 110,466
Notes payable	12,463
Total pension liability	86,240
Accounts payable	246,365
Accrued liabilities	97,499
Accrued interest	131,278
Unearned revenue	240,122
Lease liability	2,928
Subscription liability	179
Customers' deposits	7,086
Compensated absences, postemployment and other benefits	13,028
Total current liabilities	<u>947,654</u>
<b>Noncurrent liabilities:</b>	
Bonds payable	3,018,612
Notes payable	1,011,619
Lease liability	6,827
Subscription liability	1,369
Total pension liability	1,095,809
Customers' deposits	93,073
Compensated absences, postemployment and other benefits	132,475
Total noncurrent liabilities	<u>5,359,784</u>
<b>Deferred inflows of resources:</b>	
Pension related	8,845
Other post-employment benefit related	22,971
Total deferred inflows of resources	<u>31,816</u>
Total liabilities and deferred inflows of resources	6,339,254
<b>Net position:</b>	
Net investment in capital assets	1,736,718
Restricted for environmental compliance, capital activity and other	816,838
Unrestricted deficit	<u>(1,269,432)</u>
Total net position	<u>1,284,124</u>
Total liabilities and net position	<u>\$ 7,623,378</u>

The accompanying notes are an integral part of this balance sheet.

**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, 2024**

*(In thousands)*

**Operating revenues:**

Water	\$ 771,252
Sewer	397,818
Bad debt expense	(19,742)
Total net operating revenues	<u>1,149,328</u>

**Operating expenses:**

Payroll and payroll related	199,309
Pension credit	(192,041)
Electricity	149,237
Repairs and maintenance of capital assets	67,732
Chemicals	76,601
Professional and consulting services	42,040
Insurance	25,739
Materials and replacements	17,842
Other operating expenses	<u>110,675</u>
Total operating expenses (excluding depreciation and amortization)	497,134
Depreciation and amortization	275,105
Cost of assets disposition	<u>15,342</u>
Total operating expenses	<u>787,581</u>
Operating income	<u>361,747</u>

**Nonoperating revenues (expenses):**

Interest expense, net of bond premium, discount and deferred refunding loss amortization	(126,941)
Interest income	33,370
Other income	<u>7,333</u>
Total non-operating expenses, net	<u>(86,238)</u>
Gain before capital contributions	<u>275,509</u>

**Capital contributions--**

Federal grants and other contributions	<u>419,022</u>
Change in net position	694,531
Net position at beginning of year	<u>589,593</u>
Net position at end of year	<u>\$ 1,284,124</u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2024**

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*(In thousands)*

**Cash flows from operating activities:**

Cash received from customers	\$ 1,074,079
Cash paid to suppliers	(585,865)
Cash paid to employees and payroll related	(295,792)
Net cash provided by operating activities	<u>192,422</u>

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

Proceeds from investments	95,840
Net cash from other income	7,333
Net cash provided by noncapital financing activities	<u>103,173</u>

**Cash flows from capital and related financing activities:**

Additions to utility plant and other capital assets	(442,809)
Proceeds from and advances of capital contributions	473,018
Proceeds from issuance of notes payable	34,787
Payments of bonds and notes	(101,443)
Interest paid on bonds, notes and lines of credit	(149,325)
Net cash used in capital and related financing activities	<u>(185,772)</u>

**Cash flows from investing activities --**

Interest received on investments	<u>33,370</u>
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**Net change in cash and cash equivalents**

143,193

**Cash and cash equivalents, beginning of year**

1,084,422

**Cash and cash equivalents, end of year**

\$ 1,227,615

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

Unrestricted	\$ 276,205
Restricted	951,410
	<u>\$ 1,227,615</u>

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

**Statement of Cash Flows  
Year Ended June 30, 2024**

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*(In thousands)*

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

Operating income	\$ 361,747
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	275,105
Cost of assets disposition	15,342
Bad debt expense	19,742
Change in assets and liabilities:	
Increase in accounts receivable	(19,230)
Increase in accounts receivable from federal agencies	(82,020)
Increase in materials and supplies inventory	(820)
Increase in prepayments and other current assets	(1,690)
Increase in accounts payable	11,860
Decrease in unearned revenue	(77,323)
Decrease in lease liability	(3,319)
Decrease in subscription liability	(247)
Decrease in accrued compensated absences and early retirement obligation	(10,244)
Decrease in accrued liabilities	(19,763)
Increase in customers' deposits	1,562
Decrease in pension liabilities	(278,280)
Total adjustments	<u>(169,325)</u>
Net cash provided by operating activities	<u>\$ 192,422</u>

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

## Notes to Financial Statements June 30, 2024

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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 donations or contributions 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, 2024, 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 fiscal year 2024, PRASA Holdings, LLC did not have operational activities. However, it has total assets and net position of \$0.5 million as of June 30, 2024.

#### **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, 2024**

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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 including rendered services pending to be billed or 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. (See Note 2 for further information about cash equivalents)

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

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

#### **Receivables**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and 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 \$0.7 million as of June 30, 2024.

#### **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.



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

## **Notes to Financial Statements** **June 30, 2024**

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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.

Capital assets include right of use lease assets, which 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 Authority recognizes as capital assets 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.

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 an operating result.

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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, 2024**

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

<u>Description</u>	<u>Useful Life</u>
Wells and tanks	Fifty (50) years
Vehicles, computer and software, tools and laboratory equipment	Five (5) years
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
Right-of-use lease assets	Shorter of useful life or lease maturity
Right-of-use subscription assets	Through subscription maturity

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, 2024.

**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 programs, such as FEMA, for capital improvements, which funds are 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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2024**

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#### **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.

#### **Customers' Deposits**

The Authority requires deposits from its customers before the service connection is activated. Deposits are recorded as a liability in the balance sheet, 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.

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

## Notes to Financial Statements June 30, 2024

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### 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 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 15.
- 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 17 and 18.

#### Deferred inflows

- Difference between actual and expected pension liability experience. See Note 17.
- Changes in proportions, assumptions about future economic and demographic factors related to other post-employment benefits obligation. See Note 18.

### 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 expenses or 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 20.

### Pension Costs

As further disclosed in Note 17, 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.

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

## Notes to Financial Statements June 30, 2024

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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 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 5.69093% for fiscal year 2024, and its share of the total pension liability recorded as of June 30, 2024 was \$1,182.0 million. Disclosures required under GASB Statement No. 73 can be found in Note 17.

ERS elected to use July 1 of the prior fiscal year as the measurement date for financial information. Based on this election, the June 30, 2023 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2024.

### **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.

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

## Notes to Financial Statements June 30, 2024

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Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Because all participants in the ERS MIPC plan are inactive, there are no deferred inflows 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. The Authority's 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 18.

### 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, 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.

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

## Notes to Financial Statements June 30, 2024

### Effects of New Pronouncements

The following GASB statements were adopted in fiscal year 2024 having no significant impact on the Authority's financial statements:

- 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.
- GASB Statement No 100, *Accounting Changes and Error Corrections, an amended of GASB Statement No 62*, to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

### 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
101	Compensated Absences	2025
102	Certain Risks Disclosures	2025
103	Financial Reporting Model Improvements	2026
104	Disclosure of Certain Capital Assets	2025

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

### (2) Cash and cash equivalents:

#### Deposits

As of June 30, 2024, the carrying amount of deposits with financial institutions of the Authority consisted of the following (in thousands):

	2024	
	Carrying amount	Bank balance
Unrestricted deposits in commercial banks in Puerto Rico	\$ 209,428	\$ 222,699
Restricted deposits in commercial banks in Puerto Rico	951,410	951,410
Total	\$ 1,160,838	\$ 1,174,109

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

## Notes to Financial Statements June 30, 2024

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### Cash equivalents

As of June 30, 2024, cash equivalents consisted of \$66.8 million in U.S. treasury bills maturing between July and August 2024 and bearing interests from 5.18% to 5.26%, which are subject to credit and interest rate risk.

### **(3) 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.

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 2024, 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 cash and cash equivalents includes investments in US Treasury Bills maturing within three months or less.

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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, 2024

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#### (4) Accounts Receivable:

Accounts receivable are primarily for water and sewer services provided to residential, industrial, commercial and government customers, and as of June 30, 2024 consisted of the following (in thousands):

<b>Water and sewer services:</b>	
Residential, industrial, and commercial	\$ 946,293
Government agencies and municipalities	78,882
	1,025,175
<b>Other receivables:</b>	
Central government	1,007
Other government agencies	3,410
Private entities	36,054
	40,471
Less allowance for uncollectible accounts	(826,426)
Total	\$ 239,220

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

Receivables from federal agencies of approximately \$136.6 million as of June 30, 2024, 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 \$48.3 million as of June 30, 2024 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.

#### (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 designated 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

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

## Notes to Financial Statements June 30, 2024

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capital improvement projects to provide water and sewer services and to comply with environmental regulations.

The Capital Activity Funds also include amounts 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 \$531.1 million as of June 30, 2024, 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, 2024 consisted of the following (in thousands):

Capital and construction funds	\$	320,298
Operating reserve funds		221,737
Debt service funds		409,375
	\$	<u>951,410</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, 2024**

**(8) Capital Assets:**

Changes in the Authority's utility plant and other capital assets for the year ended June 30, 2024, were as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	\$ 64,761	\$ 1,023	\$ -	\$ 65,784
Easement	11,165	212	-	11,377
Construction in progress	700,037	448,007	(181,585)	966,459
Total capital assets not being depreciated	<u>775,963</u>	<u>449,242</u>	<u>(181,585)</u>	<u>1,043,620</u>
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,752,010	130,993	(2,711)	9,880,292
Wells, tanks and meters	687,011	9,236	-	696,247
Buildings	87,564	3,586	-	91,150
Equipment, furniture, fixtures and vehicles	427,086	22,610	-	449,696
Right-of-use lease assets	14,923	3,057	(2,060)	15,920
Right-of-use subscription assets	1,883	-	-	1,883
Total capital assets being depreciated	<u>10,970,477</u>	<u>169,482</u>	<u>(4,771)</u>	<u>11,135,188</u>
Less accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(5,291,920)	(239,040)	1,747	(5,529,213)
Wells, tanks and meters	(404,859)	(18,811)	-	(423,670)
Buildings	(51,766)	(1,949)	-	(53,715)
Equipment, furniture, fixtures and vehicles	(386,489)	(12,085)	-	(398,574)
Right-of-use lease assets	(5,676)	(2,935)	1,984	(6,627)
Right-of-use subscription assets	(200)	(200)	-	(400)
Total accumulated depreciation	<u>(6,140,910)</u>	<u>(275,020)</u>	<u>3,731</u>	<u>(6,412,199)</u>
Total capital assets being depreciated, net	<u>4,829,567</u>	<u>(105,538)</u>	<u>(1,040)</u>	<u>4,722,989</u>
Total capital assets, net	<u>\$ 5,605,530</u>	<u>\$ 343,704</u>	<u>\$ (182,625)</u>	<u>\$ 5,766,609</u>

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

**Notes to Financial Statements  
June 30, 2024**

**(9) Leases:**

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.

The summary of the Authority's lease assets activity as of June 30, 2024 is as follows (in thousands):

	<u>Beginning Balance</u>	<u>Leases initiated / (Amortization expense)</u>	<u>Retirements</u>	<u>Ending Balance</u>
Right of use lease assets:				
Building	\$ 13,028	\$ 3,057	\$ (2,060)	\$ 14,025
Equipment	1,895	-	-	1,895
	<u>14,923</u>	<u>3,057</u>	<u>(2,060)</u>	<u>15,920</u>
Less accumulated amortization for:				
Building	(4,784)	(2,489)	1,984	(5,289)
Equipment	(892)	(446)	-	(1,338)
	<u>(5,676)</u>	<u>(2,935)</u>	<u>1,984</u>	<u>(6,627)</u>
Right to use lease assets, net	<u>\$ 9,247</u>	<u>\$ 122</u>	<u>\$ (76)</u>	<u>\$ 9,293</u>

The lease liability as of June 30, 2024 amounts to \$9.8 million. The Authority has discounted the future minimum payments using its incremental borrowing rate of 4.61%. As of June 30, 2024, the Authority had minimum principal and interest payment requirements in its lessee activity as follows (expressed in thousands):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 2,928	\$ 228	\$ 3,156
2026	2,399	143	2,542
2027	1,495	96	1,591
2028	1,321	76	1,397
2029	501	60	561
2030	342	44	386
2031	297	29	326
2032	249	17	266
2033	223	4	227
	<u>\$ 9,755</u>	<u>\$ 697</u>	<u>\$ 10,452</u>

**(10) Subscription-based information technology arrangement:**

The Authority has entered into a 10 year subscription-based information technology long-term arrangement for infrastructure virtualization. This arrangement has met the criteria established by GASB 96 "Subscription

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

## Notes to Financial Statements June 30, 2024

Based Information Technology Arrangements” (“SBITA”), thus the Authority has recorded a right to use subscription asset and a subscription liability.

The right of use subscription asset for subscription-based information technology arrangements over a year are recorded at the present value of future payments, as required by GASB Statement No 96.

The summary of the Authority’s right of use subscription assets activity as of June 30, 2024 is as follows (in thousands):

	Beginning Balance	SBITA initiated / (Amortization expense)	Retirements	Ending Balance
SBITAs				
HUB Advanced Networks	\$ 1,883	\$ -	\$ -	\$ 1,883
Less accumulated amortization for:				
HUB Advanced Networks	(200)	(200)	-	(400)
SBITAs, net	<u>\$ 1,683</u>	<u>\$ (200)</u>	<u>\$ -</u>	<u>\$ 1,483</u>

The subscription liability as of June 30, 2024 amounts to \$1.5 million. The Authority has discounted the future minimum payments using its incremental borrowing rate of 4.61%.

Principal and interest requirements to maturity as of June 30, 2024 were as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 179	\$ 68	\$ 247
2026	188	59	247
2027	196	50	246
2028	206	41	247
2029	215	31	246
2030	226	21	247
2031	236	11	247
2032	102	1	103
	<u>\$ 1,548</u>	<u>\$ 282</u>	<u>\$ 1,830</u>

### (11) Accrued Liabilities:

Accrued liabilities as of June 30, 2024 consisted of the following (in thousands):

Payroll and related accruals	\$ 24,231
Legal, labor related and environmental contingencies	47,761
Contract retentions	25,507
	<u>\$ 97,499</u>

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

## Notes to Financial Statements June 30, 2024

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### (12) 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, 2024 consisted of the following (in thousands):

Payments received in advance - customer accounts	\$	29,547
Advance of funds from Federal Programs		<u>210,575</u>
	\$	<u>240,122</u>

### (13) 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, 2024, unpaid long term benefits granted in Act 211-2015 were discounted by a rate of 3.65%. The Authority's obligation under Act 211-2015 for the fiscal year ended on June 30, 2024 was approximately \$9.0 million.

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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, 2024**

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

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

	Beginning balance	Additions	Payments/ Amortization	Adjustments	Ending balance	Due within one year	Due thereafter
<b>Revenue Bonds:</b>							
2008 Series A Revenue Bonds	\$ 46,195	\$ -	\$ (22,410)	\$ -	\$ 23,785	\$ 23,785	\$ -
2020 Series A Revenue Bonds	1,305,545	-	(13,370)	-	1,292,175	3,425	1,288,750
2020 Series B Revenue Bonds	17,095	-	(1,025)	-	16,070	16,070	-
2021 Series A Revenue Bonds	85,270	-	-	-	85,270	580	84,690
2021 Series B Revenue Bonds	827,510	-	-	-	827,510	35,860	791,650
2021 Series C Revenue Bonds	155,090	-	(47,965)	-	107,125	-	107,125
2022 Series A Revenue Bonds	527,685	-	-	-	527,685	10,290	517,395
Sub total bonds	2,964,390	-	(84,770)	-	2,879,620	90,010	2,789,610
Add bond premium	270,972	-	(21,514)	-	249,458	20,456	229,002
Total bonds	3,235,362	-	(106,284)	-	3,129,078	110,466	3,018,612
<b>Notes Payable (Direct borrowings):</b>							
Water Pollution Control and Safe Drinking Water Treatment							
Revolving Funds Loans	611,492	34,787	(14,570)	-	631,709	10,318	621,391
USDA Rural Development Loans	394,476	-	(2,103)	-	392,373	2,145	390,228
Total notes	1,005,968	34,787	(16,673)	-	1,024,082	12,463	1,011,619
Total long-term debt	4,241,330	34,787	(122,957)	-	4,153,160	122,929	4,030,231
<b>Other long term liabilities:</b>							
Lease liability	9,557	3,057	(2,859)	-	9,755	2,928	6,827
SBITA liability	1,719	-	(171)	-	1,548	179	1,369
Total pension liability	1,299,006	-	(87,145)	(29,812)	1,182,049	86,240	1,095,809
Total OPEB obligation	99,898	2,641	(6,314)	-	96,225	5,576	90,649
Accrued compensated absences	45,576	8,632	(13,963)	-	40,245	3,737	36,508
Early retirement obligation	13,594	-	(4,561)	-	9,033	3,715	5,318
Customers' deposits	98,599	8,432	(6,872)	-	100,159	7,086	93,073
Total other liabilities	1,567,949	22,762	(121,885)	(29,812)	1,439,014	109,461	1,329,553
Total long-term obligations	\$ 5,809,279	\$ 57,549	\$ (244,842)	\$ -	\$ 5,592,174	\$ 232,390	\$ 5,359,784

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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, 2024**

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**(15) Bonds Payable:**

Bonds payable as of June 30, 2024, consisted of the following (in thousands):

**Revenue Bonds (Senior Lien):**

Series 2008:

Series A, Convertible Capital Appreciation Bonds, 6.125%, due in semiannual interest payments and annual principal payments from July 1, 2017 to July 1, 2024	\$ 23,785
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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	46,215
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Series A, Term Bonds, 5.00%, due in semiannual interest payments and annual principal payments from July 1, 2030 to July 1, 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 July 1, 2024	16,070
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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	107,125
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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	2,879,620
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<b>Bond premium</b>	249,458
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Total	\$ 3,129,078
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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, 2024

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### **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.

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, 2024 for the remaining balance of the 2008 Revenue Bonds was \$23.8 million, which balance was 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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2024**

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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.

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, 2024 the outstanding balance for the 2020 Senior Bonds was \$1,308.2 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, 2024

The 2021 and 2022 Refunding Bonds consist of the principal amounts and under the transactions included below (in thousands):

Refunded Bonds	Program	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	565,180	June 15, 2022
			\$ 1,655,010	

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.

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

## Notes to Financial Statements June 30, 2024

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.

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, 2024 the outstanding balance for the 2021 and 2022 Refunding Bonds was \$1,547.6 million.

### Debt Service Payments

Future principal and interest payments on all bonds payable outstanding as of June 30, 2024 are as follows (in thousands):

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	107,090	115,951	223,041
2030-2034	621,480	491,744	1,113,224
2035-2039	673,520	327,784	1,001,304
2040-2044	722,380	163,965	886,345
2045-2049	372,385	36,015	408,400
Total	<u>2,879,620</u>	<u>\$ 1,645,063</u>	<u>\$ 4,524,683</u>
Plus unamortized premium	<u>249,458</u>		
Bonds payable, net	<u>\$ 3,129,078</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, 2024

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

Notes payable as of June 30, 2024, consisted of the following (in thousands):

Clean Water State Revolving Fund Loans	\$	443,995
Drinking Water State Revolving Fund Loans		187,714
USDA Rural Development Loans		392,373
		<u>          </u>
	\$	<u>1,024,082</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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2024**

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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 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.

On June 7, 2024, the Authority executed a financial assistance agreement for a maximum amount up to \$44.2 million of CWSRF funding for wastewater projects, consisting of a loan of \$41.2 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 \$3.0 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, 2024 was \$631.7 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 \$392.4 million as of June 30, 2024.

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

**Notes to Financial Statements**  
**June 30, 2024**

**Debt Service Payments**

Future principal and interest payments on all notes payable outstanding as of June 30, 2024 are as follows (in thousands):

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 12,463	\$ 7,944	\$ 20,407
2026	12,510	7,897	20,407
2027	12,557	7,850	20,407
2028	12,605	7,802	20,407
2029	12,654	7,753	20,407
2030-2034	154,653	56,974	211,627
2035-2039	175,246	48,558	223,804
2040-2044	187,062	36,742	223,804
2045-2049	199,177	24,035	223,212
2050-2054	86,091	12,875	98,966
2055-2059	79,463	5,275	84,738
2060-2064	7,482	84	7,566
Permanent Loans	951,963	<u>\$ 223,789</u>	<u>\$ 1,175,752</u>
Construction Loans	72,119		
Total notes payable	<u>\$ 1,024,082</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 2024.

**(17) 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, 2024**

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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 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, 2024

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### Total ERS Pension Liability

The total pension liability as of June 30, 2023 (the measurement date used for financial reporting for fiscal year 2024) was determined by an actuarial valuation as of July 1, 2022 that was rolled forward to June 30, 2023.

### 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, 2023 was 3.65%. 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, 2021 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 2024 (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 PubS-2010 Employee Mortality Rates were assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they 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 Retiree Mortality – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements, both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.
- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG2-010 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.

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

## Notes to Financial Statements June 30, 2024

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

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

The Authority’s proportionate percentage share of the total pension liability decreased to 5.69093% for fiscal year 2024 from 5.86393% for fiscal year 2023, and the Authority’s share of the total pension liability decreased from \$1,299.0 million for the valuation reported in fiscal year 2023 to \$1,182.0 million for the valuation reported in fiscal year 2024.

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.

The following presents the total pension liability reported as of June 30, 2024, calculated using the discount rate of 3.65%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current rate (in thousands):

	<b>1% Decrease (2.65%)</b>	<b>Current Discount Rate (3.65%)</b>	<b>1% Increase (4.65%)</b>
Total pension liability	\$ 1,317,934	\$ 1,182,049	\$ 1,068,590

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

For the fiscal year ended June 30, 2024, the Authority’s pension benefit or credit, as set forth in the actuarial report, was \$194.7 million.

As of June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (expressed in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>End of Year Balance</b>
<b>Deferred outflow of resources</b>				
Changes in assumptions	\$ 104,844	\$ -	\$ (59,709)	\$ 45,135
Changes in proportion	9,713	-	(5,259)	4,454
Differences between actual and expected experience	16,296	-	(15,472)	824
Total	<u>\$ 130,853</u>	<u>\$ -</u>	<u>\$ (80,440)</u>	<u>\$ 50,413</u>
<b>Deferred inflow of resources</b>				
Changes in assumptions	\$ 102,192	\$ -	\$ (102,192)	\$ -
Changes in proportion	124,103	-	(122,630)	1,473
Differences between actual and expected experience	27,543	-	(20,171)	7,372
Total	<u>\$ 253,838</u>	<u>\$ -</u>	<u>\$ (244,993)</u>	<u>\$ 8,845</u>

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

## Notes to Financial Statements June 30, 2024

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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, 2024 will be recognized in the pension expense as follows (in thousands):

<u>Year ending June 30,</u>	<u>Amount</u>
2025	<u>\$ 38,587</u>

The previous amount does not include specific deferred outflows and deferred inflows of \$4,454 and \$1,473, 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 \$86.2 million as of June 30, 2024, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2025.

### **(18) 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, 2024

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### *Employees Covered by Benefit Terms*

For determining OPEB Liability as of June 30, 2024, the employees covered by the benefit terms as of June 30, 2023 were as follows:

Inactive employees currently receiving benefit payments	2,228
Active employees	<u>4,373</u>
Total	<u><u>6,601</u></u>

### *Funding Policy*

The contribution requirements of the Authority are established and may be amended by the Authority's Governing Board. The benefits are paid directly by the Authority to the retirees at a maximum rate of \$125 per month per retiree. The Healthcare Plan is financed on a pay-as-you-go basis and the amount contributed during the fiscal year ended June 30, 2024 was approximately \$2.8 million. There is no contribution requirement for plan members.

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

The Authority's actuarial accrued liability was \$66.0 million as of June 30, 2024, 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, 2024 and based on the demographic data as of June 30, 2023, in accordance with parameters of GASB Statement No. 75 permitting reporting to be based on biennial valuations.

The following table illustrates the Total OPEB Liability as of June 30, 2024 (in thousands):

OPEB Liability at beginning of year	\$ 67,327
Changes recognized in fiscal year	
Service cost	1,153
Interest cost	2,449
Actual experience	-
Changes in assumptions	(2,084)
Benefit payments	<u>(2,816)</u>
Net changes	<u>(1,298)</u>
OPEB Liability at end of year	<u><u>\$ 66,029</u></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, 2024**

*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, 2024 (in thousands):

	<u>Deferred outflow of resources</u>	<u>Deferred inflow of resources</u>
Difference between actual and expected experience	\$ 7,257	\$ 5,244
Assumption changes	<u>4,831</u>	<u>17,727</u>
Total	<u>\$ 12,088</u>	<u>\$ 22,971</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, 2024 (in thousands):

<u>Date Established</u>	<u>Type of Base</u>	<u>Years</u>		<u>Balance</u>		<u>Annual Payment</u>
		<u>Original</u>	<u>Remaining</u>	<u>Original</u>	<u>Remaining</u>	
6/30/2023	Assumptions	9.64	8.64	\$ (2,084)	\$ (1,868)	\$ (216)
6/30/2022	Liability (Gain)/Loss	10.45	8.45	3,646	2,948	349
6/30/2022	Assumptions	10.45	8.45	(853)	(690)	(82)
6/30/2021	Assumptions	10.45	7.45	(11,677)	(8,325)	(1,117)
6/30/2020	Liability (Gain)/Loss	10.19	6.19	(6,072)	(3,687)	(596)
6/30/2020	Assumptions	10.19	6.19	484	294	48
6/30/2019	Assumptions	12.04	7.04	3,323	1,943	276
6/30/2018	Liability (Gain)/Loss	18.28	12.28	(2,316)	(1,556)	(127)
6/30/2018	Assumptions	18.28	12.28	3,862	2,594	211
6/30/2018	Assumptions	18.28	12.28	(2,854)	(1,917)	(156)
6/30/2016	Liability (Gain)/Loss	20.03	12.03	7,173	4,308	358
6/30/2016	Assumptions	20.03	12.03	(8,204)	(4,927)	(410)
	Total charges				<u>\$ (10,883)</u>	<u>\$ (1,462)</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, 2024

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

<u>Fiscal Year</u>	<u>Amount</u>
2025	\$ (1,462)
2026	(1,462)
2027	(1,462)
2028	(1,462)
2029	(1,462)
Total thereafter	<u>(3,573)</u>
Total to be amortized	<u>\$ (10,883)</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 values for the 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, 2024 was 3.93%. 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, 2024. 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, 2024.

### *Demographic Assumptions*

For fiscal year ended June 30, 2024, 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, 2024.

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, 2024

### *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 3.93%, as well as what it would be if it were calculated using a discount rate of 1 percentage point lower or 1 percentage point higher than the current rate (dollars in thousands):

	<u>1% Decrease (2.93%)</u>	<u>Current Discount Rate (3.93%)</u>	<u>1% Increase (4.93%)</u>
Total OPEB liability as of June 30, 2024	\$ 73,959	\$ 66,029	\$ 59,342

### **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, 2024 was determined by the actuarial valuation as of July 1, 2022, with measurement date of June 30, 2023, 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, 2024

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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, 2024 (based on the measurement year ended on June 30, 2023) was 3.65%. 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 4.67023% for fiscal year 2023, as reported for fiscal year 2024. The Authority participation in the ERS MIPC OPEB liability was \$30.2 million for fiscal year 2024, based on the measurement date of June 30, 2023.

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, 2024 (based on the measurements date of June 30, 2023), as informed by the ERS to the Authority (in thousands):

OPEB liability at beginning of year	\$	32,571
OPEB expense		644
Benefit payments		(3,436)
Amortization of changes in proportion		417
OPEB Liability at end of year	\$	<u>30,196</u>



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

## Notes to Financial Statements June 30, 2024

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The following presents the total ERS MIPC OPEB liability recorded as of June 30, 2024 (based on the valuation as of June 30, 2023), calculated using the applicable discount rate of 3.65%, 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 (2.65%) or 1 percentage point higher (4.65%) than the current rate (in thousands):

	<b>1% Decrease (2.65%)</b>	<b>Current Discount Rate (3.65%)</b>	<b>1% Increase (4.65%)</b>
Total OPEB liability	<u>\$ 32,785</u>	<u>\$ 30,196</u>	<u>\$ 27,963</u>

### ***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, 2024, related to ERS MIPC reflected an OPEB expense of \$1.1 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 benefit payments made by the Authority subsequent to the measurement date, which amounted to \$3.3 million during fiscal year 2024, which will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2025.

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.

### **(19) 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 RD 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, 2024

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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, 2024

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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, 2024, the Authority rate covenant on all obligations was 1.16x, as included in the Supplemental Schedule included herein.

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

Capital and other contributions for the fiscal year ended June 30, 2024 were as follows (in thousands):

Federal grants:		
Federal Emergency Management Agency	\$	168,473
US EPA Clean Water State revolving		27,921
USDA Rural Development Program		3,653
ARPA Funds		209,063
Contributions from governmental agencies and municipalities		2,650
Developer contributions		3,901
Other contributions		3,361
		<hr/>
	\$	419,022
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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, 2024

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

Operating revenues for services provided to the Commonwealth and its component units amounted to approximately \$81.0 million during the fiscal year ended June 30, 2024. The Authority's accounts receivable for water and wastewater service from central government agencies and component units was \$21.5 million as of June 30, 2024.

The Authority had approximately \$5.9 million of excess of collections over billings from the Commonwealth, recorded as unearned revenue in the accompanying balance sheet as of June 30, 2024.

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 \$151.6 million during the fiscal year ended June 30, 2024.

Additionally, the Authority purchased \$8.3 million of raw water from PREPA during fiscal year ended June 30, 2024.

As of June 30, 2024, the Authority's accounts payable with PREPA was \$32.3 million, of which \$26.2 million is for current balances related to electricity services billed for May and June 2024 and the accounts payable with ERS was \$7.4 million reflecting the current balance for the pension PayGo invoice for the month of June 2024.

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

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

As of June 30, 2024, the Authority headcount was 4,493, of which 2,992 employees were members of the UIA union and 112 were members of the HIEPAAA union. The remaining Authority employees consisted of (i) 1,047 management employees, (ii) 176 appointed employees and (iii) 166 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.

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

## Notes to Financial Statements June 30, 2024

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

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. 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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2024**

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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'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.

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, the Authority's Governing Board, and the Oversight Board. 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.

The UIA requested PRASA to grant a salary increase as proposed by House Bill No.1894 which was finally vetoed on May 10, 2024. After the veto, the UIA made demonstrations and held a work stoppage. To solve the labor-management conflict, and to allow the implementation of a new Classification Plan, PRASA made a proposal of a one-time payment of \$1,000 which was finally accepted by the UIA. On October 7, 2024, the Oversight Board approved the one-time payment, conditioned to among others that no additional negotiations with economic impact will be held until the approval of a new Classification Plan approved by the UIA under a stipulation dated November 27, 2024.

The Oversight Board is reviewing the updated Compensation and Classifications Plans. Once approved by the Oversight Board, negotiations with the UIA on such matter should commence.

Please refer to Note 24 for recent developments related to the negotiation of the CBAs.

### **(23) 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 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

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

## **Notes to Financial Statements June 30, 2024**

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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 listed therein.

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 One measures were to be completed by December 31, 2011, Term Two measures were to be completed by December 31, 2016, and Term Three measures were to be completed by December 31, 2021. All long-term remedial measures under Term One have been completed. Thirteen of the eighteen Term Two measures have been completed. For the remaining five measures, the Authority and PRDOH filed a joint motion to move three projects to the Term Three category and eliminate the other two, which was granted by the supervising court. Initially, Term Three comprised thirteen projects, but with the inclusion of the three projects moved from Term Two, the total increased to sixteen projects. Of these, one project was eliminated, and eight have been completed. The deadline for completing the remaining five projects was December 31, 2021, but the Authority has negotiated with PRDOH to modify certain due dates, which have been submitted and approved by the court.

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 (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.

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

## Notes to Financial Statements June 30, 2024

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### *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 was approved by the Authority’s Governing Board in February of 2023.

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.

### **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.



# Puerto Rico Aqueduct and Sewer Authority

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

### Notes to Financial Statements

#### June 30, 2024

A summary of the property insurance maintained by the Authority for the period commencing on April 1, 2023 and ending on April 1, 2024 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 coverage afforded under Primary Limit and First Layer Limit for 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 coverage afforded under Primary Limit and First Layer Limit for 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
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,

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

**Notes to Financial Statements  
June 30, 2024**

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Coverage	Limit	Deductible
		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, 2024 includes the same policy coverages and limits as the ones included above.

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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, 2024**

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***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	\$5 million	\$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
Contractor’s Pollution Liability	\$20 million per occurrence \$20 million aggregate	\$25 thousand per occurrence

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

## Notes to Financial Statements June 30, 2024

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Coverage	Limit	Deductible
Professional Liability	\$25 million per occurrence \$25 million aggregate	\$150 thousand per occurrence

Settled Liability and OCIP related claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year 2024.

### 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.

### 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.

### 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 \$47.8 million as of June 30, 2024, presented within accrued liabilities in the accompanying balance sheets.

### (24) Subsequent events:

Subsequent events were evaluated through March 24, 2025, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2024 financial statements.

#### (a) 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.

# **Puerto Rico Aqueduct and Sewer Authority**

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

### **Notes to Financial Statements**

#### **June 30, 2024**

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

On October 4, 2024, the Authority entered into two financial assistance agreements with DWSRF for drinking water projects totaling \$29.9 million, including \$17.7 million in loans and 12.2 million in subsidized loans or grants.

On February 27, 2025, the Authority entered into a financial assistance agreement with DWSRF for projects to address emerging contaminants and lead totaling \$35.9 million, including \$14.5 million in loans and \$21.4 million in subsidized loans or grants.

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

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

The UIA requested PRASA to grant a salary increase as proposed by House Bill No.1894, as further detailed in Note 22. After the veto of the proposed legislation, the UIA made demonstrations and held a work stoppage. To solve the labor-management conflict, and to allow the implementation of a new Classification Plan, PRASA made a proposal of a one-time payment of \$1,000.00 which was finally accepted by the UIA. On October 7, 2024, the Oversight Board approved the one-time payment, conditioned to among others that no additional negotiations with economic impact will be held until the approval of a new Classification Plan, subsequently agreed by the UIA under a stipulation dated November 27, 2024.

The Oversight Board is reviewing the updated Compensation and Classifications Plans. Once approved by the Oversight Board, negotiations with the UIA on such matter should commence.

#### **(d) Hurricane Ernesto**

Late on August 13, 2024 and during August 14, 2024, tropical storm Ernesto impacted Puerto Rico by unleashing torrential rain and damaging winds. The center of the storm passed within 40 miles of San Juan, with maximum sustained winds of 70 miles per hour in the east region and gusts of almost 90 miles in the Municipality of Culebra. The island experienced heavy flooding, with nearly 10 inches of rain, swollen rivers, and flooded roads. After passing north of Puerto Rico, Ernesto became a Category 1 hurricane. The island's eastern and central regions were the most impacted.

The President of the US declared a state of emergency for 38 of the 78 municipalities of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local response efforts due to the emergency conditions resulting from tropical storm Ernesto. The President's action authorizes the Department of Homeland Security, Federal Emergency Management Agency (FEMA), to coordinate all disaster relief efforts which have the purpose of alleviating the hardship and suffering caused by the emergency on the local population, and to provide appropriate assistance for required emergency measures, authorized under Title V of the Stafford Act, to save lives and to protect property and public health and safety, and to lessen or avert the threat of a catastrophe.

Specifically, FEMA was authorized to identify, mobilize, and provide at its discretion, equipment and resources necessary to alleviate the impact of the emergency. Emergency protective measures (Category B), limited to direct Federal assistance, will be provided at 75 percent Federal funding.

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

**Notes to Financial Statements  
June 30, 2024**

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**(e) Disaster Grant – Public Assistance Grant:**

On November 22, 2024 the Department of Housing of Puerto Rico and the Authority amended the sub-award agreement with federal Housing and Urban Development (“HUD”) Community Development Block Grant – Disaster Recovery Flexible Match program (“CDBG-DR Program”) funds to include an additional award for \$200 million.

## **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, 2024**

(In thousands)

<u>For the fiscal year ended June 30,</u>	<u>Authority's proportion of the net pension liability</u>	<u>Authority's proportionate share of the total pension liability</u>	<u>Authority's covered-employee payroll</u>	<u>ERS plan's fiduciary position</u>	<u>ERS plan's fiduciary position as a percentage of the total pension liability</u>
2024	5.69093%	\$ 1,182,049	\$ -	n/a	n/a
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
2018	6.81390%	\$ 1,921,832	\$ -	n/a	n/a

Notes

- \* The amounts presented have a measurement date of the previous fiscal year-end.
- \* Currently there are no active participants in this plan. Benefits are not determined based on payroll.
- \* 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, 2024**

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*(In thousands)*

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
June 30, 2024	\$ -	\$ 66,029	\$ 66,029	0%	\$ 117,535	56%
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%
June 30, 2013	\$ -	\$ 73,044	\$ 73,044	0%	\$ 149,613	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, 2024**

(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 a percentage of the total pension liability
2024	4.67023%	\$ 30,196	\$ -	n/a	n/a	n/a
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.
- \* 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, 2024**

<b>Revenues</b>	
Water and Sewer	\$ 948,715
Government	202,633
	<hr/>
Service revenues (cash basis)	1,151,348
Other Income	2,792
Developers Contributions	1,895
	<hr/>
Operating revenues (cash basis)	1,156,035
<b>Operating expenses:</b>	
Payroll and payroll related	199,309
Pension credit	(192,041)
Electricity	149,237
Other operating expenses	340,629
	<hr/>
Total net operating expenses	497,134
FEMA/ ARPA appropriations for expenses	(28,053)
Subsidies (netted from revenues)	(9,871)
Non cash reserve adjustments <sup>1</sup>	212,306
	<hr/>
Adjusted operating expenses	671,516
	<hr/>
Total net revenues per MAT	<u><u>\$ 484,519</u></u>

1 To exclude the impact of non cash transactions, such as contingencies and reserves increases, and the impact of a pension credit of \$192 million recorded as a result of the updated actuarial valuation.

**Debt service coverage calculation**

<b>Operating revenues available for Senior, Senior Subordinated and Subordinated debt</b>	<b>\$ 1,156,035</b>
Senior debt	\$ 246,489
<b><i>Accumulated coverage ratio (Min 2.5x) - section 7.01 (a) (i) MAT</i></b>	<b><i>4.69</i></b>
All bonds and Other Systems Indebtedness	\$ 246,489
<b><i>Accumulated coverage ratio (Min 1.5x) - section 7.01 (a) (ii) MAT</i></b>	<b><i>4.69</i></b>

**Rate covenant calculation**

<b>Total Authority Revenues</b>	<b>\$ 1,156,035</b>
Debt Service	\$ 246,489
Current Expenses	671,516
Other Deposits	
Operating Reserve Fund	5,794
Capital Improvement Fund	32,567
Rate Stabilization Account	36,000
	<hr/>
<b>Total obligations</b>	<b>\$ 992,366</b>
<b><i>Accumulated coverage ratio (Min 1.0x) - section 7.01 (iii) MAT</i></b>	<b><i>1.16</i></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, 2024**

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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 1.16x for fiscal year 2024.

**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, 2024, 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 March 24, 2025.

***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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2024-01 that we consider to be a significant deficiency.

### 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*.

### The Puerto Rico Aqueduct and Sewer Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Puerto Rico Aqueduct and Sewer Authority's response to the finding described in the accompanying schedule of findings and responses. The Puerto Rico Aqueduct and Sewer Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### 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,  
March 24, 2025.



DLLP217-247

Puerto Rico Aqueduct and Sewer Authority

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

## Schedule of Findings and Responses Year Ended June 30, 2024

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### Financial Statements Findings:

#### **Finding Number 2024-01 – Internal Control over Financial Reporting**

**Condition:**

During our audit procedures performed over the Authority's financial statements, we noted the need of improvements in certain internal controls process related to the evaluation and transfer of construction in progress to fixed assets being depreciated. As a result, project under constructions in progress were not timely evaluated to start depreciation or the recognition of assets disposals.

**Criteria:**

An effective internal controls system is fundamental for the Authority's ability to prepare timely and accurate financial statements.

**Cause:**

Untimely monitoring to the Authority's internal control over capital assets and capitalization procedures.

**Effect:**

Adjustments to the Authority's account balances were recorded during the financial statements' audit for the year ended June 30, 2024.

**Recommendation:**

We recommend management to enforce its policies and internal control procedures to ensure the continuous evaluation of capital projects in construction in progress. Procedures should include, but not limited to, the periodic evaluation between Finance and Infrastructure departments of projects completed during the year for timely identification of projects to be transferred to assets being depreciated, and timely identification of costs with potential of impairment. Evidence of these procedures should be properly documented.

Strengthening the Authority's internal controls and documentation of procedures will further support the accuracy of the Authority's financial statements, as well as the adherence of the Authority with Governmental Accounting Standard Board Statements.

**Management Response:**

The Authority will perform frequent meetings with internal stakeholders involved in the acquisition of assets and or the execution, completion and closing of capital improvements projects in order to improves timing for the identification of projects in construction in progress to be transferred to fixed assets or to cost of assets disposition.