

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT
OF NATURAL AND ENVIRONMENTAL RESOURCES
OF THE COMMONWEALTH OF PUERTO RICO)**

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(WITH THE ADDITIONAL REPORT REQUIRED
BY GOVERNMENT AUDITING STANDARDS)**

SOLID WASTE AUTHORITY
(Now the Department of Natural and Environmental
Resources of the Commonwealth of Puerto Rico)

Financial Statements
For the Fiscal Year Ended June 30, 2020

(With the Additional Report Required by the
Government Auditing Standards)

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(Now the Department of Natural and Environmental
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Government Auditing Standards)

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Rodríguez & Santiago, CPA's, PSC
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying basic financial statements of governmental activities and each major fund of the **Solid Waste Authority (the SWA)**, now the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the **SWA's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Basis for Qualified Opinion on the Governmental Activities

Noncompliance with GASB No. 42 “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*”

As discussed in **Notes 5** and **15**, during the month of September 2017 Puerto Rico suffered the passing of hurricanes Irma and Maria which caused a catastrophic impact through the Island. The **SWA** has not evaluated the impact of the damages caused by these hurricanes on capital assets being depreciated stated at **\$88,900,300**, net of accumulated depreciation, as of June 30, 2020. Accordingly, any possible impairment on its assets has not been identified and a provision for loss on impairment of assets has not been recognized for any damage occurred.

Governmental Activities and General Fund Expenses

As described on **Note 1**, and pursuant the provisions of the Reorganization Plan enacted by Law No. 171 of 2018, the Department of Natural and Environmental Resources assumed certain general and common expenses of the **SWA**. Management was not able to identify the proportionate share of expenses that shall be allocated to the **SWA** operations. Accordingly, no adjustment was made to the basic financial statements to recognize any allocable expenses attributable to the **SWA’s** operations for the fiscal year ended June 30, 2020.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on the Governmental Activities and General Fund” paragraph, if any, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **SWA**, as of June 30, 2020 and the respective changes in financial position and fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Reporting Entity

As described on **Note 1**, the Law No. 171 of August 2, 2018 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 adopted pursuant to Law No. 122 of December 18, 2017. Accordingly, the **SWA’s** faculties, functions, services and structures were consolidated with the Puerto Rico Department of Natural and Environmental Resources.

The financial statements of the **SWA** presented herein, are intended to present the governmental activities and each major fund of only that portion of the activities attributable to the transactions of the **SWA**. They do not purport to, and do not, present fairly the governmental activities and each major fund of the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico as of June 30, 2020 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter (Continued)

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern. As discussed in **Note 18** to the financial statements, the **SWA** has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. Also, the **SWA** has defaulted in the payment of principal and interest on bonds and line of credits. The basic financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Approval of the Commonwealth Plan of Adjustment

As described on **Note 19**, on January 18, 2022 the Title III Court entered an order confirming the Commonwealth's of Puerto Rico Plan of Adjustment (the Plan), as amended. The Plan became effective in accordance with its terms on March 15, 2022. Under the provisions of this Plan, certain of the Commonwealth's outstanding debt will be significantly reduced. The basic financial statements do not include any adjustment that might result from the outcome of this matter. Our opinions are not modified with respect to this matter.

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 **5** through **14**, and the Schedule of the Proportionate Share of Collective Total Pension Liability and the Schedule of Proportionate Share of the Collective Total OPEB Liability on pages **63** through **65**, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2022, on our consideration of the **SWA's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is 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 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 **SWA's** internal control over financial reporting and compliance.

R & S, CPAs, PSC
RODRIGUEZ & SANTIAGO, CPAS, PSC

San Juan, Puerto Rico
June 24, 2022

The Stamp Number **E484221** of the
Puerto Rico Society of Certified Public
Accountants was affixed in the original
of this Report.



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MANAGEMENT'S DISCUSSION ANALYSIS

For the Fiscal Year ended June 30, 2020

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The **Solid Waste Authority (SWA)** (a public corporation and a governmental instrument of the Commonwealth of Puerto Rico) was created by Law No. 70 of June 23, 1978, as amended. The main purpose of the **SWA** is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the **SWA** has the responsibility of educating the community in this respect as well as the development and implementation of the required programs needed for the reduction and reuse of solid waste.

Law No. 171 of August 2, 2018 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the JCA"), the Solid Waste Authority (hereinafter "the **SWA**") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the National Parks Program"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017.

As of the date of the financial statement, the Department still in the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the Department and those of the **SWA** are kept using different accounting systems and internal controls. Also, the Department uses the cash method basis of accounting, while **SWA** uses the accrual method of accounting for financial statement presentation.

Accordingly, the financial statements of the **SWA** cannot be consolidated and presented in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020. The financial statements of the **SWA** presented herein, are intended to present the governmental activities and each major fund of only that portion of the activities attributable to the transactions of the **SWA**.

They do not purport to, and do not, present fairly the governmental activities and each major fund of the Department as of June 30, 2020 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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MANAGEMENT'S DISCUSSION ANALYSIS

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This management discussion and analysis ("MD&A") provides a narrative overview and analysis of the financial activities of the **SWA** for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to the **SWA** basic financial statements, which have the following components: (1) governmental-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide the overview of the **SWA** financial activities, and highlight individual fund matters. The following presentation is by necessity highly summarized, and to gain thorough understanding of the **SWA's** financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2019-2020 deserve special mention:

1. Total assets and deferred outflows of resources amounted to **\$103,426,349**, resulting in a decrease of **\$5,535,150** when compared to the prior fiscal year 2019. The decrease in total assets and deferred outflows of resources was caused by the net effect of a decrease in cash of **\$556,083**, a decrease in accounts receivable of **\$95,072**, a decrease in capital assets of **\$5,155,242**, and an increase of deferred outflows of resources of **\$71,247**.
2. Total liabilities and deferred inflows of resources increased by **\$3,180,056**. This net increase was caused by an increase in current liabilities of **\$3,228,795**, a decrease in long-term liabilities of **\$382,843** and a decrease on deferred inflows of resources of **\$48,739**.
3. The **SWA's** total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by **\$9,939,806** as of June 30, 2020 and, during the year then ended, experienced an increase in the balance of net position (deficit) of **\$8,915,206** when compared to the fiscal year 2019.
4. During the fiscal year 2020, operating revenues and other credits amounted to **\$3,879,284**, a decrease of **\$22,574,971** when compared to the fiscal year 2019. This decrease was caused by the recognition of **\$21,705,776** of the recapture of deposits from Governmental Bank during fiscal year 2019. Also, during the current fiscal year, total operating expenses amounted to **\$12,835,253**, an increase of **\$4,800,671** when compared to the fiscal year 2019. This increase was caused by the net effect of pension transactions amounting to **(\$6,812,453)**, recognized during fiscal year 2019.
5. Interest revenues decrease by **\$104,330**, from **\$145,093** in 2019 to **\$40,763** in 2020.
6. Interest expense related to long term-debt charged to operations during the fiscal year 2020 amounted to **\$3,912,570**, which resulted a decrease of **\$625,970** compared to the fiscal year 2019 (**\$4,538,540**).
7. Cash and cash equivalents decreased by **\$556,083** from **\$12,050,337** in 2019 to **\$11,494,254** in 2020.

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**MANAGEMENT'S DISCUSSION ANALYSIS
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FINANCIAL HIGHLIGHTS (CONTINUED)

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the **SWA** as a whole and present a long-term view of the **SWA's** finances. Fund financial statements start on page 17. Fund financial statements disclose how the **SWA's** operations were financed in the short-term as well as the amounts available for future spending.

Fund financial statements also report the **SWA's** operations in more detail than the government-wide statements, by providing information about the **SWA's** most significant funds. The remaining statements provide financial information about activities for which the **SWA** acts as an agent for the benefit of those outside and inside of the government.

The Statement of Net Position and the Statement of Activities

The Statement of Net Position includes all assets, liabilities and deferred outflows and inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most companies in the private sector. All current year's revenues and expenses are taken into account regardless of when cash was received or paid in the Statement of Activities.

These two statements report the **SWA's** net position and its changes. The **SWA's** net position is the difference between assets and liabilities which is a way to measure the **SWA's** financial position.

Increases or decreases in the **SWA's** net position may be interpreted as an indicator of whether the **SWA's** financial position has improved or deteriorated. Other non-financial factors should be considered in performing such assessment.

In the Statement of Net Position and the Statement of Activities, the governmental activities represent the basic services provided by **SWA** related to waste disposal and recycling.

Commonwealth contributions and federal grants finance most of the **SWA's** operations.

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**MANAGEMENT'S DISCUSSION ANALYSIS
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Reporting on the SWA's most significant funds:

Fund Financial Statements - The funds financial statements provide information about the **SWA's** position and activities. Funds are accounting entities with self-balancing set of accounts created for carrying on specific activities or achieving goals. Information presented in the fund financial statements differs from the information presented in the governmental-wide statements because the perspective and basis of accounting used to prepare the governmental-wide statements. Some funds are required to be established by the laws of the Commonwealth of Puerto Rico (the Commonwealth) or by requirement of Federal law. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America ("GAAP").

Governmental Funds - All of the **SWA's** basic services and expenditures are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual accounting basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental fund financial statements. The governmental funds statements provide a detailed short-term view of the **SWA's** general government operations and the basic services it provides. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the **SWA's** programs.

The reconciliations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented following the fund financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information.

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE

Our analysis, as shown below, focuses on net position and change in net position for the **SWA's** activities during the fiscal year ended June 30, 2020 as compared to the prior year 2019.

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MANAGEMENT'S DISCUSSION ANALYSIS

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FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

Net Position

The Statement of Net Position serves as an indicator of the **SWA's** financial position at the end of the fiscal year. In the case of the **SWA**, liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by **\$9,939,806** at the end of the fiscal year 2020, an increase of **\$8,915,206** compared to the balance at the end of the previous fiscal year 2019, as showed in the following Statements of Net Position (Deficit).

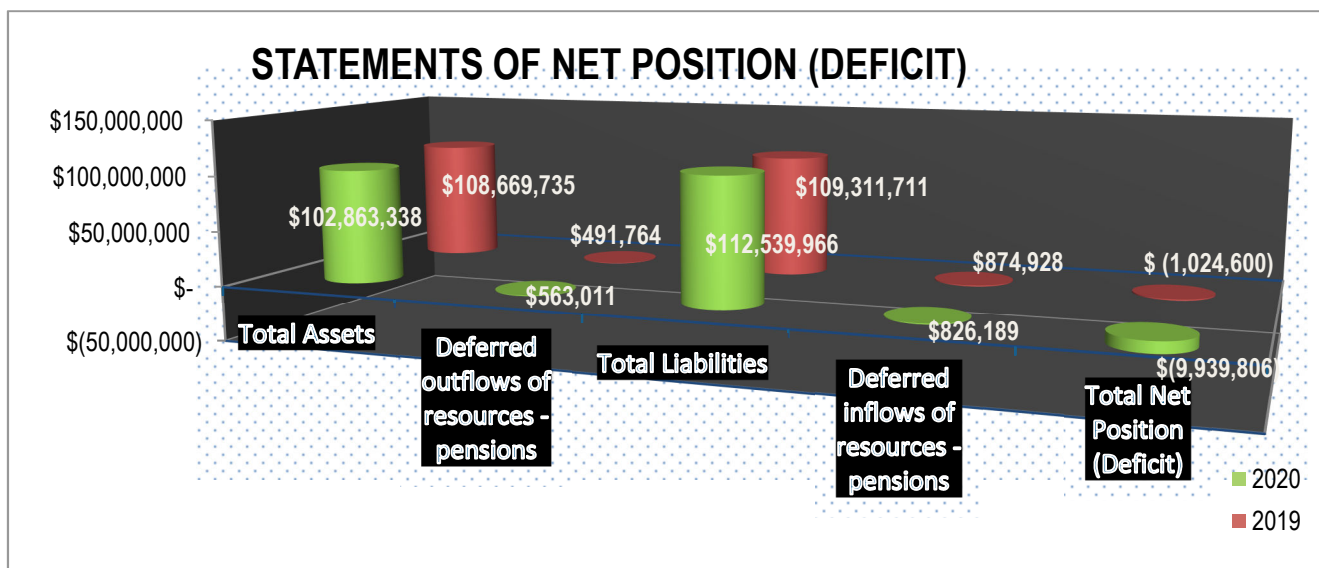
STATEMENTS OF NET POSITION (DEFICIT)

Assets and deferred outflows of resources	2020	2019	Variance
Current assets	\$ 13,963,038	\$ 14,614,193	\$ (651,155)
Capital asset, net	88,900,300	94,055,542	(5,155,242)
Total assets	103,080,503	108,669,735	(5,589,232)
Deferred outflows of resources - pensions	563,011	491,764	71,247
Total assets and deferred outflows of resources	\$ 103,426,349	\$109,161,499	\$ (5,735,150)
Liabilities and deferred inflows of resources			
Current liabilities	47,418,451	43,806,813	3,611,638
Long-term debt	65,121,515	65,504,358	(382,843)
Total liabilities	112,539,966	109,311,171	3,445,960
Deferred inflows of resources - pensions	826,189	874,928	(48,739)
Net position (deficit)	(9,939,806)	(1,024,600)	(8,915,206)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 103,426,349	\$109,161,499	\$ (5,735,150)

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**MANAGEMENT'S DISCUSSION ANALYSIS
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FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)



Total net position (deficit) at June 30, 2020 increased by **\$8,915,206** compared to the prior fiscal year 2019. This net increase was caused by the net effect of a decrease in current assets of **\$651,155**, a reduction in capital assets and other assets of **\$5,155,242**, the increase of deferred outflow resources of **\$71,247** and the net increase in total liabilities and deferred inflows of resources of **\$3,180,056**. The decrease in current assets amounting to **\$651,155** is directly related to the decrease in cash and cash equivalents of **\$556,083**, and the decrease in accounts receivable of **\$95,072**. The reduction in capital assets mentioned above is the result of the recognition of the current year depreciation expense of **\$5,155,242**.

The increase in current liabilities of **\$3,611,638** is mainly due to an increase in accrued liabilities of **\$4,098,131** and a decrease in other current liabilities of **\$486,493**. Total long-term debt decreased by **\$382,843**, mostly by the decrease on pension liability of **\$64,999** and the decrease in voluntary termination benefits of **\$183,078**.

The balance of net position (deficit) experienced an increase of **\$8,915,206** when compared to the ending balance of the fiscal year 2019. This increase in the net position (deficit) balance was mainly caused by the change in net position of **\$8,915,206** experienced during the year ended June 30, 2020.

During fiscal year 2020, the **SWA's** received funds amounting to **\$2,939,000** related to contributions from the Commonwealth of Puerto Rico, a decrease of **\$603,349** when compared to the funds of **\$3,542,349** received during the fiscal year 2019.

For the fiscal year ended June 30, 2020, the **SWA** recognized a provision for bad debts expense of **\$389,177** related to accounts receivable which increase the reserve for accounts considered uncollectable as of that date.

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FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

In the following table, a comparative analysis of the Statement of Activities is presented. With this analysis, the readers have comparative information of the changes in revenues and expenses from fiscal year 2019 to fiscal year 2020.

STATEMENTS OF ACTIVITIES

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Operating revenues and other credits:			
Contract revenues	\$ 940,284	\$ 749,726	\$ 190,558
Contributions from the Commonwealth of Puerto Rico	2,939,000	3,542,349	(603,349)
Miscellaneous	-	142,300	(142,300)
Emergency grant from Federal Government	-	314,104	(314,104)
Recapture of deposits from Governmental Bank	-	21,705,776	(21,705,776)
Total operating revenues	<u>3,879,284</u>	<u>26,454,255</u>	<u>(22,574,971)</u>
Operating expenses:			
Salaries and fringe benefits	2,035,568	1,747,979	287,589
General and administrative	1,342,696	1,832,627	(489,931)
Bad debts	389,177	1,586,734	(1,197,557)
Interest expense	3,912,570	4,538,540	(625,970)
Depreciation and amortization	5,155,242	5,141,155	14,087
Net effect of pension transactions	-	(6,812,453)	6,812,453
Total operating expenses	<u>12,835,253</u>	<u>8,034,582</u>	<u>4,800,671</u>
Operating loss before non-operating revenues	<u>(8,955,969)</u>	<u>18,419,673</u>	<u>(27,375,642)</u>
Non-operating revenues:			
Interest income	40,763	145,093	(104,330)
Change in net position	<u>(8,915,206)</u>	<u>18,564,766</u>	<u>(27,479,972)</u>
Net position at beginning of fiscal year	<u>(1,024,600)</u>	<u>(19,589,366)</u>	<u>18,564,766</u>
Net position at end of year	<u>\$ (9,939,806)</u>	<u>\$ (1,024,600)</u>	<u>\$ (8,915,206)</u>

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MANAGEMENT'S DISCUSSION ANALYSIS

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets consist mostly of land and structures, the majority of which are acquired or constructed to provide alternatives for the collection and processing of solid waste. At the end of fiscal year 2020, the **SWA** had **\$88,900,300** invested in a broad range of capital assets. This amount represents a net decrease of **\$5,155,242** over the prior year balance. The decrease in capital assets is mainly related to the current year depreciation expense recorded during the fiscal year.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Land	\$ 12,966,607	\$ 12,966,607	\$ -
Building, Improvements, equipment and others, net	<u>75,933,693</u>	<u>81,088,935</u>	<u>(5,155,242)</u>
Total Net Capital Asset	<u>\$ 88,900,300</u>	<u>\$94,055,542</u>	<u>\$ (5,155,242)</u>

Debt Administration

The **SWA** total long-term debt amounted to **\$71,943,585** as of June 30, 2020. The following table shows a summary of outstanding long-term debts of the **SWA** as of June 30, 2020:

	<u>Outstanding Balance</u>	<u>Balance Due Within One Year</u>
Non- revolving lines of credit	\$ 50,237,237	\$ -
Bond payable	7,782,002	1,229,377
Accrued compensated absences	420,526	214,468
Voluntary termination benefits	2,441,460	274,097
Pension liability	6,325,857	547,211
Other post-employment benefits liability	<u>195,386</u>	<u>15,800</u>
Total noncurrent liabilities	<u>\$ 67,402,468</u>	<u>\$ 2,280,953</u>

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**MANAGEMENT'S DISCUSSION ANALYSIS
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ECONOMIC FACTORS

Uncertainty about ability to continue as a going concern

The **SWA** is financially dependent of the Commonwealth where more than seventy percent of its revenues comes from Commonwealth's contributions.

The **SWA** has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2020, the **SWA's** expenses exceeded its revenues by approximately **\$8.9** million. As of June 30, 2020, the **SWA's** total liabilities and deferred inflows exceeded its total assets and deferred outflows by approximately **\$9.9** million, resulting in an accumulated unrestricted net position (deficit) of approximately **\$(9.9)** million.

Also, as described on **Note 9, 10 and 18**, the **SWA** does not currently have sufficient funds available to repay its various obligations as they come due or that are currently in default.

Hurricanes Irma (DR-4336) and María (DR-4339)

As described on **Note 15**, during the month of September 2017, Puerto Rico suffered the passing of Hurricane Irma and María, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. The Island was declared a major disaster area by the President of the United States on September 20, 2017 and approximately **\$508** million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricanes, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA) on the recovery of the Island, but the recuperation efforts have taken several months in order to bring back a certain level of normalcy to the everyday life of Puerto Rico's citizens. The U.S. President and Congress have been working on the assignment of federal assistance of approximately **\$94** million, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
RESOURCES OF THE COMMONWEALTH OF PUERTO RICO)**

**MANAGEMENT'S DISCUSSION ANALYSIS
For the Fiscal Year ended June 30, 2020**

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ECONOMIC FACTORS (CONTINUED)

Puerto Rico Covid-19 Pandemic (DR-4493)

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic. On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity.

On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020, and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19.

CONTACTING THE ADMINISTRATION FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the **SWA's** finances and to show the **SWA's** accountability for the funds it receives. If you have questions about this report or need additional information, contact the Management Affairs Director or Finance Director at (787) 999-2200.

**SOLID WASTE AUTHORITY
(Now the Department of Natural and
Environmental Resources of the
of the Commonwealth of Puerto Rico)**

**Statement of Net Position (Deficit)
June 30, 2020**

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Assets and deferred outflows of resources

Assets:

Cash and cash equivalents	\$ 11,494,254
Accounts receivable, net of allowance for doubtful accounts	2,468,784
Capital assets, net of accumulated depreciation	88,900,300

Total assets	102,863,338
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Deferred outflows of resources

Pension related	547,211
Other post-employment benefits related	15,800

Total deferred outflows of resources	563,011
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Total assets and deferred outflows of resources	\$ 103,426,349
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Liabilities, deferred inflows of resources and net position (deficit)

Liabilities:

Accounts payable, trade	\$ 3,522,494.00
Accrued liabilities	28,866,595
Due to federal government	4,540,874
Due to governmental entities	3,666,418
Due to other governmental entity	4,541,117
Liabilities payable within one year	
Accrued compensated absences	214,468
Voluntary termination benefits	274,097
Bond payable	1,229,377
Pension liability	547,211
Other postemployment benefits liability	15,800
Liabilities payable over one year:	
Accrued compensated absences	206,058
Voluntary termination benefits	2,167,363
Bond payable	6,552,625
Pension liability	5,778,646
Other postemployment benefits liability	179,586
Non-revolving lines of credit	50,237,237

Total liabilities	112,539,966
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Deferred inflows of resources

Pension related	826,189
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Net position (deficit):

Net investment in capital assets	38,663,063
Unrestricted	(48,602,869)

Total net position (deficit)	(9,939,806)
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Total liabilities, deferred inflows of resources and net position (deficit)	\$ 103,426,349
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See accompanying note to the financial statements

SOLID WASTE AUTHORITY
 (Now the Department of Natural and
 Environmental Resources of the
 of the Commonwealth of Puerto Rico)

Statement of Activities
 For the Year Ended June 30, 2020

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenues (Expenses) and Changes in Net Position</u>
		<u>Fee and Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Waste disposal and recycling	\$ 8,922,683	\$ 940,284	\$ 2,939,000	\$ (5,043,399)
Interest expenses	3,912,570	-	-	(3,912,570)
	<u>\$ 12,835,253</u>	<u>\$ 940,284</u>	<u>\$ 2,939,000</u>	\$ (8,955,969)
General revenues:				
Interest				<u>40,763</u>
Change in net position				(8,915,206)
Net position, at beginning of year				<u>(1,024,600)</u>
Net position, at end of year				<u>\$ (9,939,806)</u>

See accompanying note to the financial statements

SOLID WASTE AUTHORITY
(Now the Department of Natural and
Environmental Resources of the
of the Commonwealth of Puerto Rico)

Balance Sheet -
Governmental Funds
June 30, 2020

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	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,698,715	\$ 4,795,539	\$ 11,494,254
Accounts receivable, net of allowance for doubtful accounts	<u>2,468,784</u>	<u>-</u>	<u>2,468,784</u>
Total assets	<u>\$ 9,167,499</u>	<u>\$ 4,795,539</u>	<u>\$ 13,963,038</u>
Liabilities			
Accounts payable	3,267,829	254,665	3,522,494
Accrued liabilities	28,866,595	-	28,866,595
Due to federal government	-	4,540,874	4,540,874
Due to governmental entities	3,666,418	-	3,666,418
Due to other governmental entity	<u>4,541,117</u>	<u>-</u>	<u>4,541,117</u>
Total liabilities	<u>40,341,959</u>	<u>4,795,539</u>	<u>45,137,498</u>
Fund Balance (deficit):			
Unrestricted	<u>(31,174,460)</u>	<u>-</u>	<u>(31,174,460)</u>
Total liabilities and fund balance (deficit)	<u>\$ 9,167,499</u>	<u>\$ 4,795,539</u>	<u>\$ 13,963,038</u>

See accompanying note to the financial statements

**SOLID WASTE AUTHORITY
(Now the Department of Natural and
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of the Commonwealth of Puerto Rico)**

**Reconciliation of Balance Sheet -
Governmental Funds to the
Statement of Net Position
June 30, 2020**

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Total governmental fund balances		\$	(31,174,460)
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are no financial resources and, therefore, are not reported in the Balance Sheet - Governmental Funds	\$	88,900,300	
Deferred outflows - pension and OPEB related		563,011	
Compensated absences not liquidated immediately with current financial resources are not reported in the Balance Sheet - Governmental Funds		(420,526)	
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds		(2,441,460)	
Deferred inflows - pension related		(826,189)	
Other postemployment employee benefits		(195,386)	
Pension liability		(6,325,857)	
Lines of credit		(50,237,237)	
Bonds payable		<u>(7,782,002)</u>	<u>21,234,654</u>
Total net position governmental activities			\$ <u>(9,939,806)</u>

See accompanying note to the financial statements

SOLID WASTE AUTHORITY
(Now the Department of Natural and
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of the Commonwealth of Puerto Rico

Statement of Revenues, Expenditures
and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2020

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	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Revenues:			
Commonwealth appropriations	\$ 2,939,000	\$ -	\$ 2,939,000
Charges for services	940,284	-	940,284
Interest	40,763	-	40,763
	<u>3,920,047</u>	<u>-</u>	<u>3,920,047</u>
Total revenues	<u>3,920,047</u>	<u>-</u>	<u>3,920,047</u>
Expenditures:			
General and administrative	1,269,848	-	1,269,848
Salaries and fringe benefits	2,236,951	-	2,236,951
Insurance	4,532	-	4,532
Repairs and maintenance	68,316	-	68,316
Bad debts	389,177	-	389,177
Interest	3,912,570	-	3,912,570
	<u>7,881,394</u>	<u>-</u>	<u>7,881,394</u>
Total expenditures	<u>7,881,394</u>	<u>-</u>	<u>7,881,394</u>
Excess (deficiency) of revenues over (under expenditures)	(3,961,347)	-	(3,961,347)
Fund balance, at beginning of year	<u>(27,213,113)</u>	<u>-</u>	<u>(27,213,113)</u>
	<u>\$ (31,174,460)</u>	<u>\$ -</u>	<u>\$ (31,174,460)</u>

See accompanying note to the financial statements

**SOLID WASTE AUTHORITY
(Now the Department of Natural and
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of the Commonwealth of Puerto Rico)**

**Reconciliation of the Statement of
Revenues, Expenditure, and Chances in
Fund Balances of Governmental Funds
to the Statement of Activities
For the fiscal year ended June 30, 2020**

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Net change in fund balances - total governmental funds \$ (3,961,347)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period these amounts are:

Depreciation expense \$ (5,155,242)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds:

Compensated absences (106,089)

Voluntary termination benefits 222,880

Pension and other post-employment benefit expense 80,485

Other miscellaneous 4,107 (4,953,859)

\$ (8,915,206)

See accompanying note to the basic financial statements

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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1. REPORTING ENTITY

The Solid Waste **SWA** (the **SWA**) is a public corporation and a governmental instrumentality of the Commonwealth of Puerto Rico, created by Law No. 70 of June 23, 1978, as amended. The main purpose of the **SWA** is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the **SWA** has the responsibility of educating the community in this respect as well as the implementation of the required programs needed for the reduction and reuse of solid waste.

Pursuant to the Reorganization Plan Number 1 of 1993, the **SWA** is under the oversight of the Department of Natural and Environmental Resources of Puerto Rico (the Department). The Secretary of the Department is the President of the Governing Board of the **SWA**.

For these purposes, it will put into effect programs for the use and conservation of the environment and natural resources of Puerto Rico in accordance with the provisions of Act 416-2004, as amended, known as the "Environmental Public Policy Act."

On August 2, 2018, Law No. 171 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), those faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the EQB"), the Solid Waste Authority (hereinafter "the **SWA**") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the PNP"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017. The Department shall be responsible for implementing the public policy of the Government of Puerto Rico contained in section 19 of Article VI of the Constitution.

As of the date of the financial statement, the Department still in the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the Department and the **SWA** are kept using different accounting systems and internal controls. Also, the Department uses the cash method basis of accounting, while **SWA** uses the accrual method of accounting for financial statement presentation.

On July 1st, 2019, the Puerto Rico Treasury Department created a set of accounts to recognize the transactions of the EQB as a part of the Department on the PRIFAS Accounting System in order to consolidate the accounting records as a part of the Reorganization Plan.

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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1. REPORTING ENTITY (CONTINUED)

Also, on September 6, 2019, the Secretary of the Department issued an Administrative Order No. 2019-04 to establish the process to finish the reorganization of the Department under the provisions of Law No. 171-2018.

The **SWA** financial statements are prepared using the accrual method of accounting, which is a different method of accounting from the method used by the Department (Cash Basis). Accordingly, the financial statements of the **SWA** cannot be consolidated and presented in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020. Accordingly, the financial statements of the **SWA** presented herein, are intended to present the governmental activities and each major fund of only to that portion attributable to the transactions of the **SWA**.

They do not purport to, and do not, present fairly the governmental activities and each major fund of the Department as of June 30, 2020 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the **SWA** conform to generally accepted accounting principles in the United States of America ("U.S. GAAP"), as applicable to governmental entities.

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

Government-Wide Financial Statements – These include the Statement of Net Position and the Statement of Activities of the **SWA**. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The Statement of Net Position presents the **SWA's** assets, liabilities, and deferred inflows of resources using the accrual basis of accounting with the difference reported as net position. The net position may be segregated in three categories:

- *Net Investment in Capital Assets* - consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Position* - consists of net position with constraints placed on the use either by 1) external groups such as grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation less related liabilities.

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Unrestricted Net Position* - net position whose use by the **SWA** is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or may be limited by contractual agreements with outside parties. When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the **SWA's** policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Net position flow assumption - Sometimes, the **SWA** will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the **SWA's** policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the **SWA** considers consumption sales if collected within 30 days after the end of the current fiscal year. For the federal grants, monies must be expended by the **SWA** on the specific purpose or project before any amounts will be reimbursed.

Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, monies are virtually unrestricted and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Other revenues are considered to be measurable and available only when cash is received.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims, and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
RESOURCES OF THE COMMONWEALTH OF PUERTO RICO)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **SWA** is organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are summarized by providing a separate set of self-balancing accounts which include their revenues and expenditures.

Governmental funds are those through which the general functions of the **SWA** are financed. The acquisition, use, and balance of the **SWA** expendable financial resources (except those accounted for in the fiduciary funds) are accounted for through the governmental funds. The following are the **SWA's** major governmental funds:

General fund - The general fund is the **SWA's** primary operating fund. It is used to account for all activities except those required legally or administratively to be accounted for in other funds. This fund is primarily financed through appropriations from the Legislature of the Commonwealth of Puerto Rico.

Special Revenue Funds - This fund accounts for federal funds advances from FEMA related Hurricanes Irma and Maria disaster grants (See **Note 16**).

Fund Balance - In accordance with Government Accounting Standards Board (the "GASB") No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent, as follows:

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.
- **Committed Fund Balance** – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Department. Those committed amounts, if any, cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.
- **Assigned Fund Balance** – amounts in the assigned fund balance classification are intended to be used by the **SWA** for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or an officer of the **SWA** authorized by a resolution of the Department.
- **Unassigned Fund Balance** – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The **SWA's** unassigned fund balance consists of the fund balance amount in the General Fund. These fund balances are available for any purpose and management will determine how to spend it.

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance flow assumptions - Sometimes, the **SWA** will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the **SWA's** policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The **SWA** does not have a formal minimum fund balance policy.

Use of Estimates and Assumptions in the Preparation of Financial Statements - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement applied.

Measurement Focus

On the government-wide Statement of Net Position (Deficit) and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**SOLID WASTE AUTHORITY
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities, are presented using the accrual method of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures, (including capital outlays) are recorded when the related fund is incurred.

Intergovernmental Receivable – Amounts due from federal government represents amount owed to the **SWA** for the reimbursement of the expenditures incurred pursuant to federally funded programs. As of June 30, 2020, there are no amounts due from federal government.

Interfund Receivables and Payables – Activities among funds are representative of lending/borrowing arrangements outstanding at year end are referred to due from/to other funds. As of June 30, 2020, there are no amounts due from/to other funds.

Contributions from Commonwealth – The **SWA** annually receives contributions from the Commonwealth of Puerto Rico. These contributions are for the operations of the **SWA** and are recognized when available and all eligibility requirements, including time restrictions, have been met.

Fair Market Value

The carrying amounts reported in the Statement of Net Position for cash and cash equivalents and receivables approximate fair value due to their short-term duration.

Non-exchange Transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" established accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this Statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

**SOLID WASTE AUTHORITY
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Revenues

Contract revenues arise from the lease of heavy equipment to different municipalities of Puerto Rico for the collection of solid waste and the operations of landfills, and with other agencies, principally the Department of Natural and Environmental Resources, for the collection of debris and vegetative materials.

Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less, excluding resources held in restricted accounts. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledge as collateral, if any, are held by the Secretary of the Treasury of the Commonwealth.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

Capital Assets

Capital assets, consisting mostly of land and structures, the majority of which are used to provide alternatives for the collection and processing of solid waste, are carried at cost. Donated capital assets are recorded at their acquisition value \ entry price (the price that would be paid to acquire an assets with equivalent service potential in a orderly market transaction at the acquisition date).

Major renewals and betterments that materially extend the capacity or efficiency or extend the useful life of an asset are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are charged to expense in the period incurred. Upon retirement or other disposal of properties, the related cost and accumulated depreciation and amortization are removed from the accounts.

Gains or losses on sales or retirement of properties are reflected in the statement of revenues, expenses, and changes in net position.

**SOLID WASTE AUTHORITY
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**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2020**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The **SWA's** capital assets are depreciated or amortized over the estimated useful lives of the related assets or the term of the lease agreement, whichever is shorter, using the straight-line method. Construction in progress, if any, is carried at cost during the construction stage and is not depreciated until completion of the related project. Major classification and related estimated useful lives of the capital assets are summarized as follows:

	<u>Estimated Useful Lives</u>
Buildings	30 years
Building improvements	30 years
Mini transfer stations	30 years
Project equipment	5 to 10 years
Vehicles	5 years
Furniture and fixtures	2 to 5 years

Impairment of Capital Assets

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The **SWA** shall periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The **SWA** have not evaluated its capital assets being depreciated to determine a possible impairment that might have been caused by Hurricanes Irma and María. Accordingly, a possible impairment on capital assets value has not been identified, and a provision for impairment loss have not been recognized for any damage occurred during the emergency.

Accrued Compensated Absences

On February 4, 2017, the Government enacted Law No. 8 for the "*Administration and Transformation of the Human Resources of the Government of Puerto Rico*". This Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days. The vacations policy of the **SWA** generally provides for the annual accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacations days up to the maximum allowed of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days. A liability is reported for accrued but unused vacation and sick leave days.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition- In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual method of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within a period of sixty (60) days or soon enough thereafter to pay current liabilities.

Encumbrances – Accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by governmental funds during the fiscal year to control expenditures. The cost of those goods received, and services rendered on or before June 30 are recognized as expenditures. For GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year.

Accounting for Pension Costs

The **SWA** adopted the Provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and amendments to Certain Provisions of GASB Statement No. 67 and 68*. With the enactment of Act No. 106 of 2017, and as a result of the insolvency and bankruptcy filing of the Puerto Rico Employee Retirement System (ERS), the pension liability is being settled under a PayGo system more fully disclosed in **Note 13**. Under the PayGo system, the **SWA** and other component units of the Commonwealth that participated in the ERS, assume their proportional share of the total pension liability and of benefits paid monthly. Deferred outflows and inflows of resources are recorded for the effect of changes in assumptions and contributions made subsequent to the measurement date, among other.

Accounting for other postemployment benefits ("OPEB")

The **SWA** adopted the Provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As required OPEB transactions should be accounted based on its proportional share of the total OPEB liability, and OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share which are recognized immediately during the measurement year. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The **SWA's** contribution for OPEB is included as part of the "Paygo" charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). "Paygo" payments are recorded as expenditures/expenses in the financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has an item that may qualify for reporting in this category:

- **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on the Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
- **Deferred outflows/inflows of resources related to pensions** - Amounts reported for changes in calculation of net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the **SWA's** contributions and proportionate share contributions; and e) **SWA's** contributions subsequent to the measurement date.

Risk Financing

The **SWA** is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risks are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the **SWA** are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses for the **SWA**.

The **SWA** obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. The insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered because of their employment. Also, the **SWA** obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

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3. CASH AND CASH EQUIVALENTS

Deposits - The **SWA** is authorized to deposit only in bank institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the **SWA**. Under the Commonwealth's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The **SWA** maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the **SWA** are held by agents designated by the Puerto Rico Secretary of Treasury but not in the **SWA's** name. Total deposits in banks as of June 30, 2020, amounted to **\$11,494,254**.

4. ACCOUNTS RECEIVABLE

As of June 30, 2020, accounts receivable consisted of the following:

Governmental entities	\$ 2,279,453
Municipalities	1,083,102
Others	<u>3,622,757</u>
Total accounts receivable	6,985,312
Allowance for doubtful accounts	<u>(4,516,528)</u>
Net accounts receivable balance	<u>\$ 2,468,784</u>

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5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, were as follow:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 12,966,607	\$ -	\$ -	\$ 12,966,607
Total capital assets, not being depreciated	<u>12,966,607</u>	<u>-</u>	<u>-</u>	<u>12,966,607</u>
Capital assets, being depreciated:				
Buildings	93,979,993	-	-	93,979,993
Mini transfer stations	49,826,500	-	-	49,826,500
Project equipment	12,528,422	-	-	12,528,422
Building improvements	15,009,137	-	-	15,009,137
Office furniture	7,328,496	-	-	7,328,496
Motor vehicles	476,007	-	-	476,007
Leasehold improvements	262,629	-	-	262,629
Total capital assets, being depreciated	<u>179,411,184</u>	<u>-</u>	<u>-</u>	<u>179,411,184</u>
Less accumulated depreciation for:				
Buildings	(45,756,331)	(3,141,249)	-	(48,897,580)
Mini transfer stations	(25,774,785)	(1,408,217)	-	(27,183,002)
Project equipment	(11,844,181)	(97,064)	-	(11,941,245)
Building improvements	(6,911,747)	(501,169)	-	(7,412,916)
Office furniture	(7,296,569)	(7,543)	-	(7,304,112)
Motor vehicles	(476,007)	-	-	(476,007)
Leasehold improvements	(262,629)	-	-	(262,629)
Total accumulated depreciation	<u>(98,322,249)</u>	<u>(5,155,242)</u>	<u>-</u>	<u>(103,477,491)</u>
Total capital assets, being depreciated, net	<u>81,088,935</u>	<u>(5,155,242)</u>	<u>-</u>	<u>75,933,693</u>
Capital assets, net	<u>\$ 94,055,542</u>	<u>\$ (5,155,242)</u>	<u>\$ -</u>	<u>\$ 88,900,300</u>

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5. CAPITAL ASSETS (CONTINUED)

As discussed in **Note 17**, during the month of September 2017 Puerto Rico suffered the passing of hurricanes Irma and Maria which caused a catastrophic impact through the Island. As of June 30, 2020, the **SWA** has not evaluated the impact of the damages caused by these hurricanes on capital assets being depreciated. Accordingly, any possible impairment on its assets has not been identified and a provision for loss on impairment of assets has not been recognized for any damage occurred.

6. ACCRUED LIABILITIES

The balance accrued liabilities as of June 30, 2020, consists of the following:

Interest payable on lines of credit and bonds	\$ 28,559,723
Other accrued liabilities	<u>306,872</u>
Total accrued liabilities at end of year	<u>\$ 28,866,595</u>

7. DUE TO GOVERNMENTAL ENTITIES

The balance due to governmental entities as of June 30, 2020, was as follows:

Puerto Rico Electric Power Authority	\$ 3,425,833
Puerto Rico Aqueduct and Sewer Authority	235,790
Other governmental entities	<u>4,795</u>
Due to governmental entities	<u>\$ 3,666,418</u>
State Insurance Fund Corporation	<u>\$ 4,541,117</u>
Due to other governmental entity	<u>\$ 4,541,117</u>

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8. LONG-TERM LIABILITIES

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

	Beginning Balance	Borrowings and/or additions	Payments and/or deductions	Ending Balance	Balance Due within One year
Non-revolving lines of credit	\$ 50,237,237	\$ -	\$ -	\$ 50,237,237	\$ -
Bonds payable	7,786,109	-	(4,107)	7,782,002	1,229,377
Accrued compensated absences	314,437	106,089	-	420,526	214,468
Voluntary termination benefits	2,664,340	-	(222,880)	2,441,460	274,097
Total pension liability	6,312,258	13,599	-	6,325,857	547,211
Other post-employment benefits liability	169,484	25,902	-	195,386	15,800
Due to other governmental entities	4,541,117	-	-	4,541,117	-
Total	\$ 72,024,982	\$ 145,590	\$ (226,987)	\$ 71,943,585	\$ 2,280,953

9. NON-REVOLVING LINES OF CREDIT

On January 4, 2000, the **SWA** entered into a loan agreement with the Government Development Bank for Puerto Rico (GDB) for a non-revolving line of credit in an amount not to exceed **\$112,000,000** for the development of infrastructure projects. Infrastructure project costs incurred are disbursed by the GDB to the **SWA**. The interest, based on the lender's cost of funding for tax exempt variable rate loan transactions or the cost of any similar obligations to fund the loan, is payable quarterly. The credit line was due originally and payable on June 30, 2006. On December 4, 2007, the availability of the credit line was extended to June 30, 2009. On November 23, 2009, it was extended to June 30, 2012. On June 27, 2012, it was extended to June 30, 2040. The outstanding balance at June 30, 2020 amounted to **\$19,528,716**, net of the set-off transaction described below.

On May 5, 2003, the **SWA** entered into a loan agreement related to another non-revolving line of credit in an amount not to exceed **\$75,000,000** with the GDB of Puerto Rico for the acquisition of building facilities (See **Note 6**). The credit line carries interest based on quarterly variable LIBOR rate plus **1.25%** with a minimum annual interest rate of five percent (5%). On June 26, 2008, the availability of the credit line was extended to June 30, 2011. To temper the terms and conditions of the line of credit to economic facts of the Commonwealth of Puerto Rico, on January 29, 2010 the availability was extended to June 30, 2012. On June 19, 2012, it was extended to June 30, 2040. The outstanding balance at June 30, 2020 amounted to **\$30,708,521**, net of the setoff transaction described below.

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9. NON-REVOLVING LINES OF CREDIT

On November 29, 2018, the Government Development Bank for Puerto Rico (“GDB”) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the “Qualifying Modification”). Pursuant to the Qualifying Modification and Act No. 109-2017, as amended (the “GDB Restructuring Act”), claims on account accounts of deposits of **\$21,624,030** held by **SWA** at GDB were applied to the payment of debts that **SWA** had at November 29, 2018 with GDB (the “Set-off Transaction”). Following is the activity of the credit lines owned by **SWA** to GDB during the fiscal year ended June 30, 2020, (including the effect of the Set-off transaction described before):

Non-revolving credit line of \$112,000,000 :	
Balance at beginning of year	\$ 19,528,716
Set-off transaction	-
	<u>\$ 19,528,716</u>
Balance at end of year	<u>\$ 19,528,716</u>
Non-revolving credit line of \$75,000,000 :	
Balance, beginning of year	\$ 30,708,521
Set-off transaction	-
	<u>\$ 30,708,521</u>
Balance at end of year	<u>\$ 30,708,521</u>
Total line of credit balances at end of year	<u>\$ 50,237,237</u>

The remaining balance the credit lines of **\$50,237,237** (after the Set-off Transaction) were transferred to a newly formed statutory public trust created pursuant to the GDB Restructuring Act, known as the GDB Debt recovery Authority (the “DRA”). Also, as of June 30, 2020, the **SWA** has accrued interest payable in arrears of **\$26,487,665** related to the lines of credits remaining outstanding balances at that date. This amount is included in the balance of accrued liabilities.

10. BONDS PAYABLE

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately **\$2.4** billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed **\$225** million. This refunding was originally executed with Commonwealth appropriation bonds through several series issued by Puerto Rico Public Finance Corporation (PFC) during the period between December 2001 and June 2002. Subsequently, additional refunding’s (current and advance) and/or redemptions of the Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

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10. BONDS PAYABLE (CONTINUED)

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the "Tax Financing Corporation"). Act No. 91 was amended by Act No. 291 of December 26, 2006, and by Act No. 56 of July 6, 2007. The purpose of the Tax Financing Corporation is to finance the payment, retirement, or defeasance of certain debt obligations of the Commonwealth, outstanding as of June 30, 2006, which are payable to the GDB and PFC.

During the year ended June 30, 2008, the Tax Financing Corporation issued 2007 Series A, B and C and 2008 Series A Bonds, and with those proceeds refinanced certain obligations of the Commonwealth of Puerto Rico. The bond discount/premium in proportion with the portion of the bonds not refunded or not retired in connection with the above transactions, remained in the statement of net position and continued to be deferred throughout the remaining term of the non-refundable portion of the bonds.

The aggregate debt service requirements of the refunding and non-refundable bonds will be funded with annual appropriations from the Commonwealth.

During the year ended June 30, 2012, the PFC refinanced the debt of the **SWA** by the issuance of 2011 Series A, 2011 Series B and 2012 Series A. The outstanding balance of the bond at June 30, 2020 was **\$7,782,002** (including the premium on bond refunding and the deferred losses arising from bond refunding) and matures on June 30, 2031. Interest on the unpaid principal amount of the bond is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds.

Applicable percentage is the percentage representing the proportion of the amount paid by the PFC of the PFC Bonds serviced by the bond to the aggregate amount paid by the PFC on all PFC Bonds issued by the PFC. The bonds will be paid from legislative appropriations.

In addition, during the year ended June 30, 2012, the Puerto Rico Sales Tax Financing Corporation contributed approximately **\$3.9** million for the payment of principal and interests due on such bond payable. Such transactions have been reflected as a contribution from the Puerto Rico Sales Tax Financing Corporation during that year.

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10. BONDS PAYABLE (CONTINUED)

Aggregate maturities and interest payments of the bonds for the next five (5) years and thereafter, are as follows:

Year ending June 30,	Principal	Interest	Totals
2021	\$ 1,229,377	\$ 2,461,570	\$ 3,690,947
2022	225,298	379,404	604,702
2023	235,553	368,372	603,925
2024	70,079	363,528	433,607
2025	290,775	354,210	644,985
2026-2030	4,982,197	1,113,199	6,095,396
2031	744,617	20,477	765,094
Total	7,777,896	5,060,760	12,838,656
Add: Premiums on bond refunding	4,106	-	4,106
Total	<u>\$ 7,782,002</u>	<u>\$ 5,060,760</u>	<u>\$ 12,842,762</u>

During the fiscal years ended June 30, 2020, 2019, 2018, 2017 and 2016, the **SWA** has defaulted on the payment of principal and interest of its bonds obligation by the amount of **\$1,103,481** and **\$2,072,058**, respectively. At June 30, 2020, accrued interest are included in the balance of accrued liabilities.

As described on **Note 21**, on January 18, 2022 the Title III Court entered an order confirming the Commonwealth's of Puerto Rico Plan of Adjustment (the Plan), as amended. The Plan became effective in accordance with its terms on March 15, 2022. Under the provisions of this Plan, certain of the Commonwealth's outstanding debt will be significantly reduced. The basic financial statements do not include any adjustment that might result from the outcome of this matter.

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11. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the **SWA**. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from **37.5%** to **50%** of each employee's salary, as defined. In this early retirement benefit program, the **SWA** will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service. Economic incentives were available to eligible employees who had less than 15 years of credited service or who had at least 30 years of credited services and the age for retirement; or for those who had the age for retirement.

Economic incentives consisted of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the **SWA**. The financial impact resulting for the benefits granted to participants on this program is the recognition within the **SWA's** financial statements of a liability of **\$2,441,460** in the Statement of Net Position (Deficit) as of June 30, 2020. At that date, the unpaid long-term benefits granted on this program were discounted at **2.20%**.

12. PENSION PLAN

On August 23, 2017, Act No. 106 was enacted, which is known as the "Law to Guarantee Payment to our Pensioners". Under this Act, starting July 1, 2017, the General Fund, through the system of "pay-as-you-go" (PayGo), assumes the payments of the three Retirement Systems (Employees Retirement System [ERS] of the Government of the Commonwealth, the Teachers' Retirement System and Judiciary Retirement System), because the retirement plan have depleted the assets set aside to pay benefits.

Under the provisions of Act No. 106, the **SWA** assumed the proportional share of the pension benefits of the **SWA's** retirees. Also, under Act No. 106, active employees are required to contribute a minimum of **8.5%** of their compensation, into a defined contribution plan, with no employer matching. Contributions are deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution and hybrid plans.

Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account.

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12. PENSION PLAN (CONTINUED)

As of June 30, 2020, the **SWA** disclosed a liability of **\$6,325,857** for its proportionate share of the total pension liability. This liability was determined as of June 30, 2019 (measurement date), based on the requirements of the GASB Statements No. 73. Accordingly, this total pension liability is recorded in the **SWA's** accounting records as of June 30, 2020.

The amount was measured as of June 30, 2019 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2018, rolled forward to the measurement date of June 30, 2019. The **SWA's** share of the total pension liability was based on a projection of the **SWA's** long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

As of June 30, 2019 and 2018, the **SWA's** proportion was **.02546%** and **.02578%**, respectively. Pension expense (benefit) amounted to **\$96,895** for the fiscal year ended June 30, 2020.

Also, as of June 30, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	\$ 214,465
Changes of assumptions	205,416	163,540
Changes in proportion	-	448,184
Benefit payments subsequent to measurement date	341,795	-
Total	\$ 547,211	\$ 826,189

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12. PENSION PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2019 will be recognized in pension expense (benefit) in future years as follows:

Year ending June 30,	Amount
2021	\$ (155,193)
2022	(155,193)
2023	(155,193)
2024	<u>(155,194)</u>
	<u>\$ (620,773)</u>

Actuarial Methods and Assumptions

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

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-20117, four-year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2019 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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12. PENSION PLAN (CONTINUED)

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **92%** of the rates from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement.

The 2010 base rates are **105%** of the rates from the UP-1994 Mortality Table for Males and **115%** of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 01, 2015 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, 2005 and 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

Discount Rate

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

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12. PENSION PLAN (CONTINUED)

Sensitivity of the SWA's total pension liability to changes in the discount rate

The following table presents the **SWA's** total pension liability calculated using the discount rate of **3.50%**, as well as what it would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u> <u>2.50%</u>	<u>At Current</u> <u>Discount Rate</u> <u>3.50%</u>	<u>1% Increase</u> <u>4.50%</u>
Total pension liability	<u>\$ 7,193,503</u>	<u>\$ 6,325,857</u>	<u>\$ 5,620,970</u>

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **SWA** is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to **\$100** per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Benefits Payments

This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The SWA's benefits payments are financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth benefits payments.

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13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Payments (Continued)

As a result, these OPEB are **100%** unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of the **SWA's** actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

Total OPEB Liability and Actuarial Information

As of June 30, 2020, the **SWA** reported a liability of approximately **\$195,386** for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date). As of June 30, 2020, the **SWA's** proportion was **0.2348%**. Also, for the year ended June 30, 2020, the Authority recognized an OPEB benefit of **\$16,200**.

The **SWA's** total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial assumptions

Discount rate

The discount rate for June 30, 2020 was **3.50%**. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis.

For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of improvement. The 2010 base rates are equal to **92%** of the rates from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees-based experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **105%** of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the **SWA** at June 30, 2019, calculated using the discount rate of **3.50%**, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (**2.50%**) or 1-percentage point higher (**4.50%**) than the current rate:

	<u>1% Decrease</u> <u>2.50%</u>	<u>At Current</u> <u>Discount Rate</u> <u>3.50%</u>	<u>1% Increase</u> <u>4.50%</u>
Total OPEB liability	\$ <u>214,301</u>	\$ <u>195,386</u>	\$ <u>179,320</u>

OPEB expense (benefit) for the year ended June 30, 2020 amounted to **\$42,102**.

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, the **SWA** recognized Deferred Outflows of Resources of **15,800** as of June 30, 2020 due to OPEB benefits paid subsequent to the measurement date.

14. CONTINGENCIES

a) Litigations

The **SWA** is a defendant in lawsuits arising in the normal course of operations, principally from claims for contract cancellations. According to the laws of the Commonwealth of Puerto Rico, the **SWA** is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the **SWA**. Any claims with negative financial impact would be paid from the resources of the **SWA** and the Commonwealth of Puerto Rico.

b) Environmental Concern

The **SWA's** operations include activities which are subject to state and federal environmental regulations. As of June 30, 2020, management of the **SWA** believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements.

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14. CONTINGENCIES (CONTINUED)

c) Closure and Post-closure Care Costs

The **SWA** administers a tract of land in the Municipality of Lajas, Puerto Rico, to deposit acceptable sludge. The Commonwealth of Puerto Rico and federal laws and regulations require certain procedures when the tract of land stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. Subsequent to June 30, 2007, the **SWA** commenced the closing of this tract of land. The **SWA's** management has estimated the obligation for closure and post-closure care costs at **\$80,000**, based on the nature of the waste being deposited. However, as of June 30, 2020, management of the **SWA** believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements. Also, no studies have been performed by outside independent sources to evaluate the amount estimated and if changes are currently needed in the cost estimated by management for the closing of this tract of land facility.

d) Federal Grants

During the normal course of its operations, the **SWA** sometimes receives grants from the Environmental Quality Board and the Federal Emergency Management Agency. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

15. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovi, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost **\$3.9** million dollars in public assistance grants have been obligated. Just two weeks after Hurricane Irma, on September 17, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately **\$508** million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

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15. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339) (CONTINUED)

In order to promote an adequate disposal of the debris caused by these catastrophic events, the **SWA** established various temporary debris gathering centers for the receiving, processing and disposition of vegetative matter collected from its dependencies and for those municipalities, which request this service to the authority. The Federal Emergency management Administration (FEMA) made an obligation of funds of **\$7.5** million to provide funding for the operation of the temporary debris gathering centers established by the **SWA**.

During the fiscal year June 30, 2018, the **SWA** received funds amounting to **\$5,549,569** from FEMA (**\$220,764** from DR-4336 and **\$5,328,805** from DR-4339). The **SWA** expended **\$809,304** and **\$176,619** during fiscal year 2018 and 2019 respectively, and recognized a due to federal government balance of **\$4,540,874** at June 30, 2020, as follows:

	Due to Federal Government June 30, 2020
DR-4336	\$ 58,008
DR-4339	<u>4,482,866</u>
	<u>\$ 4,540,874</u>

As of the date of the financial statements, **SWA's** management is in the process of the close-out of this program. Accordingly, the available and unused funds as of June 30, 2020, will be returned to the federal agency.

16. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2019, the **SWA** adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, “Certain Asset Retirement Obligations”:** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 88, “Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements”:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

The implementation of these statements has no significant impact on the **SWA’s** financial statements for the fiscal year ended June 30, 2020.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standard Board has issued the following accounting standards that have effective dates after June 30, 2020 for the **SWA**:

- **GASB Statement No. 84, “Fiduciary Activities”**: The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 87, “Leases”**: The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period”**: The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period” (Continued):**

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

Also, This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 90, “Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61”:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 90, “Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61 (Continued)**

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- **GASB Statement No. 91, “Conduit Debt Obligations”** - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 92, “Omnibus 2020”** - Effective Date: The requirements of this Statement are effective as follows:

The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

- **GASB Statement No. 93, “Replacement of Interbank Offered Rates”** - Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 93, “*Replacement of Interbank Offered Rates*” (Continued):**
 - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
 - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
 - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
 - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
 - Clarifying the definition of reference rate, as it is used in Statement 53, as amended
 - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 94, “*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*”** - The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 94, “Public-Private and Public-Public Partnerships and Availability Payment Arrangements” (Continued):**

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance”**
- The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations.
- Statement No. 84, Fiduciary Activities.
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
- Statement No. 90, Majority Equity Interests.
- Statement No. 91, Conduit Debt Obligations.
- Statement No. 92, Omnibus 2020.

17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance” (Continued):**

- Statement No. 93, Replacement of Interbank Offered Rates.
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases.
- Implementation Guide No. 2019-3, Leases.

The requirements of this Statement are effective immediately. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- **GASB Statement No. 96, “Subscription-Based Information Technology Arrangements”** - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 96, “*Subscription-Based Information Technology Arrangements*” (Continued):**

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable.

A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

- **GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*”** - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*” (Continued)**

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

- **GASB Statement No. 98 “The Annual Comprehensive Financial Report”** - This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement’s introduction of the new term is founded on a commitment to promoting inclusiveness.

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 98 “The Annual Comprehensive Financial Report” (Continued)**

One of the principles guiding the Board’s setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. Little direct cost will be incurred as a result of instituting the new term. Moreover, there will be no direct benefits in the form of new or improved information for making decisions or assessing accountability. However, establishing a new name for the financial report in response to the concerns of stakeholders benefits all stakeholders. The Board believes that those benefits are qualitative and justify the costs that will result from implementing the new term.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities.

- **GASB Statement No. 99, “OMNIBUS 2022”** - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
 - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
 - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
 - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
 - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt

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17. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 99, “OMNIBUS 2022” (Continued)**
 - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
 - Disclosures related to nonmonetary transactions
 - Pledges of future revenues when resources are not received by the pledging government
 - Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
 - Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
 - Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The impact of the implementation of these Statements on the **SWA’s** financial statements, if any, has not yet been determined.

18. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN

The discussion in the following paragraphs regarding the **SWA’s** financial and liquidity risks provides the necessary background and support for management’s evaluation as to whether there is substantial doubt about the **SWA’s** ability to continue as a going concern for 12 months beyond the date of these financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

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18. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN (CONTINUED)

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption may relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. The following indicators are factors considered in this evaluation: (i) negative trends in operating losses and negative cash flows; (ii) possible financial difficulties such as nonpayment or default of debt and/or restructuring or noncompliance with capital or reserve requirements; and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due. The **SWA** faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the **SWA** together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the **SWA** to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the **SWA's** operations and does not include adjustments that might be required if the **SWA** is unable to continue as a going concern.

The **SWA** has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2020, the **SWA's** expenses exceeded its revenues by approximately **\$8.9** million. As of June 30, 2020, the **SWA's** total liabilities and deferred inflows exceeded its total assets and deferred outflows by approximately **\$9.9** million, resulting in an accumulated unrestricted net position (deficit) of approximately **\$(9.9)** million.

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18. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN (CONTINUED)

As described on **Note 9**, the **SWA** borrowed **\$187** million from the GDB in previous fiscal years to finance infrastructure projects and the acquisition of building facilities. These borrowings, in the form of lines of credit, had no source of repayment. The total aggregate outstanding balance of these lines of credit was **\$50.2** million as of June 30, 2020. At that date, accrued interest payable related to these lines of credit amounted to **\$26.5** million, approximately.

Also, described on **Note 12**, the **SWA** has an outstanding debt on bonds payable of **\$7.8** million for which had no source for repayment. Accordingly, during the fiscal years ended June 30, 2020, 2019, 2018, 2017 and 2016, the **SWA** has defaulted on the payment of principal and interest of its bonds obligation.

In addition, the **SWA** does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default. In addition, significant support and funding for obligations of the **SWA** that have previously been provided by the Commonwealth or GDB, which ceased its operations during February 2018, are not likely to continue. The Commonwealth is experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the **SWA** as and when needed. As such, current defaults may not be cured and future defaults on the **SWA's** obligations may not be avoided.

19. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 24, 2022, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

CARES Act – Stimulus Package

The CARES Act has assigned funds to the Puerto Rico Government where part of such funds was allocated as transfers grant to the local governments and agencies, including the **SWA**, and other as participating funds transferred through approved proposals. This should help the **SWA** to cover costs arising from the said emergency, if any.

American Rescue Plan Act (ARPA) - Stimulus Package

On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **\$350** billion for states, municipalities, counties, tribes, and territories, including **\$130.2** billion for local governments split evenly between municipalities and counties.

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19. SUBSEQUENT EVENTS (CONTINUED)

Approval of Commonwealth's Plan of Adjustment

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth's of Puerto Rico Plan of Adjustment, as amended, which is a key component to comply with PROMESA Act.

Under this Plan of Adjustment, the Commonwealth:

- Reduces the outstanding Commonwealth's debt and other claims by almost **80%**, from **\$33** billion of existing claims to **\$7.4** billion in new debt.
- Reduces the Commonwealth's total debt service payments (including COFINA Senior Bonds) by more than **60%** from **\$90.4** billion to **\$34.1** billion, saving the Government of Puerto Rico almost **\$60** billion in debt service payments.
- Reducing maximum annual debt service payments from **\$3.9** billion to **\$1.15** billion per year.
- Before PROMESA, the Government paid **25** cents of every dollar it collected in taxes and fees to creditors. Under this plan it would be less than **7.2** cents.

The Plan became effective in accordance with its terms on March 15, 2022, and the Commonwealth emerged from Title III of PROMESA. Upon the final implementation of the provisions of this Plan, the Commonwealth is expected to gain access to the capital markets.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL PENSION LIABILITY
For the Fiscal Year ended June 30, 2020**

As of June 30,	GASB 75		GASB 68			
	2020	2019	2018	2017	2016	2015
Proportion (percentage) of the net collective total pension liability	<u>0.02546%</u>	<u>0.02578%</u>	<u>0.03696%</u>	<u>0.04216%</u>	<u>0.04314%</u>	<u>0.04763%</u>
Proportion (amount) of the net collective total pension liability	<u>\$ 6,325,857</u>	<u>\$ 6,312,258</u>	<u>\$ 12,647,366</u>	<u>\$ 15,894,906</u>	<u>\$ 14,383,309</u>	<u>\$ 14,355,656</u>

Notes to required supplementary information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.
2. The **SWA's** proportion of the total pension liability was actuarially determined based on the ratio of the **SWA's** benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.
3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.
4. The amounts presented were determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019, the measurement date.
5. There are no assets accumulated in a trust to pay related benefits.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL PENSION LIABILITY (CONTINUED)
For the Fiscal Year ended June 30, 2020** **64**

Valuation Date: July 1, 2018
Measurement Date: June 30, 2019

Actuarially determined contribution rates are calculated as of June 30, 2018, one year prior to the end of the fiscal year in which contributions are reported and applied to all periods included in the measurement.

Actuarial cost method Entry Age Normal Cost Method
Inflation rate Not applicable
Salary increases **3.00%** per year. No compensation increases are assumed until July 1, 2021 as a result of Act 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

Pre-Retirement Mortality For general employees not covered by Act No. 127, RP2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP2019 from 2006 base year and projected forward using MP2019 on generational basis. For members covered under Act No. 127, RP2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP2019 from 2006 base year and projected forward using MP2019 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. **100%** of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **92%** of the rated from the UP1994 Mortality Table for Males and **95%** of the rates from the UP1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are **105%** of the rates from the UP1994 Mortality Table for Males and **115%** of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL OPEB LIABILITY
For the Fiscal Year ended June 30, 2020**

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As of June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportion (percentage) of the total collective OPEB liability	<u>0.02348%</u>	<u>0.02013%</u>	<u>0.01709%</u>	<u>0.01592%</u>
Proportionate share (percentage) of the collective total OPEB liability	<u>\$ 195,386</u>	<u>\$ 169,484</u>	<u>\$ 157,296</u>	<u>\$ 188,614</u>
Covered employee payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Proportionate share of the collective total OPEB liability as a percentage of the covered employee payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to required supplementary information

1. The Administration's proportion of the total OPEB liability was actuarially determined based on the ratio of the Administration's benefit payments to the total benefit payments made by all participating employers under the OPEB Plan for the year ending on the measurement date.
2. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.
3. The amounts presented were determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019, the measurement date.
4. There are no assets accumulated in a trust to pay related benefits.



Rodríguez & Santiago, CPA's, PSC
Certified Public Accountants and Consultants

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 Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico

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 **Solid Waste Authority (Now the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico)** ("the SWA") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the **SWA's** financial statements and have issued our report thereon dated June 24, 2022. The report was qualified because, at the date of the financial statements, capital assets have not been evaluated in order to identify any possible impairment loss caused by the passing of hurricanes Irma and María.

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern. As discussed in **Note 19** to the financial statements, the **SWA** has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

Internal Control over Financial Reporting

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

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Internal Control over Financial Reporting (Continued)

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 importance enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as item **2020-001** that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **SWA's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2020-001**.

SWA's Response to Findings

The **SWA's** response to findings identified in our audit is described in the accompanying schedule of findings and questions costs. **SWA's** response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 **SWA'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 **SWAs** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R & S, CPA's, PSC

RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico

June 24, 2022

The Stamp Number **E494222** of the Puerto Rico Society of Certified Public Accountants was affixed in the original of this Report.



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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year ended June 30, 2020**

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Section II – Financial Statements Findings

Finding No. 2020-001

Requirement: Accounting System

Type of Finding: Material Weakness in Internal Control (MW)

This finding is similar to prior year finding 2019-001

Statement of Condition

Management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that *adversely* affected the **SWA** ability to produce reliable financial statements.

During the audit of the **SWA** financial statements for the fiscal year ended June 30, 2020, we noted the following deficiencies in the accounting records:

1. No adequate and timely recording procedures are performed in the general ledger accounts. Also, the financial information is not reviewed, analyzed and reconciled on a monthly basis by management.
2. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts receivable and accounts payable area.
3. During our substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period. Also, pursuant the provisions of the Reorganization Plan enacted by Law No. 171 of 2018, the Department of Natural and Environmental Resources assumed certain general and common expenses of the **SWA**. Management was not able to identify the proportionate share of expenses that shall be allocate to the **SWA** operations. Accordingly, no adjustment were made in the accounting records to recognize any allocable expenses attributable to the **SWA's** operations for the fiscal year ended June 30, 2020.
4. During the audit we identify and proposed various adjusting and reclassifications entries in order to correct certain account balances related to federal expenditures not recorded by client. The **SWA** have not implemented a systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place.
5. The **SWA** lacks written policies outlining the expectations for journal entry authorization, documentation and review on a daily basis.
6. Transactions related to accounts receivable, capital assets, accounts payable, accrued expenses, revenues and expenses accounts are not properly analyzed and reconciled with accounting records on a monthly bases. These transactions impact the accuracy of the accounting records and financial data.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
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Section II – Financial Statements Findings (Continued)

Finding No. 2020-001 (Continued)

Criteria

AU-C- AICPA “Codifications of Statements on Auditing Standards for Auditing” Section 940, “Entity’s Internal Control over Financial Reporting” establish the following:

Responsibilities of Management:

- i. Management is responsible for designing, implementing, and maintaining effective Internal Control over Financial Reporting (ICFR).
- ii. Management is responsible for its assessment about the effectiveness of ICFR.

Internal control over financial reporting (ICFR):

A process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that:

- i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and
- iii. provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. ICFR has inherent limitations. ICFR is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. ICFR also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented, or detected and corrected, on a timely basis by ICFR. (Ref: par .A6–.A7).

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year ended June 30, 2020**

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Section II – Financial Statements Findings (Continued)

Finding No. 2020-001 (Continued)

Recommendations

The **SWA** should evaluate the policies and procedures used by the Department of Finance in order to determine the changes needed to improve all the deficiencies mentioned in this report. Among the things to be considered in preparing a corrective action plan are the following:

1. Restructuring of the accounting recording process in order to obtain the information needed to prepare the financial statements in accordance with GAAP.
2. Shift toward an updated business software system to properly account for and summarized all accounting and financial data.
3. Provide and/or increase trainings to accounting personnel related to accounting functions and generally accepted accounting principles of governmental entities.
4. Increase supervision over the tasks performed by the accounting personnel.
5. Develop an accounting manual. Written procedures, instructions, and the assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.
6. Establish monthly analysis and reconciliation procedures in order to reduce the number of adjustments identified during the audit of the financial statements. Also, the **SWA** must assess if the personnel processing the transactions possess the appropriate training related to the tasks performed.

Questioned Costs

None

Auditee Response

See **SWA's** Corrective Action Plan

**SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT OF NATURAL AND ENVIRONMENTAL
RESOURCES OF THE COMMONWEALTH OF PUERTO RICO)**

**SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
For the Fiscal Year ended June 30, 2020**

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Finding No. 2019-001

Finding Type: Accounting Records

Statement of Condition:

Management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that *adversely* affected the **SWA** ability to produce reliable financial statements.

During the audit of the **SWA** financial statements for the fiscal year ended June 30, 2018, we noted the following deficiencies in the accounting records: 1. No adequate and timely recording procedures are performed in the general ledger accounts; 2. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management; 3. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts receivable and accounts payable area; 4. During our substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period; 5. During the audit we identify and proposed various adjusting and reclassifications entries in order to correct certain account balances related to federal expenditures not recorded by client. The **SWA** have not implemented a systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place; 6. The **SWA** lacks written policies outlining the expectations for journal entry authorization, documentation and review on a daily basis; 7. Transactions related to accounts receivable, capital assets, accounts payable, accrued expenses, revenues and expenses accounts are not properly analyzed and reconciled with accounting records on a monthly bases. These transactions impact the accuracy of the accounting records and financial data.

Status:

Condition still prevails. A similar situation was identified during the audit of the fiscal year ended June 30, 2020.





GOBIERNO DE PUERTO RICO
DEPARTAMENTO DE RECURSOS NATURALES Y AMBIENTALES

CORRECTIVE ACTION PLAN
Solid Waste Authority (Department of Natural and Environmental Resources)
For the Fiscal Year ended June 30, 2020.

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
<p>Finding Reference 2019-001 Requirement: Accounting System</p> <p>Lack of adequate accounting procedures for reconciliation and analysis of the financial transactions recorded during the year.</p>	<p>The Central Government is implementing an integrated accounting system (new PRIFAS version) that DNER will use once it is fully operational. DNER will assure that this version includes the modifications necessary to accommodate the merger of the Environmental Quality Board, and Solid Waste Authority within the DNER and any associated changes to the new DNER organizational structure in accordance with the reorganization process mandates by Law No.171 of August 2, 2018. As part of the implementation process of the integrated accounting system, all related polices and procedure will be evaluated to identify the changes needed to improve the deficiencies mentioned in this Single Audit (SA) Report.</p>	<p>Waiting for Treasury Department (DT) instructions.</p>	<p>TBA</p>	<p>Anais Rodriguez Acting Secretary, Office of the Secretary</p> <p>Ángel Meléndez/ Ana T. Ortiz/Marjorie Araujo/ Auxiliary Secretariat of Administration and Finance Division</p>

June 16, 2022

Prepared by: 
Angel Meléndez / *Elid R. Ortega, Acting*
Auxiliary Secretary of Administration
JUN 23, 2022

Approved by: 
Anais Rodriguez
Acting Secretary
JUN 24 2022