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Financial Statements and Report of Independent Certified Public Accountants

Puerto Rico Aqueduct and Sewer Authority

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2021 and 2020

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

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Report of Independent Certified Public Accountants

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

Report on the Financial Statements

We have audited the accompanying financial statements of Puerto Rico Aqueduct and Sewer Authority (a component unit of the Commonwealth of Puerto Rico) (the "Authority"), which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Kevane Grant Thornton

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Aqueduct and Sewer Authority as of June 30, 2021 and 2020 and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 20, the schedule of the Authority's proportionate share of the total pension liability on page 80, the schedule of funding progress for postemployment healthcare benefits on page 81, and the schedule of the Authority's proportionate share of the ERS for postemployment benefits on page 82, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which procedures consisted of inquiries to management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures we undertook do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplemental schedule of financial results and debt coverage calculations per the 2012 amended and restated master agreement of trust ("schedule") on pages 83-84 is presented as additional information and is not a required part of the basic financial statements. The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of such internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 10, 2023.

Kevane Grant Thornton LLP

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As management of Puerto Rico Aqueduct and Sewer Authority (the "Authority" or "PRASA"), we offer readers of the Authority's annual financial report our discussion and analysis of the Authority's financial performance during the fiscal years ended on June 30, 2021 and 2020. Please read it in conjunction with the Authority's financial statements, which follow this section. Numbers included are rounded to facilitate the readers' analysis.

June 30, 2021 and 2020 Financial Highlights

- The Authority's net position in fiscal year 2021 was ($488.7) million, which decreased by $8.6 million, or 1.8%, when compared to fiscal year 2020 net position of ($480.1) million.

- Total operating revenues in fiscal year 2021 were $1,044.0 million, a decrease of $19.2 million, or 1.8%, when compared to fiscal year 2020 total operating revenues of $1,063.2 million. During fiscal year 2021 water and sewer revenues decreased by $3.7 million and bad debt expense increased by $15.5 million.

- Operating expenses increased by $9.8 million, or 1.1%, mainly due to the increase in payroll costs, repairs and maintenance and chemicals costs by $38 million. Such expenses increases were offset by a decrease in electricity expense and professional and consulting services by $23.6 million and a decrease in amortization expense, net of cost of asset disposition of $5.6 million.

- Nonoperating expenses (net of nonoperating revenues) decreased by $47.1 million when compared to $211.3 million in fiscal year 2020, mainly due to a gain of $57.3 million as a result of the settlement of a loan with Government Development Bank Debt Recovery Authority ("GDB-DRA"), as further described in Note 13. Interest income and other income decreased by $8.7 million.

- Capital contributions increased by $20.4 million, from $9.6 million in fiscal year 2020 to $30.0 million, primarily as a result of higher proceeds of funds obligated by Federal Emergency Management Agency ("FEMA") during fiscal year 2021 to reimburse the Authority for expenses incurred in its system recovery process after Hurricanes Irma and María (the "2017 Hurricanes") and the 2019/2020 earthquakes.

- Total assets and deferred outflow of resources increased by $140.2 million to $7,282.3 million, or 2%, when compared to $7,142.1 million in fiscal year 2020. This increase is mainly due to an increase in current assets of $15.2 million (including current restricted cash and cash equivalents used to finance current debts service obligations), an increase in restricted cash and cash equivalents of $78.4 million and an increase in deferred outflows of resources by $197.2 million. Increase in total assets and deferred outflow of resources was offset by a decrease in capital assets of $150.6 million, mainly as a result of the increase of depreciation and amortization of $221.5 million netted by an increase in construction in progress of $34.6 million.

- Total liabilities and deferred inflow of resources increased by $148.7 million to $7,771.0 million, or 2.0%, when compared to $7,622.2 million in fiscal year 2020. The change was mainly the result of an increase in current liabilities of $35.2 million. Noncurrent liabilities increased by $130.2 million, mostly as a result of an increase of pension liability of $209.5 million as a result of the updated actuarial valuation applying lower discount rates, offset by a reduction of bonds and notes payable of $79 million as a result of the benefit of the 2020 refunding and payments of principal, as further detailed in Note 12. Deferred inflow of resources decreased by $16.7 million.

June 30, 2020 and 2019 Financial Highlights

- The Authority's net position in fiscal year 2020 was ($480.1) million, which decreased by $47million, or 10.8%, when compared to fiscal year 2019 net position of ($433.1) million.

- Total operating revenues in fiscal year 2020 were $1,063.2 million, an increase of $2.3 million, or 0.2%, when compared to fiscal year 2019 total operating revenues of $1,060.9 million. During fiscal year 2020 water and sewer revenues decreased by $18.1 million and bad debt expense decreased by $20.4 million.

- Operating expenses increased by $159.1 million, or 31%, mainly due to the effect of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 73 in fiscal year 2019 which reduced pension expense in fiscal year 2019. In fiscal year 2020, payroll and payroll related expense increased by $141.6 million when compared to the fiscal year 2019 affected by the implementation of the mentioned GASB Statement No. 73. Also, during fiscal year 2020 electricity expense increased by $26.5 million, professional and consulting services increased by $10.6 million, and chemical expense increased by $4 million. Such expense increases were offset by a decrease in other operating expense of $14 million and a decrease in repairs and maintenance expense of $8.4 million.

- A decrease of $548 million is related to the required transition from GASB Statement No. 68 to GASB Statement No. 73 which resulted in the Authority recognizing a nonoperating expense of $548.2 million in fiscal year 2019, which did not recur in 2020.

- Decrease in nonoperating expenses by $13.7 million when compared to $225 million in fiscal year 2019 is attributed to a decrease in interest expense for debt service decreased by $23.6 million, and a decrease in interest income by $9.9 million.

- Capital contributions decreased by $68.3 million, from $77.9 million in fiscal year 2019 to $9.6 million, primarily as a result of lower proceeds of funds obligated by Federal Emergency Management Agency ("FEMA") during fiscal year 2020 to reimburse the Authority for expenses incurred in its system recovery process after the 2017 Hurricanes.

- Total assets and deferred outflow of resources decreased by $5.6 million to $7,142.1 million, or 0.08%, when compared to $7,147.7 million in fiscal year 2019. Capital assets decreased by $162.3 million, mainly as a result of depreciation and amortization of $240.4 million. The decrease in capital assets was offset by an increase in current asset of $38.9 million (including an increase in current restricted cash and cash equivalents of $36.3 million used to finance current debts service obligations), an increase in restricted cash and cash equivalents of $66.5 million and an increase in deferred outflows of resources by $51.3 million.

- Total liabilities and deferred inflow of resources increased by $41.5 million to $7,622.2 million, or 0.55%, when compared to $7,580.8 million in fiscal year 2019. The change was mainly the result of an increase in current liabilities of $57.8 million (reflecting mostly an increase of $27.6 million in accounts payable, and an increase of $21.6 million in notes payable current). Noncurrent liabilities decreased by $21 million as a result of the net effect of decrease of $44 million of long-term debt non-current and an increase in pension liability of $19 million. Deferred inflow of resources increased by $4.7 million.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements report the financial position and operations of the Authority as of and for the fiscal years ended June 30, 2021 and 2020, which include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and the notes to financial statements.

Financial Analysis of the Authority

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

Analysis of Financial Results

The following table provides a summary of the Authority's net position as of June 30, 2021 and 2020 (in thousands):

	June 30		
	2021	2020	Change
Current and other assets	$ 1,279,088	$ 1,185,533	$ 93,555
Capital assets, net	5,631,639	5,782,236	(150,597)
Deferred outflow of resources	371,568	174,356	197,212
Total assets and deferred outflows of resources	7,282,295	7,142,125	140,170
Long-term debt outstanding	4,829,485	4,891,871	(62,386)
Other liabilities	2,838,855	2,611,066	227,789
Deferred inflow of resources	102,615	119,294	(16,679)
Total liabilities and deferred inflows of resources	7,770,955	7,622,231	148,724
Net position:			
Net investment in capital assets	1,155,577	1,258,643	(103,066)
Restricted	265,868	173,485	92,383
Unrestricted deficit	(1,910,105)	(1,912,234)	2,129
Total net position	$ (488,660)	$ (480,106)	$ (8,554)

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

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

Net Position

June 30, 2021 and 2020

The Authority's net position for the fiscal year ended June 30, 2021 was approximately ($488.7) million. This is a decrease of $8.6 million, from the net position, as of June 30, 2020 of ($480.1) million.

Total assets and deferred outflow of resources increased by $140.2 million to $7,282.3 million, or 2.0%, when compared to $7,142.1 million in fiscal year 2020. Capital assets decreased by $150.6 million. The decrease in capital assets was offset by an increase in current assets of $15.2 million (including current restricted cash and cash equivalents used to finance current debts service obligations), an increase in restricted cash and cash equivalents of $78.4 million and an increase in deferred outflows of resources by $197.2 million.

Current and total restricted assets increased by $93.6 million, mainly reflecting an increase in non-current restricted cash of $78.4 million (due to the deposits in the debt service and the operating reserve fund), an increase in accounts receivable of $10.4 million mainly due to the continued effect of COVID-19 in the Authority's clients payment behavior, and an increase in materials inventory of $5.5 million.

Capital assets decreased by $150.6 million, or 3%, to $5,631.6 million, primarily as a result of the depreciation and amortization increase of $221.5 million and an increase of work in progress of $34.6 million.

Deferred outflows of resources increased by $197.2 million, mainly as result of the change of actuarial assumptions required by GASB Statement No. 73.

Total liabilities and deferred inflow of resources increased by $148.7 million to $7,771.0 million, or 2.0%, when compared to $7,622.2 million in fiscal year 2020.

Other liabilities increased by $227.8 million, mostly as a result of an increase of pension liability of $210.6 million as a result of the updated actuarial valuation applying lower discount rate, an increase of $20.8 million in unearned revenues as a result of the cutoff date of the reading cycle, an increase of $10.6 million in accrued interest mainly due to the continuous accrual of PFC bonds, and a decrease of $10.3 million in accounts payable and accrued liabilities due to an improvement in the Authority's payment terms.

Long-term debt outstanding decreased by $62.3 million due to the reduction of bonds and notes payable as a result of the 2020 refunding and payments of principal as further detailed in Note 12.

Deferred inflow of resources decreased by $16.7 million as a result of the updated actuarial valuation for pension and other post-employment benefit liability.

June 30, 2020 and 2019

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

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

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

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

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

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

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

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

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

Capital Assets

Capital assets as of June 30, 2021 and 2020 were as follows (in thousands):

	June 30		
	2021	**2020**	**Change**
Capital assets being depreciated	$ 10,756,265	$ 10,720,074	$ 36,191
Accumulated depreciation and amortization	(5,633,604)	(5,412,082)	(221,522)
	5,122,661	5,307,992	(185,331)
Land and other nondepreciable assets	75,172	75,109	63
Construction in progress	433,806	399,135	34,671
Capital assets, net	$ 5,631,639	$ 5,782,236	$ (150,597)

The decrease of $150.6 million in capital assets reflects an increase of $36.2 million in capital assets being depreciated, an increase of $221.5 million in accumulated depreciation and amortization, and a net increase of $34.7 million in construction in progress. Additions to construction in progress during fiscal year 2021 amounted to a net amount of $86.8 million and is broken down as follows:

- $50.8 million in renewal and replacement projects
- $36.0 million in the Authority's capital improvement program

The Authority had $433.8 million in construction in progress as of June 30, 2021. During fiscal year 2021, the Authority continued with the implementation of its capital improvement program, including the regulatory and compliance projects with the state revolving funds from EPA, as well the reconstruction and resiliency projects, which are being financed as part of the FEMA obligation of $3.7 billion under the Federal Accelerated Award Strategies ("FAAST") program. See Note 21.

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

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

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

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

The Authority had $399.1 million in construction in progress as of June 30, 2020. During fiscal year 2020, the Authority re-activated its capital improvement program, and began planning for the execution of projects, including the regulatory and compliance projects with the state revolving funds from EPA, as well the reconstruction and resiliency projects, which are being financed as part of the FEMA obligation of $3.7 billion under the FAAST program.

Debt Administration

Long-term debt for the fiscal years ended June 30, 2021 and 2020 was as follows (in thousands):

	2021	2020	Change
Bonds payable:			
Commonwealth Appreciation Bonds			
2011 Series A Bonds	$ 90,099	$ 90,099	$ -
2011 Series B Bonds	102,183	102,183	-
2011 Series B (Superaqueduct)	162,700	162,700	-
2012 Series A Bonds	56,247	56,247	-
Senior Lien Revenue Bonds			
2008 Series A Serial Bonds	-	25,240	(25,240)
2008 Series A Convertible Capital Appreciation Bonds	87,215	105,965	(18,750)
2008 Series A Term Bonds	-	1,095,125	(1,095,125)
2008 Series B Serial Bonds	-	22,445	(22,445)
2008 Series A and B Refunding Bonds	-	284,755	(284,755)
2012 Series A Serial Bonds	313,060	313,060	-
2012 Series A Term Bonds	1,381,995	1,381,995	-
2012 Series B Serial Bonds	46,470	86,725	(40,255)
2012 Series B Term Bonds	107,115	107,115	-
2020 Series A Term Bonds	1,245,960	-	1,245,960
2020 Series A Serial Bonds	105,340	-	105,340
2020 Series B Term Bonds	18,775	-	18,775
Add premium on bonds refunding	121,183	23,298	97,885
Less: Bond Discount	-	(14,977)	14,977
Total bonds	3,838,342	3,841,975	(3,633)
Notes payable:			
Water Pollution Control and Drinking Water Treatment Revolving Funds Loans	591,647	590,677	970
USDA Rural Development Loan Agreement	399,496	401,476	(1,980)
Notes with commercial banks	-	57,743	(57,743)
Total notes	991,143	1,049,896	(58,753)
Long-term debt outstanding	4,829,485	4,891,871	(62,386)
Other long term liabilities:			
Total OPEB obligation	122,553	125,204	(2,651)
Total pension liability	1,899,647	1,688,941	210,706
Accrued compensated absences	45,505	42,763	2,742
Early retirement obligation	26,058	33,098	(7,040)
Customer deposits	94,932	91,986	2,946
Total other liabilities	2,188,695	1,981,992	206,703
Total – long-term obligations	7,018,180	6,873,863	144,317
Current portion	(225,493)	(211,421)	(14,072)
Long-term obligations, less current portion	$ 6,792,687	$ 6,662,442	$ 130,245

The Authority's long-term debt decreased by $62.4 million, or 1.3%, from $4,891.9 million as of June 30, 2020, to $4,829.5 million as of June 30, 2021.

Bonds Payable

Bonds outstanding as of June 30, 2021 decreased by $3.6 million as a result of the combination of: (i) payments of principal on 2012 Series B Revenue Bonds of $42.2 million and 2008 Series A Convertible Capital Appreciation Bonds of $18.7 million (ii) the impact of the refunding and defeasance of most of the 2008 Revenue Bonds Series A and B, excluding the non-callable convertible capital appreciation bonds, with an outstanding balance of $87,215 million and the issuance of Revenue Refunding Bonds Series 2020A and 2020B in the amount of $1,351.3 million and $18.8 million, respectively, resulting in a bond premium of $101.0 million and the adjustment of $15.0 million of the discount balance related to the 2008 defeased bonds.

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

Notes Payable

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

On July 26, 2019, the Authority and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF", by its Spanish acronym) consummated definitive agreements restructuring the Authority's SRF loans including the outstanding $590 million loans plus $26 million of funds for ongoing projects. The agreement was approved by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), created under the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (P.L. 114-187) ("PROMESA"), pursuant to Section 207 of PROMESA and consolidated all the restructured debt into two SRF loans with a 30-year maturity at 0% interest rate and $10 million annual principal-only payments from years 1 through 10 and 1% interest rate and $27 million annual debt service payments thereafter. The restructured SRF loans were designated as Other System Indebtedness on a parity as to payment with other senior debt under the Authority's MAT and had an outstanding balance of $580.7 million as of June 30, 2021 after paying $10 million in principal due during fiscal year 2021.

On August 18, 2020, the Authority entered into a Loan Agreement for additional funding from the CWSRF program for an amount up to $163.2 million for wastewater infrastructure projects, at a 1% rate and a 30-year amortization term after each project completion. Loans are disbursed as needed and the outstanding balance as of June 30, 2021 was $11.0 million.

Rural Development

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

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

The balance of the loan agreement with USDA RD as of June 30, 2021 and 2020 was $399.5 million and $401.5 million, respectively.

Notes with GDB Debt Recovery Authority

On August 24, 2017, the Governor signed into law Act No. 109 – "GDB Debt Restructuring Act", which created GDB Debt Recovery Authority, a statutory public trust and governmental instrumentality ("GDB-DRA") and provides for the determination of liabilities between any government entity and the former Government Development Bank for Puerto Rico ("GDB"),

Following the enactment of law 109 of 2017, PRASA's Notes with the former Government Development Bank for Puerto Rico ("GDB") were transferred to the GDB Debt Recovery Authority ("GDB-DRA") upon consummation of the GDB Qualifying Modification on November 29, 2018. The Authority's obligation under the GDB-DRA Loan Agreement was subordinate in all respects to its outstanding MAT obligations. At the time of the transfer to GDB-DRA, the outstanding principal amount under the GDB-DRA Loan Agreement was $57.5 million, plus accrued and unpaid interest. On November 10, 2020, the Authority, AAFAF, the GDB-DRA, and the collateral monitor for GDB-DRA reached an agreement in principle, contingent on Oversight Board approval, to resolve and settle in full all Authority obligations under the GDB-DRA Loan Agreement by a one-time Authority payment in the amount of $20.5 million. On November 20, 2020, the Oversight Board approved the settlement, the Authority made that payment in full, the GDB-DRA Loan Agreement was terminated, and the Authority has no further obligation under it. For additional information on the GDB-DRA Loan Agreement refer to Note 13.

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

<u>Pension Liability</u>

Pension liability as of June 30, 2021, increased by $210.7 million, or 12.5%, to $1,899.6 million compared to $1,688.9 million in June 30, 2020, as a result of the latest actuarial report issued for the allocation of pension liability to the Authority for the PayGo System as required by Act 106-2017.

Summary of Revenues, Expenses, and Changes in Net Position

The following table provides a summary of the Authority's changes in net position for the fiscal years ended June 30, 2021 and June 30, 2020 (in thousands):

	Years ended June 30		
	2021	2020	Change
Operating revenue --			
Revenues from water and sewer, net	$ 1,043,981	$ 1,063,223	(19,242)
Operating expenses:			
Payroll and payroll related expenses	296,479	271,910	24,569
Electricity	125,962	140,934	(14,972)
Repairs and maintenance of capital assets	51,606	43,403	8,203
Professional and consulting services	31,623	40,338	(8,715)
Chemicals	41,943	36,462	5,481
Insurance	21,817	20,038	1,779
Materials and replacements	15,131	14,567	564
Other operating expenses	97,790	99,278	(1,488)
Operating expenses (excluding depreciation and amortization)	682,351	666,930	15,421
Depreciation and amortization	230,483	240,436	(9,953)
Cost of assets disposition	5,435	1,126	4,309
Total operating expenses	918,269	908,492	9,777
Operating income	125,712	154,731	(29,019)
Nonoperating expenses, net	(164,263)	(211,362)	47,099
Net loss before capital contributions	(38,551)	(56,631)	18,080
Capital contributions	29,997	9,586	20,411
Decrease in net position	(8,554)	(47,045)	38,491
Net position at beginning of year	(480,106)	(433,061)	(47,045)
Net position, end of year	$ (488,660)	$ (480,106)	$ (8,554)

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

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

Fiscal Years June 30, 2021 and 2020

Net position decreased by $8.6 million, from ($480.1) million in fiscal year 2020, to ($488.7) million in fiscal year 2021.

Major fluctuations that resulted in the net position (deficit) decrease when compared to fiscal year 2020 operating results:

Decrease in operating revenues	$	(19,242)
Increase in operating expenses		(9,777)
Decrease in non-operating expenses, net		47,099
Increase in capital contributions		20,411
Net change	$	38,491

Operating revenues decreased by $19.2 million, or 1.8%, when comparing the Authority operating revenues for fiscal year 2021 with fiscal year 2020. On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus ("COVID-19") a global pandemic, which caused a lockdown period for various months, resulting in a reduction in consumption and collections during fiscal years 2021 and 2020. On July 1, 2020, the Authority implemented the approved rate increase for water and sewer service by a percentage ranging rom 2.5% for residential customers up to 4.5% for government customers, which partially offset the effect of decrease related to COVID-19.

Operating expenses increased by $9.8 million or 1.1% primarily due to the net effect of the following:

- Increase of $24.6 million in payroll and payroll-related expenses, mainly as a result of the increase in the pension expense for fiscal year 2021 reflecting changes in actuarial assumptions.
- Increase of $8.2 million in repairs and maintenance of capital assets and materials expense due to expenses incurred in fiscal year 2021 as a result of initiatives to reduce water leaks. Also, the 2021 expenses was affected by the impact of the COVID-19 shutdown.
- Increase of $5.5 million in chemicals expense due to increase chemical consumption as a result of changes in raw water quality.
- Decrease of $15.0 million in electricity expense mainly due to decrease in the kilowatt per hour cost.
- Decrease of $10 million in depreciation and amortization expense due to various assets that became fully depreciated during fiscal year 2020.
- Decrease of $8.7 million in professional and consulting expense due to insurance adjusters fee of $10 million paid on fiscal year 2020.
- Increase of $4.3 million in cost of asset disposition.
- Increase of $1.8 million in insurance expense.
- Decrease of $1.5 million in other operating expense.

Nonoperating expenses (netted from nonoperating revenues) decreased by $47.1 million when compared to $211.6 million in fiscal year 2020, mainly due to a gain of $57.3 million as a result of the settlement of a loan with GDB-DRA, as further described in Note 13. Interest income and other income increased by $8.5 million.

Capital contributions increased by $20.4 million, from $9.6 million in fiscal year 2020 to $30.0 million, primarily as a result of additional disbursements of funds obligated by FEMA during fiscal year 2021 to reimburse the Authority for expenses incurred in its system recovery process after the 2017 Hurricanes and the 2019/2020 seismic activity.

Fiscal Years June 30, 2020 and 2019

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

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

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

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

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

- Decrease of $548.2 million as a result of the impact in fiscal year 2019 of the transition from GASB Statement No. 68 to GASB Statement No. 73 to record the adjusted pension liability, which did not recur in 2020. Decrease of $34.2 million in depreciation and amortization expense, mostly caused by more fully depreciated assets.
- Decrease of $14.0 million in other operating expense mainly due to expenses incurred in fiscal year 2019 as a result of the effect of Hurricane Maria in September 2017.
- Decrease of $8.4 million in repairs and maintenance of capital assets expenses and decrease of $2.5 million in materials and replacement costs related to repairs made to facilities during fiscal year 2019 due to damages caused by Hurricane Maria
- Increase of $141 6 million in payroll and payroll-related expenses, mainly as a result, during fiscal year 2019, of the transition from GASB Statement No. 68 to GASB Statement No. 73, which resulted in a reduction of pension expense of $162 million in such year.
- Increase of $26.5 million in electricity expense is due to the fact that during fiscal year 2019 the Authority had various facilities without electricity.
- Increase of $10.6 million in professional and consulting expense as a result of insurance adjusters by $10.5 million paid during fiscal year 2020.
- Increase of $4.0 million in chemicals expense due to increased chemicals consumption during fiscal year 2020 as a result of changes in raw water quality.

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

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

Currently Known Facts

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Authority's financial position and results of operations. For additional information and further detail, refer to Note 21.

Drought

During June 2022, as a result of the drought season and low levels of raw water supply, the Authority was required to implement a water rationing program for approximately 10,000 clients in the Municipalities of Canóvanas and Loíza served by the Canóvanas water treatment plant. Subsequently, the water rationing program was extended to around 10,000 additional clients in the Municipalities of Rio Grande, Juncos and Las Piedras served by the Juncos and El Yunque water treatment plants.

2022 Fiscal Plan

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

Rate Adjustments

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

New State Revolving Fund ("SRF") Loans

After the July 2019 successful debt modification of the Authority's outstanding loans with the SRFs, in collaboration and agreement with the EPA, the Authority regained access to funds from the SRFs. The Authority entered into various financial agreements with the SRFs, as follows:

- On September 17, 2021, the Authority signed a $46 million financial agreement for DWSRF funding for drinking water projects.
- On October 28, 2021, the Authority executed a financial agreement for $32 million of CWSRF funding for additional wastewater projects.
- On September 22, 2022, the Authority signed a $11.8 million financial agreement for DWSRF funding for drinking water projects.
- On January 24, 2023, a new financial agreement for CWSRF funding for $24.2 million was executed.

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

Disaster Recovery Funds

On September 2, 2021, the Puerto Rico Department of Housing and the Authority entered into a sub-award agreement for $200 million under the CDBG-DR Non-Federal Match Program to fund approximately one-half of the state match portion of the $3.7 billion FEMA award for recovery projects related to Hurricane María.

COVID-19

As a result of the COVID-19 pandemic and the enactment of Act 39-2020, the Authority has been prohibited from making service disconnections. On February 7, 2022, the Puerto Rico Department of Justice issued an opinion concluding that, as of July 1, 2021, the conditions permitting service disconnections under Act 39-2020 had been met. As a result, during March, 2022, the Authority recommenced the implementation of disconnection process for overdue accounts that do not have a payment plan.

Employees and Labor Relations

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

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

The Negotiation Agreement also provides that the parties will promote payment of wage incentives starting in fiscal year 2023 for certain difficult recruitment positions such as plant operators and electro-mechanics; payment of a $600 premium by June 30, 2022 to recognize UIA members' employment commitment; and payment of Christmas bonus balances for fiscal years 2015 (by July 31, 2022) and 2016 (by July 31, 2023), without interest or penalties to active UIA members.

Regarding the CBA with Hermandad Independiente de Empleados Profesionales de la Autoridad de Acueductos y Alcantarillados ("HIEPAAA"), neither party provided the required notice of its intention to negotiate a new collective bargaining agreement before the CBA would be deemed automatically extended for another year. As a result and required by Act 9-2021, the HIEPAAA CBA has been deemed extended for an additional year to July 1, 2023.

On July 1, 2022, based on a comprehensive analysis from a third-party as agreed with UIA, HIEPAAA and Managers Association, new pay scales were implemented for the Authority employees, providing for a minimum salary increase. As of such date, also an incentive for licensed plant operators and electro-mechanicals was implemented.

2021 and 2022 Debt Refunding

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

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

PFC Qualifying Modification

On January 20, 2022, AAFAF, on behalf of the Public Finance Corporation ("PFC"), entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (collectively, the "PFC Bonds").

The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under a Qualifying Modification (the "PFC Qualifying Modification") under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished under the PFC Qualifying Modification and the Authority will be discharged from any liability arising from or related to such promissory notes.

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

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

Hurricane FIONA

Hurricane Fiona made landfall along the extreme southwestern coast of Puerto Rico on September 18, 2022 as a Category 1 hurricane with winds of 85 mph, according to the National Hurricane Center. The hurricane resulted in massive amounts of rain, reaching more than 30 inches in some areas in the south and the central mountain region and catastrophic flooding. As a result of the passage of Fiona all of the island lost electricity service, which was not restored in some places for many weeks.

The Authority is in the process of completing site visits to determine the full extent of the damages in its infrastructure and of gathering information of the impact in its revenues and expenses. The Authority expects to recover the cost of most of the necessary remediation from the impact of Hurricane Fiona from FEMA and/or insurance proceeds.

Credit Ratings

As of the date of the issuance of these financial statements, the Authority's outstanding 2008 and 2012 Senior Revenue and Revenue Refunding Bonds were rated "CCC" by Fitch Ratings. In August 2018, S&P Global Ratings withdrew its credit ratings for the Authority's bonds. On July 20, 2021, Moody's withdrew for unspecified business reasons its "Ca (Negative)" rating on the Senior Bonds of the Authority.

Contacting the Authority's Financial Management

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

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

Balance Sheets
June 30, 2021 and 2020

(In thousands)

Assets

	2021	2020
Current assets:		
Cash and cash equivalents	**$ 338,312**	$ 340,303
Accounts receivable, net	**232,293**	221,889
Receivables from federal agencies	**32,826**	32,509
Materials and supplies inventory, net	**41,159**	35,639
Prepayments and other current assets	**15,208**	13,430
Restricted cash for debt service and working capital	**287,104**	287,979
Total current assets	**946,902**	931,749
Restricted assets--		
Restricted cash, cash equivalents and other deposits	**332,186**	253,784
Capital assets:		
Capital assets being depreciated	**10,756,265**	10,720,074
Accumulated depreciation and amortization	**(5,633,604)**	(5,412,082)
	5,122,661	5,307,992
Land and other nondepreciable assets	**75,172**	75,109
Construction in progress	**433,806**	399,135
Total capital assets, net	**5,631,639**	5,782,236
Deferred outflows of resources:		
Loss on debt refunding	**25,736**	12,369
Pension related	**330,378**	146,096
Other post-employment benefits related	**15,454**	15,891
Total deferred outflows of resources	**371,568**	174,356
Total assets and deferred outflows of resources	**$ 7,282,295**	$ 7,142,125

(Continued)

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

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

Balance Sheets
June 30, 2021 and 2020

(In thousands)

Liabilities and Net Position

	2021	2020
Current liabilities:		
Bonds payable	**$ 96,130**	$ 59,459
Notes payable	**12,021**	32,481
Pension liability	**89,202**	88,036
Accounts payable	**171,669**	178,146
Accrued liabilities	**146,873**	150,675
Accrued interest	**296,263**	285,688
Unearned revenue	**35,355**	14,565
Customers' deposits	**7,725**	8,065
Compensated absences, postemployment and other benefits	**20,415**	23,380
Total current liabilities	**875,653**	840,495
Noncurrent liabilities:		
Bonds payable	**3,742,212**	3,782,516
Notes payable	**979,122**	1,017,416
Pension liability	**1,810,445**	1,600,905
Customers' deposits	**87,207**	83,921
Compensated absences, postemployment and other benefits	**173,701**	177,685
Total noncurrent liabilities	**6,792,687**	6,662,442
Deferred inflows of resources:		
Pension related	**86,662**	108,125
Other post-employment benefit related	**15,953**	11,169
Total deferred inflows of resources	**102,615**	119,294
Total liabilities and deferred inflows of resources	**7,770,955**	7,622,231
Net Position:		
Net investment in capital assets	**1,155,577**	1,258,643
Restricted for environmental compliance, capital activity and other	**265,868**	173,485
Unrestricted deficit	**(1,910,105)**	(1,912,234)
Total net position	**(488,660)**	(480,106)
Total liabilities and net position	**$ 7,282,295**	$ 7,142,125

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

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Operating revenues:		
Water	**$ 713,870**	$ 700,649
Sewer	**359,033**	375,957
Bad debt expense	**(28,922)**	(13,383)
Total net operating revenues	**1,043,981**	1,063,223
Operating expenses:		
Payroll and payroll related	**296,479**	271,910
Electricity	**125,962**	140,934
Repairs and maintenance of capital assets	**51,606**	43,403
Professional and consulting services	**31,623**	40,338
Chemicals	**41,943**	36,462
Materials and replacements	**15,131**	14,567
Service contract – Superaqueduct	**4,308**	4,192
Insurance	**21,817**	20,038
Other operating expenses	**93,482**	95,086
Operating expenses (excluding depreciation and amortization)	**682,351**	666,930
Depreciation and amortization	**230,483**	240,436
Cost of assets disposition	**5,435**	1,126
Total operating expenses	**918,269**	908,492
Operating income	**125,712**	154,731
Nonoperating revenues (expenses):		
Interest expense, net of amortization of debt issuance cost, bond premium and discount, and deferred refunding loss	**(226,859)**	(225,458)
Gain on GDB-DRA debt settlement	**57,280**	-
Interest income	**2,799**	10,939
Other income, net	**2,517**	3,157
Total non-operating expenses, net	**(164,263)**	(211,362)
Loss before capital contributions	**(38,551)**	(56,631)
Capital contributions --		
Federal grants and other contributions	**29,997**	9,586
Change in net position	**(8,554)**	(47,045)
Net position at beginning of year	**(480,106)**	(433,061)
Net position at end of year	**$ (488,660)**	$ (480,106)

The accompanying notes are an integral part of these statements.

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Cash received from customers	**$ 1,058,366**	$ 1,018,788
Cash paid to suppliers	**(410,266)**	(367,537)
Cash paid to employees and payroll related	**(295,037)**	(272,251)
Net cash provided by operating activities	**353,063**	379,000
Cash flows from noncapital financing activities:		
Payments of notes	**(20,500)**	-
Net cash from other income	**2,517**	3,156
Net cash (used in) provided by noncapital financing activities	**(17,983)**	3,156
Cash flows from capital and related financing activities:		
Additions to utility plant and other capital assets	**(78,818)**	(81,817)
Proceeds from capital contributions	**29,997**	8,559
Proceeds from issuance of notes payable	**10,970**	21,806
Payments of bonds and notes	**(70,985)**	(64,090)
Interest paid on bonds, notes and lines of credit	**(153,507)**	(212,319)
Net cash used in capital and related financing activities	**(262,343)**	(327,861)
Cash flows from investing activities		
Interest received on investments	**2,799**	10,939
Net change in cash and cash equivalents	**75,536**	65,234
Cash and cash equivalents, beginning of year	**882,066**	816,832
Cash and cash equivalents, end of year	**$ 957,602**	$ 882,066
For purposes of the statements of cash flows, cash and cash equivalents include:		
Unrestricted	**$ 338,312**	$ 340,303
Restricted	**619,290**	541,763
	$ 957,602	$ 882,066

(Continued)

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

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 125,712**	$ 154,731
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**230,483**	240,436
Cost of assets disposition	**5,435**	1,126
Bad debt expense	**28,922**	13,383
Change in assets and liabilities:		
Accounts receivable	**(38,272)**	(49,903)
Receivables from federal agencies	**(317)**	2,511
Materials and supplies inventory	**(5,520)**	(4,819)
Prepayments and other current assets	**(1,778)**	(315)
Accounts payable	**(12,979)**	30,106
Unearned revenue	**20,790**	(8,765)
Accrued compensated absences,post employment and other benefits	**(4,928)**	(17,444)
Accrued liabilities	**(3,802)**	6,152
Customers' deposits	**2,947**	850
Pension liability	**6,370**	10,951
Total adjustments	**227,351**	224,269
Net cash provided by operating activities	**$ 353,063**	$ 379,000

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

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

Basis of Presentation – Blended Component Unit

The financial statements of the Authority as of June 30, 2021 and 2020, include the financial position and operations of PRASA Holdings LLC, which is a limited liability company incorporated under the laws of the State of Delaware on March 6, 2014. PRASA Holdings, LLC was created, pursuant to Act No. 228 enacted on November 1, 2011, and Authority Resolution No., 2826, to engage in lawful activities, for which limited liability companies may be organized under the Delaware Limited Company Act, subject to the limitations contained in the Authority's enabling act.

PRASA Holdings, LLC is authorized to do business in Puerto Rico. It is the parent company of Zumfiber, LLC, a limited liability company organized for investment purposes, which is also registered in the State of Delaware, with the purpose to engage in the development and operation of open access fiber optic infrastructure mainly through the water and wastewater system pipes in the San Juan Metropolitan area neighborhoods of Old San Juan, Condado and Isla Verde.

During the fiscal years ended June 30, 2021 and 2020, PRASA Holdings, LLC did not have operational activities. However, it has total assets and net position of $0.5 million as of June 30, 2021 and 2020.

Summary of Significant Accounting Policies

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

Measurement Focus and Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

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

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

Receivables

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

Materials and Supplies Inventory

Materials and supplies inventory are stated at average cost, not to exceed market. Inventory is presented net of a reserve for obsolescence for approximately $0.60 million as of June 30, 2021 and 2020.

Unamortized Premiums, Discounts and Deferred Refunding Losses

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

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

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

Capital Assets

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

Utility plant and other capital assets are carried at historical cost or estimated historical cost, which includes capitalized labor, materials, administrative costs, and interest on debt financed construction. The Authority did not recognize capitalized interest for the fiscal years ended June 30, 2021 and June 30, 2020 as most of its Capital Improvement Program ("CIP") were financed by the Authority's operating revenues or federal funds with minor or no cost.

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

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

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

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority performed an assessment of impairment on capital assets as of June 30, 2021 and 2020 under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. No assets impairment was recorded during the fiscal years ended June 30, 2021, and 2020, respectively.

Unearned Revenue

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

Deferred Outflows and Inflows of Resources

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

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

<u>Deferred outflows</u>

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

<u>Deferred inflows</u>

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

Accounting for Compensated Absences

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

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

Termination Benefits

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

Accounting for Pension Costs

As further disclosed in Note 14, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was established by Act No. 106 of 2017 ("Act 106-2017"), significantly reforming the defined benefit plan (the "Plan") of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all assets of the Plan were liquidated and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund is making direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Authority started applying the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, an amendment of Certain Provisions of GASB Statements No. 67 and 68,* was applied on fiscal year 2019. GASB Statement No. 73 maintains the "accrual basis" model under GASB Statement No. 68, where the pension liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions.

The Authority's share of the total pension liability, based on the valuation at end of the prior fiscal year was 6.76758% and was 6.79642% for fiscal years 2021 and 2020, respectively, and its share of the total pension liability recorded as of June 30, 2021 and 2020 was $1,899.6 million and $1,688.9, respectively. Disclosures required under GASB Statement No. 73 can be found in Note 14.

The Central Government and its component units are considered to be one employer, and the Plan, as modified by Act 106-2017, is classified for financial reporting purposes as a single-employer, defined benefit, pension plan. Other employers also participate in the Plan, as modified. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. GASB Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2020 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2021 and the June 30, 2019 actuarial measurement date was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020.

Accounting for Postemployment Benefits Costs

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

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

The Authority's retired employees also participate in the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC), providing a benefit of $100 per month for health plan costs. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS MIPC Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share of OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Because all participants in the ERS MIPC plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year.

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

Net Position

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

Net position is reported in three categories:

► ***Net Investment in Capital Assets*** – Includes capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of net investment in capital assets.

► ***Restricted Net Position*** – Reflects constraints on the use of net assets that are either externally imposed by creditors, grantors, contributors, and the like, or imposed by agreements or law (through constitutional provisions or enabling legislation).

► ***Unrestricted Net Position*** – Consists of net assets, which do not meet the definition of the two preceding categories. Unrestricted net position could be designated to indicate that management considers certain amounts to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management that can be removed or modified

Use of Estimates

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

Effects of New Pronouncements

The following GASB statements were adopted in fiscal year 2021:

- GASB Statement No. 84, *Fiduciary Activities*, was implemented as required by GASB during the fiscal year ended June 30, 2021. This Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. 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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The adoption of this statement had no impact on the Authority’s financial statements.

- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61,* establishes reporting requirements for governments that hold a majority equity interest in a legally separate organization. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization’s stock or by otherwise having an explicit measurable right to the net resources of the organization. A government has a majority equity interest in a legally separate organization if: (1) a government's holding of the equity interest meets the definition of an investment in paragraph 64 of GASB Statement No. 72; or (2) a government's holding of the equity interest does not meet the definition of investment; or (3) a government acquires 100% equity interest. The adoption of this statement had no impact on the Authority's financial statements.

- GASB Statement No. 93, *Replacement of Interbank Offered* Rate, assists state and local governments to address those and other accounting and financial reporting implications in the transition away from existing interbank offered rates (IBORs) to other reference rates. Some governments have entered into agreements (particularly derivative instruments and lease 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 adoption of this statement had no impact on the Authority's financial statements as it has no current material agreements with variable payments referencing to IBORs.

Future Adoption of Accounting Standards

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

GASB Statement No.	Name	Adoption required in fiscal year
87	Leases	2022*
89	Accounting for Interest Cost Incurred Before a Construction Period	2022*
91	Conduit Debt Obligations	2023**
92	Omnibus 2020	2022
94	Public-Private and Public-Public Partnerships & Availability Payments Arrangements	2023
96	Subscription-Based Incorporation Technology Arrangements (SBITA)	2023
97	Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code 437 Deferred Compensation Plans	2022
98	The Annual Comprehensive Financial Report	2022
99	Omnibus 2022	2023 and 2024
100	Accounting Changes and Error Corrections an amended to GASB Statement No. 62	2024
101	Compensated Absences	2025

*Original effective date for these GASB Statements was postponed by GASB Statement No. 95 and will be effective starting on fiscal year 2022.

** Original effective date for this statement was postponed by GASB Statement No. 95 and will be effective starting on fiscal year 2023.

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

Commonwealth Appropriations

The Authority may receive appropriations from the Commonwealth, which are classified as non-operating revenue or capital contributions as specified in Joint Resolutions approved by the Puerto Rico Legislature. Commonwealth appropriations to pay for operating expenses are classified as non-operating contributions. Commonwealth appropriations to pay for debt service are classified as non-operating revenues and appropriations for capital projects are classified as capital contributions. During fiscal year 2021 and 2020, the Authority did not receive Commonwealth appropriations.

Federal Grants and Other Contributions

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

(2) Deposits:

As of June 30, 2021 and 2020, the carrying amount of deposits with financial institutions of the Authority consisted of the following (in thousands):

	2021		2020	
	Carrying amount	Bank balance	Carrying amount	Bank balance
Unrestricted deposits in commercial banks in Puerto Rico	$ 338,312	$ 340,445	$ 340,303	$ 343,007
Restricted deposits in commercial banks in Puerto Rico	619,290	619,302	535,379	535,378
Fedral funds held in custody	-	-	6,384	6,384
Total	$ 957,602	$ 959,747	$ 882,066	$ 884,769

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

(3) Custodial Credit Risks Related to Deposits:

Pursuant to the laws of the Commonwealth, the Authority's cash is required to be held only in banks designated as depository institutions of public funds by the Commonwealth's Secretary of the Treasury. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. For fiscal years 2021 and 2020, the Authority was not exposed to custodial credit risk.

(4) Accounts Receivable:

Accounts receivable are primarily for water and sewer services provided to residential, industrial, commercial and government customers, and as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30	
	2021	**2020**
Water and sewer services:		
Residential, industrial, and commercial	$ 862,471	$ 804,690
Government agencies and municipalities	107,432	126,372
	969,903	931,062
Other receivables:		
Central government	4,743	4,743
Other government agencies	3,410	3,410
Private entities	32,205	32,772
	40,358	40,925
Less allowance for uncollectible accounts	(777,968)	(750,098)
Total	$ 232,293	$ 221,889

Receivables from the Commonwealth amounted to approximately $4.7 million as of June 30, 2021 and 2020. Approximately $3.7 million of this balance is related to interest paid by the Authority on the Public Finance Corporation ("PFC") 2011 Series B Bonds to be reimbursed. As of June 30, 2021, and 2020, $3.7 million of this receivable from the Commonwealth is reserved.

(5) Receivables from Federal Agencies:

Receivables from federal agencies of approximately $32.8 million and $32.5 million as of June 30, 2021 and 2020, respectively, consist primarily of amounts to be received from FEMA as reimbursement for expenses incurred by the Authority for disaster recovery costs, following the state of emergency declaration made by the president of the United State of America for Puerto Rico after the extreme damages caused by the 2017 Hurricanes. Management expects this receivable to be collected, therefore the balance has not been reserved.

(6) Materials and Supplies Inventory:

Material and supplies inventory were approximately $41.2 million and $35.6 million as of June 30, 2021 and 2020, respectively and consisted of materials and supplies needed for the operation and maintenance of the water and sewer systems and for the replacement of water meters and other components of the Authority system.

(7) Restricted Assets:

Restricted assets consist of the following:

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

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

These funds also include funds received from the Federal Emergency Management Agency ("FEMA") and other federal agency or insurance proceeds to be invested in capital improvement projects for the system recovery after disaster emergencies, such as hurricanes, tropical storms, earthquakes, and others.

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

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

The Authority's restricted cash and cash equivalents included $287.1 million and $287.9 million as of June 30, 2021 and 2020, respectively, classified as current assets to be used for current debt service payment obligations or for potential short term operating needs, through the Operating Reserve Fund.

Restricted assets by category as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30	
	2021	2020
Capital and construction funds	$ 221,851	$ 145,358
Operating reserve funds	175,238	140,930
Debt service funds	222,201	255,475
Total	$ 619,290	$ 541,763

(8) Capital Assets:

Utility plant and other capital assets as of June 30, 2021 were as follows (in thousands):

	June 30, 2021			
	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 64,376	$ 61	$ -	$ 64,437
Easement	10,733	2	-	10,735
Construction in progress	399,135	86,710	(52,039)	433,806
Total capital assets not being depreciated	474,244	86,773	(52,039)	508,978
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,566,914	41,083	(12,233)	9,595,764
Wells, tanks and meters	669,119	3,947	(1,487)	671,579
Buildings	83,345	21	-	83,366
Equipment, furniture, fixtures and vehicles	400,696	4,860	-	405,556
Total capital assets being depreciated	10,720,074	49,911	(13,720)	10,756,265
Less accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(4,662,270)	(199,345)	7,478	(4,854,137)
Wells, tanks and meters	(342,544)	(22,162)	1,483	(363,223)
Buildings	(47,400)	(1,361)	-	(48,761)
Equipment, furniture, fixtures and vehicles	(359,868)	(7,615)	-	(367,483)
Total accumulated depreciation	(5,412,082)	(230,483)	8,961	(5,633,604)
Total capital assets being depreciated, net	5,307,992	(180,572)	(4,759)	5,122,661
Total capital assets, net	$ 5,782,236	$ (93,799)	$ (56,798)	$ 5,631,639

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

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

(9) Accrued Liabilities:

Accrued liabilities as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30	
	2021	2020
Payroll and related accruals	$ 44,885	$ 50,360
Legal, labor related and environmental contingencies	91,399	89,733
Contract retentions	10,589	10,582
Total	$ 146,873	$ 150,675

(10) Early Retirement Obligations:

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

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

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

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

As of June 30, 2021 and 2020, unpaid long term benefits granted in Act 211-2015 were discounted by a rate of 1.15% and 2.40%, respectively. The Authority's obligation under Act 211-2015 for the fiscal years ended on June 30, 2021 and 2020 was approximately $26.1 million and $33.1 million, respectively.

(11) Long-Term Debt:

Long-term debt activity for the fiscal year ended June 30, 2021 was as follows (in thousands):

	June 30, 2021					
	Beginning balance	Additions/ amortization	Reductions[1]	Ending balance	Due within one year	Due thereafter
Commonwealth Appropriation Bonds:						
2011 Series A PFC Bonds	$ 90,099	$ -	$ -	$ 90,099	$ -	$ 90,099
2011 Series B PFC Bonds	102,183	-	-	102,183	-	102,183
2011 Series B PFC Bonds (SA)	162,700	-	-	162,700	-	162,700
2012 Series A PFC Bonds	56,247	-	-	56,247	-	56,247
Revenue Bonds:						
2008 Series A Revenue Bonds	1,226,330	-	(1,139,115)	87,215	19,900	67,315
2008 Series B Revenue Bonds	22,445	-	(22,445)	-	-	-
2008 Series A Refunding Bonds	159,055	-	(159,055)	-	-	-
2008 Series B Refunding Bonds	125,700	-	(125,700)	-	-	-
2012 Series A Revenue Bonds	1,695,055	-	-	1,695,055	42,225	1,652,830
2012 Series B Revenue Bonds	193,840	-	(40,255)	153,585	-	153,585
2020 Series A Revenue Bonds	-	1,351,300	-	1,351,300	32,538	1,318,762
2020 Series B Revenue Bonds	-	18,775	-	18,775	725	18,050
Sub total bonds	3,833,654	1,370,075	(1,486,570)	3,717,159	95,388	3,621,771
Add bond premium	23,298	101,027	(3,142)	121,183	742	120,441
Less bond discount	(14,977)	-	14,977	-	-	-
Total bonds	3,841,975	1,471,102	(1,474,735)	3,838,342	96,130	3,742,212
Direct borrowings:						
Notes payable:						
Water Pollution Control and Safe Drinking Water Treatment Revolving Funds Loans	590,677	10,970	(10,000)	591,647	10,000	581,647
USDA Rural Development Loan	401,476	-	(1,980)	399,496	2,021	397,475
GDB Debt Recovery Authority	57,743	-	(57,743)	-	-	-
Total notes	1,049,896	10,970	(69,723)	991,143	12,021	979,122
Other long term liabilities:						
Total Pension Liabilty	1,688,941	300,343	(89,637)	1,899,647	89,202	1,810,445
Accrued compensated absences	42,763	10,985	(8,243)	45,505	6,630	38,875
Total OPEB obligation	125,204	5,936	(8,587)	122,553	6,985	115,568
Early retirement obligation	33,098	-	(7,040)	26,058	6,800	19,258
Customers' deposits	91,986	7,965	(5,019)	94,932	7,725	87,207
Total other liabilities	1,981,992	325,229	(118,526)	2,188,695	117,342	2,071,353
Total – long-term obligations	$ 6,873,863	$ 1,807,301	$ (1,662,984)	$ 7,018,180	$ 225,493	$ 6,792,687

[1]The column titled Reductions reflects (1) payments made during fiscal year 2021 for (i) the 2008 Capital Appreciation Bonds (the 2008 "CABs") and (ii) the 2012 Series B Bonds; and (2) the refunded 2008 Bonds principal reduction as a result of the issuance of the 2020 Bonds as further detailed in Note 12.

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

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

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

(12) Bonds Payable:

Bonds payable as of June 30, 2021 and 2020, consisted of the following (in thousands):

	June 30	
PFC Commonwealth Appropriation Bonds:	2021	2020
Series 2011:		
Series A, 6.50% due in semiannual interest payments through August 1, 2028 and annual principal installments from August 1, 2027 to 2028	$ 90,099	$ 90,099
Series B, 5.50% – 6.00% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2024 to 2031	102,183	102,183
Series B, (SA) 5.50% – 6.00% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2024 to 2031	162,700	162,700
Series 2012:		
Series A, 3.10% – 5.35% due in semiannual interest payments through August 1, 2031 and annual principal installments from August 1, 2015 to 2031	56,247	56,247
Revenue Bonds (Senior Lien):		
Series 2008:		
Series A, Serial Bonds, 5.00%, due in semiannual interest payments through July 1, 2025 and annual principal payments from July 1, 2012 to July 1, 2025	-	25,240
Series A, Convertible Capital Appreciation Bonds, 6.125%, due in semiannual interest payments through July 1, 2024 and annual principal payments from July 1, 2017 to 2024	87,215	105,965
Series A, Term Bonds, 5.00% – 6.00%, due in semiannual interest payments through July 1, 2047 and annual principal payments from July 1, 2026 to 2047	-	1,095,125
Series B, Serial Bonds, 6.15% due in monthly interest payments through July 1, 2038 one principal payment on July 1, 2038	-	22,445
Series 2012:		
Series A, Serial Bonds, 4.00% - 5.50%, due in semiannual interest payments through July 1, 2030 and annual principal payments from July 1, 2015 to 2030	313,060	313,060
Series A, Term Bonds, 5.00% – 6.00%, due in semiannual interest payments through July 1, 2047 and annual principal payments from July 1, 2033 to 2047	1,381,995	1,381,995
Series B, Serial Bonds, 3.35% - 5.00% due in monthly interest payments through July 1, 2023 and annual principal payments from July 1, 2014 to July 1, 2023	46,470	86,725
Series B, Terms Bonds, 5.35% due in monthly interest payments through July 1, 2027 and one principal payment on July 1, 2027	107,115	107,115
Revenue Refunding Bonds (Senior Lien):		
Series 2008:		
Series A and B, Term Bonds, 5.80% – 6.10% due in monthly interest payments through July 1, 2034 and annual principal payments from July 1, 2021 to 2034	-	284,755
Series 2020:		
Series A, Serial Bonds, 4,00% - 5.00%, due in semiannual interest payments through July 1, 2025 and annual principal payments from July 1, 2021 to July 1, 2025	105,340	-
Series A, Term Bonds, 5.00%, due in semiannual interest payments through July 1, 2024 and annual principal payments from July 1, 2030 to 2047	1,245,960	-
Series B, Term Bonds, 4.50%, due in semiannual interest payments through July 1, 2024 and annual principal payments from July 1, 2021 to 2024	18,775	-
Subtotal	3,717,159	3,833,654
Bond premiums	121,183	23,298
Bond discounts	-	(14,977)
Total	$ 3,838,342	$ 3,841,975

PFC Commonwealth Appropriations Bonds

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

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

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

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

The Authority’s share of 2011 Series A, 2011 Series B and 2012 Series A PFC Refunding Bonds is included in the Authority’s balance sheets as of June 30, 2021 and 2020.

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

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

As of June 30, 2021, and 2020, the Authority’s share for the 2011 Series A, 2011 Series B, 2011 Series B (SA) and 2012 Series A Refunding Bonds is approximately $90.1 million, $102.2 million, $162.7 million and $56.2 million, respectively.

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

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

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

In addition, on January 20, 2022, AAFAF, on behalf of PFC, entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the "PFC Bonds"). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under the PFC Qualifying Modification. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished under the PFC Qualifying Modification and the Authority will be discharged from any liability arising from or related to such promissory notes. Refer to Note 21 (j) for further developments on the PFC qualifying modification.

2008 Series A and B Revenue Refunding Bonds

On March 18, 2008, the Authority issued approximately $284.8 million of Series A and B Revenue Refunding Bonds (the “2008 Revenue Refunding Bonds”), guaranteed by the Commonwealth to refund the Authority’s outstanding 1995 Revenue Refunding Bonds (also guaranteed by the Commonwealth) in the amount of approximately $262.8 million (the “Series 1995 Bonds”). The 2008 Revenue Refunding Bonds bear interest at rates ranging from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The 2008 Series A and B Revenue Refunding Bonds net proceeds of approximately $279.5 million (after payment of approximately $5.3 million in underwriters’ discount, insurance, and other issuance costs) and other funds made available from sinking funds and investment accounts from the Series 1995 Bonds, were deposited in an irrevocable trust with an escrow agent to pay all future principal and interest payments of the Series 1995 Bonds to their respective dates of redemption or maturity. As a result, the Series 1995 Bonds are considered to be defeased and the liability for those bonds has been removed from the Authority’s balance sheet.

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

The 2008 Series A and B Revenue Refunding Bonds were fully refunded on December 17, 2020 with the proceeds of the 2020 Revenue Refunding Bonds. As a result of the refunding, the balance of $284.8 million as of June 30, 2020 for the 2008 Revenue Refunding Bonds was fully defeased and no balance is outstanding as of June 30, 2021. As of June 30, 2020 the outstanding balance for the 2008 Series A and B Refunding Bonds was $284.8 million.

2008 Series A and B Revenue Bonds

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

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

The 2008 Series A Revenue Bonds consisted of (1) $93.2 million of serial bonds bearing interest at 5% per annum with maturity dates ranging from July 1, 2012 to July 1, 2025, (2) $127.9 million of capital appreciation term bonds accruing interest at 6 1/8% per annum and with maturity date of July 1, 2024, and (3) $1,095.1 million of term bonds bearing interest at rates ranging from 5% to 6% per annum with maturity dates ranging from July 1, 2028 to July 1, 2047.

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

The 2008 Series A and B Revenue Bonds were classified as senior indebtedness under the Authority’s MAT.

As of June 30, 2020, the outstanding balance for the 2008 Revenue Bonds Series A was $1,226.3 million and Series B was $22.4 million, respectively.

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

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

As a result of the refunding, the balance of $1,248.77 million as of June 30, 2020 for the 2008 Revenue Bonds was reduced to $87.2 million as of June 30, 2021, which is the balance of the 2008 non-callable convertible capital appreciation bonds as of such date, which were not part of the refunded debt.

2012 Series A and B Revenue Bonds

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

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

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

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

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

In connection with the 2012 Revenue Bond issuance, on January 24, 2012, the Authority's Board of Directors authorized the execution of an amended and restated MAT, dated as of February 15, 2012, by and between the Authority and the MAT Trustee. The MAT, as amended and restated, changed from a net revenue pledge to a gross revenue pledge securing the repayment of the Authority's Senior, Senior Subordinated, and Subordinated debt, incurred by the Authority under the terms thereof, and changed the rate covenant requirements as explained in Note 16.

The 2012 Revenue Bonds were issued as Senior Debt, pursuant to the terms of the MAT. As of June 30, 2021 and 2020, the outstanding balance for the 2012 Revenue Bonds was $1,848.6 million and $1,888.9 million, respectively.

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

2020 Revenue Refunding Bonds

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

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

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

As of June 30, 2021 the outstanding balance for the 2020 Revenue Refunding Bonds, Series A and B was $1,370.1 million.

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

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

Debt Service Payments

Future principal and interest payments on all bonds payable outstanding as of June 30, 2021 are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
2022	$ 96,130	$ 171,413	$ 267,543
2023	132,894	339,715	472,609
2024	85,514	180,975	266,489
2025	101,361	176,045	277,406
2026	103,436	170,870	274,306
2027-2031	848,969	735,480	1,584,449
2032-2036	707,825	521,545	1,229,370
2037-2041	742,210	337,910	1,080,120
2042-2046	670,580	139,548	810,128
2047-2051	228,240	12,303	240,543
Total	3,717,159	$ 2,785,804	$ 6,502,963
Plus unamortized premium	121,183		
Bonds payable, net	$ 3,838,342		

(13) Notes Payable (Direct Borrowings):

Notes payable as of June 30, 2021 and 2020, consisted of the following (in thousands):

	June 30	
	2021	2020
Clear Water Pollution Control Revolving Loan Fund	$ 404,081	$ 399,811
Safe Drinking Water Treatment Revolving Loan Fund	187,566	190,866
USDA Rural Development Loans	399,496	401,476
Notes with GDB Debt Recovery Authority	-	57,743
	$ 991,143	$ 1,049,896

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

The Authority receives federal funds for its CIP through various loans (the “SRF Loans”) granted by the Clean Water State Revolving Fund Programs (“CW-SRF”) and the Drinking Water State Revolving Fund Programs (“DW-SRF”) (and together with the CW-SRF, the “SRFs”), created under the federal Clean Water Act of 1972 and Safe Drinking Water Act of 1974, as amended, administered by the Commonwealth’s Environmental Quality Board (“EQB”) (succeeded by the Puerto Rico Department of Environmental and Natural Resources or “PRDNER”) and the Puerto Rico Department of Health (“PRDOH”), respectively.

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

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

On July 26, 2019, the Authority and AAFAF consummated definitive agreements modifying the Authority's then outstanding SRF Loans in the amount of $570 million plus $26 million of new funds for ongoing capital improvement projects (the "SRF Agreements"). The SRF Agreements were approved by the Oversight Board, pursuant to Section 207 of PROMESA, and consolidated all the restructured debt into two SRF loan agreements consisting of two loans (the "20219 SRF Loans") with a 30-year maturity and for years 1 through 10 bearing interest at 0% and requiring $10 million annual principal-only payments and for years 11 through 30 bearing interest at 1% per annum and requiring $27 million annual debt service thereafter.

After the July 2019 successful debt modification of the SRF Loans, with the agreement of and in collaboration with the EPA, the Authority regained access to funds from the SRF Programs. On August 18, 2020, the Authority entered into a loan agreement with the PRDNER and PRIFA for loans totaling up to $163 million for the funding of 28 wastewater capital improvement projects, bearing interest at 1% per annum and amortizing principal over a 30-year period after each project completion.

All the SRF Loans, including those incurred during fiscal year 2020, are designated as Other System Indebtedness on a parity as to payment with other senior debt under the Authority's MAT and are not guaranteed by the Commonwealth.

The Authority's outstanding balance under the SRF Loans as of June 30, 2021 and 2020, was $591.6 million and $590.7 million, respectively.

Rural Development Loan Agreement

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

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

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

The Authority's outstanding balance of the RD Loans was $399.5 million and $401.5 million as of June 30, 2021 and June 30, 2020, respectively.

Note with GDB and GDB Debt Recovery Authority

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

GDB entered into a Restructuring Support Agreement under Title VI PROMESA "Qualifying Modification" providing for the wind-down of GDB's operations. Upon consummation of the GDB Qualifying Modification (the "GDB Qualifying Modification") under Title VI of PROMESA on November 29, 2018, the GDB-DRA Loan Agreement was subsequently transferred to the GDB Debt Recovery Authority, a statutory public trust and governmental instrumentality created pursuant to Act 109-2017, as amended ("GDB-DRA"). At the time of the transfer to the GDB-DRA, the outstanding principal amount under the GDB-DRA Loan Agreement was $57.5 million, plus accrued, and unpaid interest. On November 10, 2020, the Authority, AAFAF, the GDB-DRA, and the servicer and collateral monitor for the GDB-DRA reached an agreement in principle, contingent on Oversight Board approval, to resolve and settle in full all Authority obligations under the GDB-DRA Loan Agreement for a one-time Authority payment in the amount of $20.5 million (the "Settlement Agreement"). On November 20, 2020, the Oversight Board approved the settlement and that same day the Authority made the $20.5 million payment in full. Pursuant to the terms of the Settlement Agreement, the GDB-DRA Loan Agreement was terminated, and the Authority has no further obligation under it. As a result of this, the Authority recognized a gain on debt settlement of $57.2 million from the difference between settlement payment and the principal amount and accrued interest at the time of the payment.

Debt Service Payments

Future principal and interest payments on all notes payable outstanding as of June 30, 2021 are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
2022	$ 12,021	$ 7,979	$ 20,000
2023	12,061	7,939	20,000
2024	12,103	7,897	20,000
2025	12,145	7,855	20,000
2026	12,188	7,812	20,000
2027-2031	90,987	45,544	136,531
2032-2036	166,817	54,953	221,770
2037-2041	178,037	43,733	221,770
2042-2046	190,113	31,657	221,770
2047-2051	161,800	18,860	180,660
2052-2056	74,858	9,880	84,738
2057-2061	57,044	2,303	59,347
2062-2066	-	-	-
Permanents loans	980,174	246,412	1,226,586
Construction loans	10,970	-	10,970
Total	$ 991,144	$ 246,412	$ 1,237,556

Construction Loans are related to SRF new loans to finance projects still under construction, and, therefore, such balance does not have a principal amortization schedule as of the date of the issuance of these financial statements.

(14) Pension Plan:

General Information of Pension Plan

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

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

In 1999, Act 447-1951 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (“System 2000”). Members who entered the ERS on or after January 1, 2000 (“System 2000 Participants”) participate solely in System 2000.

On April 4, 2013, Act 3-2013 was enacted and represented a comprehensive reform of the ERS, effective on July 1, 2013.

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

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

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

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

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

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

Furthermore, under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within

10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

Total Pension Liability of the ERS

The total pension liability as of June 30, 2020 (the measurement date used for financial reporting for fiscal year 2021) was determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020.

Actuarial Method and Key Assumptions

The actuarial valuation used the following actuarial methods and key assumptions for the values reported as of June 30, 2021 and 2020:

	2021	2020
Actuarial cost method	Entry Age Normal	Entry Age Normal
Discount Rate	2.21%	3.50%
Valuation date	July 1, 2019	July 1, 2018
Measurement date	June 30, 2020	June 30, 2019

The discount rate represents the municipal bond return as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Salary increases are assumed on a basis of 3% per year. However, no compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the actuarial valuations used for fiscal year 2021 (based on the valualtion as of June, 30, 2020) were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvememnet Scales MP-2020 on a generational basis. For members covered under Act No. 127, the Pub-S2010 Employee Mortality Rates were assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

- Post-retirement Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2013 to 20128 and updated expectations regarding future mortality improvement. The PubG2010 healthy retirees rates, adjusted by 100% males and 100% females, projected using MP-2020 on a generational basis. Prior to retirees death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivos rates adjusted by 110% for for males and 120% for females for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both befote and after the measurmement.

- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retirees rates, adjusted by 80% for males and 100% for females.

The base rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortalitly improvements both before and after the measurement date.

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

The Authority's proportionate percentage share of the total pension liability decreased to 6.7658% for fiscal year 2021 from 6.79642% for fiscal year 2020, and the Authority's share of the total pension liability increased from $1,688.9 million for the valuation reported in fiscal year 2020 to $1,899.6 million for the valuation reported in fiscal year 2021, mostly as a result of the reduction on the applicable discount rate.

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

The following presents the total pension liability reported as of June 30, 2021, calculated using the discount rate of 2.21%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate (in thousands):

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total pension liabilty	$ 2,179,052,624	$ 1,899,646,952	$ 1,674,332,776

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

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

For fiscal years ended June 30, 2021 and 2020, the Authority pension expense, as set forth in the actuarial report, was $92.1 million and $54.8 million, respectively.

As of June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (expressed in thousands):

	Beginning of year balance	Additions	Deductions	End of year balance
Deferred outflow of resources:				
Changes of assumptions	$ 54,844	$ 183,997	$ -	$ 238,841
Changes in proportion	3,216	-	804	2,412
Differences between actual and expected experience	-	3,918	-	3,918
Total	$ 58,060	$ 187,915	$ 804	$ 245,171
Deferred inflow of resources:				
Changes of assumptions	$ 43,664	$ -	$ 11,055	$ 32,609
Changes in proportion	7,201	4,089	-	11,290
Differences between actual and expected experience	57,260	-	14,497	42,763
Total	$ 108,125	$ 4,089	$ 25,552	$ 86,662

Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities for the fiscal year ended June 30, 2021 will be recognized in the pension expense as follows (in thousands):

Year Ending June 30,		Amount
2022	$	38,889
2023		38,889
2024		38,889
2025		50,720
	$	167,387

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion; therefore, the deferred outflows and deferred inflows of $2.4 million and $11.2 million, respectively, related to changes in proportion, have not been included in the table above.

Deferred outflows of resources related to pension benefit payments made by the Authority subsequent to the measurement date, which amounted to $85.2 million as of June 30, 2021, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2022.

(15) Other Postemployment Benefits:

Authority Health Plan Benefit

The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to its retirees (the “Healthcare Plan”) pursuant to collective bargain agreements. The Plan is administered by the Authority. The benefit consists of a fixed maximum monthly payment (annuity) to cover medical expenses. Based on the Healthcare Plan’s features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single-employer, defined benefit, healthcare plan. Participant groups covered are employees under the Collective Bargaining Agreement with “Unión Independiente Auténtica” (“UIA”), employees under the Collective Bargaining Agreement with “Hermandad Independiente de Empleados Profesionales de la Autoridad de Acueductos y Alcantarillados” (“HIEPAAA”) and employees under the Managers’ Regulation, all of which are Authority’s employees. All employees with more than twenty (20) years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age.

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

► For those employees employed by the Authority before March 30, 1990, normal retirement age will be sixty-one (61) years old.

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

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

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

Employees Covered by Benefit Terms

For determining OPEB Liability as of June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	1,861
Active employees	4,490
Total	6,351

Funding Policy

The contribution requirements of the Authority are established and may be amended by the Authority's Governing Board. The benefits are paid directly by the Authority to the retirees at a maximum rate of $125 per month per retiree. The Healthcare Plan is financed on a pay-as-you-go basis and the amount contributed during the fiscal year ended June 30, 2021 and 2020 was approximately $3.0 million, respectively. There is no contribution requirement for plan members.

Annual OPEB costs and Total OPEB liability

The Authority's actuarial accrued liability decreased from $79.9 million as of June 30, 2020, to $75.1 million as of June 30, 2021, and the funding ratio was 0%.

The OPEB Expense and OPEB Liability were computed as part of an actuarial valuation performed as of June 30, 2021, in accordance with parameters of GASB Statement No. 75 and based on the demographic data for such year.

The following table illustrates the Total OPEB Liability as of June 30, 2021 and 2020 based on the latest actuarial report (in thousands):

	June 30	
	2021	**2020**
OPEB Liability at beginning of year	$ 79,947	$ 75,427
Changes recognized in fiscal year		
Service cost	1,903	1,529
Interest cost	1,776	2,642
Actual exoeriece	(6,073)	-
Changes in assumptions	484	3,322
Benefit payments	(2,977)	(2,973)
Net changes	(4,887)	4,520
OPEB Liability at end of year	$ 75,060	$ 79,947

OPEB deferred outflows of resources and deferred inflows of resources

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

OPEB deferred outflows of resources and deferred inflows of resources

The following table illustrates the OPEB deferred outflows of resources and deferred inflows of resources under GASB Statement No. 75 for the fiscal years ended June 30, 2021 and 2020 (in thousands):

	2021		2020	
	Deferred outflow of resources	Deferred intflow of resources	Deferred outflow of resources	Deferred intflow of resources
Difference between actual and expected experience	$ 5,383	$ 7,412	$ 5,741	$ 2,062
Assumption changes	6,435	8,541	6,486	9,107
Total	$ 11,818	$ 15,953	$ 12,227	$ 11,169

The following table illustrates the list of amortizations for the OPEB deferred outflows of resources and deferred inflows of resources under GASB Statement No. 75 for the fiscal year ended June 30, 2021 (in thousands):

Date Established	Type of Base	Years Original	Years Remaining	Balance Original	Balance Remaining	Annual Payment
6/30/2020	Liability (Gain)/Loss	10.19	9.19	$ (6,072.1)	$ (5,476.2)	$ (595.9)
6/30/2020	Assumptions	10.19	9.19	484.0	436.5	47.5
6/30/2019	Assumptions	12.04	10.04	3,322.7	2,770.7	276.0
6/30/2018	Liability (Gain)/Loss	18.28	15.28	(2,315.7)	(1,935.6)	(126.7)
6/30/2018	Assumptions	18.28	15.28	3,861.9	3,228.1	211.3
6/30/2018	Assumptions	20.03	15.28	(2,853.5)	(2,385.2)	(156.1)
6/30/2016	Liability (Gain)/Loss	20.03	15.03	7,173.3	5,382.6	358.1
6/30/2016	Assumptions	20.03	15.03	(8,204.1)	(6,156.1)	(409.6)
	Total Charges				$ (4,135.2)	$ (395.4)

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

Fiscal Year		Amount
2022	$	(395.4)
2023		(395.4)
2024		(395.4)
2025		(395.4)
2026		(395.4)
Total Thereafter		(2,158.1)
Total to be amortized	$	(4,135.1)

Actuarial Cost Method

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

Actuarial Assumptions

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

Economic Assumptions

The discount rates considered for fiscal years ended June 30, 2021 and 2020, were 2.16% and 2.21%, respectively. In order to comply with GASB No. 75, 20-year Municipal Bond Rate term investments (Bond Buyer US weekly yields 20 General Obligation Bond Index) were used to represent the Authority's expected long-term return on internal assets used to finance the payment of plan benefits.

As the retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience) without negotiation of a new contract with the unions or an express Governing Board approval, the medical increase rate was zero percent for the fiscal years ended June 30, 2021 and 2020. If the fixed benefit level increases in the future (by negotiation or plan amendment), the higher obligation will be recognized when the new contract or amendment is adopted.

The salary increase rate used as an assumption (not actual) is 2.50% as of June 30, 2021 and 2020.

Demographic Assumptions

For the fiscal years ended June 30, 2021 and 2020, the turnover table used for the valuation was the Withdrawal Table for Hourly Union Employees – five (5) years of service select period, which was based on the Society of Actuaries' 2003 pension plan turnover study.

The "PUB-2010 amounts weighted mortality for "general" employees with generational mortality improvement projected using scale MP-2020" mortality table was used for the valuation as of June 30, 2021 and 2020.

The Hunter disability table was used for the valuation.

Sensitivity of the Total OPEB Liability to Changes in Discount Rate

The following table presents the total OPEB liability calculated using the discount rate of 2.16%, as well as what it would be if it were calculated using a discount rate of 1 percentage point lower or 1 percentage point higher than the current rate (dollars in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability as of June 30, 2021	$ 85,755	$ 75,060	$ 66,175

ERS Medical Insurance Plan Contribution (ERS MIPC)

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

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

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

Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2021 and 2020 was determined by the actuarial valuation as of July 1, 2019, with measurement date of June 30, 2020, and assumed no liability gains or losses.

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

The discount rate considered for the reporting years ended June 30, 2021 and 2020 (for measurement years ended on June 30, 2020 and 2019) was 2.21% and 3.50%, respectively. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience). The medical increase rate was zero percent for the fiscal years ended June 30, 2021 and 2020.

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

The Authority's proportionate percentage share of the total pension liability amounts to 5.42999% for fiscal year 2020 and 5.43802% in fiscal year 2019, as reported for fiscal years 2021 and 2020. The Authority participation in the ERS MIPC OPEB liability was of $47.5 million and $45.3 million, for fiscal years 2021 and 2020, respectively.

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

The following table illustrates the total ERS MIPC OPEB Liability under GASB Statement No. 75 for the fiscal years reported on June 30, 2021 and 2020 (based on the measurements days as of June 30, 2020 and 2019, respectively), as informed by the ERS to the Authority (in thousands):

	June 30	
	2021	**2020**
OPEB liability at beginning of year	$ 45,257	$ 45,951
OPEB expense	6,004	3,213
Benefit payments	(3,702)	(3,752)
Amortization of changes in proportion	(66)	(155)
OPEB Liability at end of year	$ 47,493	$ 45,257

The following presents the total ERS MIPC OPEB liability recorded as of June 30, 2021 (based on the valuation as of June 30, 2020), calculated using the applicable discount rate of 2.21%, as well as what the total ERS MIPC OPEB liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate (in thousands):

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability as of June 30, 2021	$ 52,360	$ 47,493	$ 43,379

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

OPEB expense as included in the actuarial report for the fiscal years ended June 30, 2021 and 2020, related to ERS MIPC amounted to $5.9 million and $3.1 million, respectively.

Because all participants in the ERS MIPC are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date, which amounted to $3.6 million during fiscal year 2021, which will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2022.

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

(16) Pledge Revenues and Financial Covenants:

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

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

(a) default in the due and punctual payment of the principal of or premium, if any, on any Bonds or Other System Indebtedness whether at maturity, upon termination or call for redemption or otherwise; or

(b) default in the due and punctual payment of the interest on any Bonds or Other System Indebtedness; or

(c) the Authority shall for any reason be determined to be incapable by a court, governmental entity or agency of competent jurisdiction of fulfilling or shall not have full power and authority to fulfill its obligations hereunder; or

(d) an order or decree shall be entered, with the consent or acquiescence of the Authority, appointing a receiver or receivers of the Authority's water and sewage systems (the "Systems") or any part thereof or of the Authority's Revenues, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not have been vacated, discharged or stayed on appeal within ninety

(90) days after the entry thereof; or

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or Commonwealth of Puerto Rico statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable out of the Authority's Revenues and if said proceeding shall not have been discharged within ninety (90) days after the institution thereof, or if any such proceeding, having been instituted without the consent or acquiescence of the Authority, shall not be contested in good faith; or

(f) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the MAT on the part of the Authority to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than ten per cent (10%) in principal amount of the Senior Bonds then outstanding; provided, however, if the default specified in this clause (f) shall be of a type that cannot be remedied within thirty (30) days, it shall not constitute an event of default if the Authority shall begin diligently to remedy such default within such thirty-day period.

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

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

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

(a) Upon the occurrence of an event of default (other than an event of default specified in section (f) above) and until delivery of the documents set forth in the following paragraph, amounts on deposit in the operating revenue fund shall be applied in accordance with the MAT.

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

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

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

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

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

As of June 30, 2021 and 2020, the Authority rate covenant on all obligations was 1.04 and 1.02, respectively. as included in the Supplemental Schedule included herein.

(17) Capital and Other Contributions:

Capital and Other contributions for the fiscal year ended June 30, 2021 and 2020 were as follows (in thousands):

	June 30	
	2021	**2020**
Contributions from governmental agencies and municipalities	$ 1,430	$ 736
Federal grants		
Federal Emergency Management Agency	29,221	832
US EPA State Revolving Fund	1,202	4,430
USDA Rural Development Program	(4,626)	-
Developer contributions	905	2,623
Other contributions	1,865	965
	$ 29,997	$ 9,586

(18) Related Party Transactions:

Operating revenues for services provided to the Commonwealth and its component units amounted to approximately $108.3 million and $125.6 million during the fiscal years ended June 30, 2021 and 2020, respectively. The Authority's government accounts receivable for water and sewer services as of June 30, 2021 and 2020 was $22.3 million and $28.9 million, respectively. As of June 30, 2021 and 2020, the account receivables from Central Government Accounts was $9.4 million and $11.7 million, respectively.

As of June 30, 2021, and 2020, the Authority had approximately $8.2 million of receivables, from the Commonwealth and its component units, which $3.7 million are fully reserved. Such receivables are reported as accounts receivable net in the accompanying balance sheets.

The Authority had approximately $12.5 million and $9.7 million of excess of collections over billings from the Commonwealth, recorded as unearned revenue in the accompanying balance sheets as of June 30, 2021 and 2020, respectively.

The Authority cost for electric purchases from the Puerto Rico Electric Power Authority ("PREPA"), a component unit of the Commonwealth was $121.6 million and $136.3 million during fiscal years ended June 30, 2021 and 2020, respectively. Additionally the Authority purchases raw water from PREPA and such purchases amounted to $6.71 millions and $6.86 millions during fiscal years ended June 30, 2021 and 2020, respectively.

As of June 30, 2021 and 2020, the Authority's accounts payable with PREPA and the ERS was $62.9 million and $44.0 million, respectively. The Authority has been working with both PREPA and ERS to settle the outstanding disputed balances for several years. During fiscal year 2023 the Authority was able to reach an agreement on the payable outstanding balances and the payment terms with both, ERS and PREPA. As of the date of the issuance of these financial statements the Authority has no balance outstanding with ERS related to billings up to fiscal year 2021, inclusive.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit and term loans to the Authority in order to finance capital improvement projects and operational needs. As of June 30, 2020, the Authority had a term loan with an outstanding principal balance of approximately $57.7 million under this credit facility. On March 23, 2018, GDB ceased its operations and wound down in an orderly manner under Title VI of PROMESA. On November 10, 2020, the Authority, AAFAF, GDB-DRA and the collateral monitor for GDB-DRA reached an agreement in principle, contingent on Oversight Board approval, to resolve and settle in full all Authority obligations under the GDB-DRA Loan Agreement by a one-time Authority payment in the amount of $20.5 million. On November 20, 2020, the Oversight Board approved the settlement, the Authority made that payment in full, the GDB-DRA Loan Agreement was terminated, and the Authority has no further obligation under it.

(19) Labor Union Contracts:

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

As of June 30, 2021, 2,956 employees were members of the UIA union and 120 were members of the HIEPAAA union. The remaining Authority employees consist of (i) 1,138 management employees, (ii) 164 appointed employees and (iii) 292 employees under the pre-retirement program established by Act 211-2015 not rendering services to the Authority. The pre-retirement program provides government agencies and municipalities in Puerto Rico, such as the Authority, with a mechanism to help them generate savings in employee costs (payroll and fringe benefits), as well as to afford employees who enrolled in the ERS prior to

April 1, 1990, the opportunity to receive certain benefits until they reach the optional retirement age, which for most employees is 61 years.

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

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

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

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

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

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

Please refer to Note 21 for recent developments related to the negotiation of the CBAs.

(20) Commitments and Contingencies:

Environmental Matters

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

As further detailed below, and as a result of the 2017 Hurricanes, the seismic activity in Puerto Rico in late 2019 and early 2020, as well as the recent COVID-19 pandemic, the Authority invoked the force majeure clauses under the two agreements with the regulatory agencies (PRDOH and EPA). Although compliance with the capital improvement and program requirements was not affected, the Authority requested and obtained from both local and federal regulatory agencies extensions to deadlines for certain documentation and reporting requirements including Discharge Monitoring Reports and progress reports. As a result of structural damages at several facilities resulting from the 2019-2020 seismic activity in the southwestern part of Puerto Rico, the Authority has had to implement alternate liquid sludge disposal methods for sludge produced by affected wastewater treatment facilities, including landfill disposal.

2006 Drinking Water Settlement Agreement.

Prior to December 2006, the Water System had been subject to approximately 180 administrative orders arising from enforcement actions by PRDOH for violations of the SDWA and to three administrative consent agreements with PRDOH addressing monitoring and turbidity violations. In December 2006, the Authority entered into a comprehensive settlement agreement with PRDOH resolving litigation brought against the Authority seeking enforcement of the administrative orders of PRDOH under the SDWA and the violations by the Authority of two of the prior consent agreements (the "2006 Drinking Water Settlement Agreement"). The 2006 Drinking Water Settlement Agreement was filed on December 15, 2006 with the Court of First Instance, Superior Court of San Juan in Civil Action KPE 2006-0858 and approved on March 15, 2007. It was amended on June 16, 2008, and continues in effect. The 2006 Drinking Water Settlement Agreement replaces and supersedes all prior PRDOH administrative orders and consent agreements.

The 2006 Drinking Water Settlement Agreement provides for remedial and compliance actions by the Authority in its water treatment plants in accordance with agreed-upon schedules and for the payment of stipulated penalties for non-compliance. It obligates the Authority to carry out approximately 210 long-term remedial measures over a 15-year period along with many other shorter-term remedial actions that will involve both capital expenditures and expenditures for operating, maintenance and training programs and evaluations and studies centered on ensuring that the quality of drinking water provided by the Authority to its customers meets all federal and Commonwealth regulatory standards. Additionally, the Authority paid a $1 million civil penalty to the Commonwealth and is required to pay stipulated penalties for violations of the agreement. Certain stipulated penalties paid by the Authority may be returned to the Authority under certain circumstances to be used to finance action directed at achieving or maintaining compliance with the Authority's obligations under the 2006 Drinking Water Settlement Agreement and under local and federal laws applicable to the Water System. The Authority submits quarterly compliance progress reports to the PRDOH under the 2006 Drinking Water Settlement Agreement and self-assesses any applicable stipulated penalties.

The 2006 Drinking Water Settlement Agreement requires the implementation of short, mid and long-term remedial measures of the Water System. As of June 30, 2021, the Authority had completed all short-term and mid-term remedial measures related to the water treatment plants, made up of 540 short-term and 115 mid-term remedial measures.

The long-term remedial measures are divided into three terms: Term 1 measures were to be completed by December 31, 2011, Term 2 measures were to be completed by December 31, 2016, and Term 3 measures are to be completed by December 31, 2021. All long-term remedial measures under Term 1 have been completed. Thirteen of the 18 Term 2 measures have been completed. Regarding the remaining five remedial measures, the Authority and PRDOH filed a joint motion to move three projects to Term 3 category and to have the other two eliminated, which motion was granted by the supervising court. Term 3 measures initially comprised a total of 13 projects, converted to 16 with the inclusion of the three projects moved from Term 2. Of these 16 projects, eight have been completed. The time frame for the completion of the remaining eight projects was December 31, 2021, but the Authority was expecting to negotiate with PRDOH an amendment to the 2006 Drinking Water Settlement Agreement to provide for revised project completion time frames consistent with agreements reached with EPA under the 2015 EPA Consent Decree, which revised time frames will provide for more flexibility to complete these projects based on a project prioritization system approved by EPA. Please refer to Note 21 for more detail.

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

The Authority has been required to pay stipulated penalties under the 2006 Drinking Water Settlement Agreement related to compliance issues in respect of primary standards (and mostly related to DBPs), which amounted to approximately $31,000 during fiscal year 2021. The Authority has also been required to pay stipulated penalties because of certain missing or late deliverables, remedial measures and mitigation measures.

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

2015 EPA Consent Decree

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

Concurrently with the filing of the Complaint, DOJ filed a consolidated Consent Decree executed among the EPA, Authority and Government of Puerto Rico (the "2015 EPA Consent Decree") settling the matters addressed in the Complaint, under the terms agreed upon by the Authority, DOJ and EPA. The 2015 EPA

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

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

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

Risk Management

The Authority purchases commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by the Authority contains specific policy limits and deductibles.

A summary of the property insurance maintained by the Authority for the period commencing on April 1, 2020 and ending on April 30, 2021 was as follows:

Real and Personal Property

Coverage	Limit	Deductible
Total Insurable Value	$300 million	As stated below
Property – All Other Perils (AOP) (including Data Processing, In Transit and equipment breakdown)	$150 million per occurrence, All Risks of Direct physical Loss or damage Insurance including Business interruption and Extra Expense, in excess of applicable deductibles.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Windstorm	Included in $150 million property coverage.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Earthquake (EQ)	$150 million Combined Single Limit for Property Damage and Business Interruption each and every occurrence, excess of applicable deductibles and excluding wind driven water.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Flood	$150 million Combined Single Limit for Property Damage and Business Interruption each and very occurrence, excess of applicable deductibles and excluding wind driven water.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Business Interruption	Included in $150 million property for AOP.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Extra Expense	Included in $150 million property for AOP, subject to a $35 million sublimit	$100 million each and every occurrence combined for Property Damage and Business Interruption,

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

The renewal of the real and personal property insurance policy starting on April 1, 2021 includes the same policy coverages and limits as the ones included above.

Liability

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

Owner Controlled Insurance Program

The Authority also has an Owner Controlled Insurance Program (“OCIP”). The OCIP is an insurance program under which Commercial General Liability, Excess General Liability, Builders Risk, and Contractors Pollution Liability coverages are procured or provided on a project “wrap-up” basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the Project Site.

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

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

Settled Liability and OCIP related claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal years 2021 and 2020.

Operating Leases

Certain commercial offices and warehouse facilities of the Authority are leased under operating lease agreements. During the fiscal years ended June 30, 2021 and 2020, the Authority incurred approximately $2.8 million and $2.9 million, respectively, in rent expense.

Future minimum non-cancelable lease payments on existing operating leases as of June 30, 2021, which have an initial term of one year or more, were as follows (in thousands):

Year Ending June 30,	Amount
2022	$ 2,901
2023	2,856
2024	1,891
2025	1,704
2026	1,453
2027-2031	2,276
2032-2036	493
	$ 13,574

Litigation

The Authority is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of the Authority and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of the Authority. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies of $87.4 million and $89.7 million as of June 30, 2021 and 2020, respectively, presented within accrued liabilities in the accompanying balance sheets.

COVID-19

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

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

The Authority requested under the American Rescue Plan Act of 2021 (P.L. 117-2) funds to provide premium pay to eligible essential employees working in person and performing services to provide an essential service (water treatment and distribution and wastewater collection and treatment) during the COVID-19 emergency. See Note 21.

(21) Subsequent events:

Subsequent events were evaluated through March 10, 2023, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the fiscal year 2021 financial statements.

(a) COVID-19

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

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

(b) Environmental Compliance

Although the Authority is committed to bringing the Systems into material compliance with applicable law, the Authority will not be able to comply fully with all the requirements of the 2015 EPA Consent Decree and 2006 Drinking Water Settlement Agreement due to the impact of the 2017 Hurricanes, the 2019/2020 earthquakes and the COVID-19 pandemic on project execution timelines. Despite the fact that the Force Majeure clause, invoked by the Authority after Hurricane María, is still in effect, all efforts are made to maintain compliance on the regulations and permits as stablished under the CWA and SDWA. The Authority and EPA Caribe has made significant progress in the negotiation process of the Consent Decree under revision. Among the achievements the followings can be highlighted:

a) All projects stipulated under the Remedial Conditions Term 1 were finished.
b) New compliance dates were negotiated and approved for the projects under the Remedial Conditions Term 2 and 3.
c) New compliance dates were also approved for the CIP projects (Appendix J of the Decree).

d) A revised list of the sanitary pumping stations owned and operated by the Authority was submitted. This list will be included as an attachment once the revised Decree is approved.

A draft of the Authority's final comments to the proposed amended consent decree and its correspondent appendixes were already submitted to DOJ.

In addition, the Authority expects to negotiate with PRDOH an amendment to the 2006 Drinking Water Settlement Agreement to provide for revised project completion time frames and project prioritization provisions consistent with agreements reached with EPA under the 2015 EPA Consent Decree and its proposed amendment. Although that the negotiation with the PRDOH has not started yet, the Authority has maintained conversations and negotiated the stoppage of some imposed penalties and established new compliance dates for some remedial measures.

In the meantime, the Authority expects that it will continue to pay stipulated penalties and to make additional capital expenditures (some not included in the CIP) in the future.

(c) Drought

During June 2022, as a result of the drought season and low levels of raw water supply, the Authority was required to implement a water rationing program for approximately 10,000 clients in the Municipalities of Canóvanas and Loíza served by the Canóvanas water treatment plant. Subsequently, the water rationing program was extended to around 10,000 additional clients in the Municipalities of Rio Grande, Juncos and Las Piedras served by the Juncos and El Yunque water treatment plants.

(d) 2022 Fiscal Plan

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

(e) Rate Adjustments

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

(f) SRF New Loans

After the July 2019 successful debt modification of the Authority's outstanding loans with the SRFs, in collaboration and agreement with the EPA, the Authority regained access to funds from the SRFs. Since then, the Authority entered into various financial agreements with the SRFs, as follows:

- On August 18, 2020, PRASA entered into a loan agreement for CWSRF funding up to $163 million to finance 28 wastewater capital improvement projects.

- On September 17, 2021, the Authority signed a $46 million financial agreement for DWSRF funding for drinking water projects.
- On October 28, 2021, the Authority executed a financial agreement for $32 million of CWSRF funding for additional wastewater projects.
- On September 22, 2022, the Authority signed a $11.8 million financial agreement for DWSRF funding for drinking water projects.
- On January 24, 2023, a new financial agreement for CWSRF funding for $24.2 million was executed.

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

(g) Disaster Recovery Funds

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

On September 2, 2021 the Department of Housing of Puerto Rico and the Authority entered into a sub-award agreement for $200 million under the CDBG-DR Non-Federal Match Program to fund approximately one-half of the state match of the FEMA award for recovery projects related to Hurricane María.

(h) 2021 and 2022 Debt Refunding

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

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

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

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

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

In addition, on August 25, 2021, the Authority issued $842.4 million principal amount of Revenue Refunding Bonds, Series 2021B (Senior Lien) in exchange for $920.7 million principal amount of Revenue Bonds, Series 2012A (Senior Lien) (the "2012 Purchased Bonds") tendered for exchange and cancelled. In connection with such tender and exchange, the Authority paid to the holders of the 2012 Purchased Bonds $7.3 million of accrued interest. As a result of the tender and exchange and in accordance with the MAT, the 2012 Purchased Bonds were deemed to have been retired on August 25, 2021.

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

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

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

(i) Employees and Labor Relations

As set forth in Note 19, on April 6, 2021, the Authority received a partial labor agreement proposal from UIA. UIA requested that the Authority provide it with financial information to develop a proposed comprehensive revision to the Authority's CBA with UIA incorporating amendments to clauses with economic impact. After further discussions by the parties, in February, 2022, the Authority and UIA signed a Negotiation Agreement. The Negotiation Agreement, by which the parties are participating in mediation before the Puerto Rico Department of Labor ("***DOL***"), provides for the negotiation of revised pay scales, subject to compliance with PROMESA and the 2022 Fiscal Plan.

Under the Negotiation Agreement, either party can notify the other of its intention to negotiate a revised CBA at least 90-days prior to each July 1, commencing with July 1, 2022. If such notification is not received at least 90 days before a July 1, the CBA will be extended for an additional year. As of June 30, 2022, the required 90-day notice had not been received, resulting in the extension of the CBA until July 1, 2023.

The Negotiation Agreement also provides that the parties will promote payment of wage incentives starting in fiscal year 2023 for certain difficult recruitment positions such as plant operators and electro-mechanics; payment of a \$600 premium by June 30, 2022 to recognize UIA members' employment commitment; and payment of Christmas bonus balances for fiscal years 2015 (by July 31, 2022) and 2016 (by July 31, 2023), without interest or penalties to active UIA members.

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

On July 1, 2022, based on a comprehensive analysis from a third-party as agreed with the UIA, HIEPAAA and Managers Association, new pay scales were implemented for the Authority employees, providing for a minimum salary increase. As of such date, also an incentive for licensed plant operators and electro-mechanicals was implemented.

(j) PFC Qualifying Modification

On January 20, 2022, AAFAF, on behalf of the Public Finance Corporation ("PFC"), entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds).

The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under a Qualifying Modification (the "PFC Qualifying Modification") under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be cancelled and extinguished under the PFC Qualifying Modification and the Authority will be discharged from any liability arising from or related to such promissory notes.

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

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

(k) Hurricane Fiona

Hurricane Fiona made landfall along the extreme southwestern coast of Puerto Rico, on September 18, 2022 as a Category 1 hurricane with winds of 85 mph, according to the National Hurricane Center. The hurricane resulted in massive amounts of rain, reaching more than 30 inches in some areas in the south and the central mountain region and catastrophic flooding. As a result of the passage of Fiona all the island lost electricity service, which was not restored in some places for many weeks.

The Authority is in the process of completing site visits to determine the full extent of the damages in its infrastructure and of gathering information of the impact in its revenues and expenses. The Authority expect to recover the cost of most of the necessary remediation from the impact of Hurricane Fiona from FEMA and/or insurance proceeds.

Required Supplementary Information

Schedule of the Authority's Proportionate Share of the Total Pension Liability (Unaudited)
June 30, 2021 and 2020

(In thousands)

For the fiscal year ended June 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the total pension liability	Authority's covered-employee payroll	ERS plan's fiduciary position	ERS plan's fiduciary position as a percentate of the total pension liability
2021*	6.76758%	$ 1,899,647	$ -	n/a	n/a
2020*	6.79642%	$ 1,688,941	$ -	n/a	n/a
2019*	6.83100%	$ 1,672,879	$ -	n/a	n/a
2018*	6.81390%	$ 1,921,832	$ -	n/a	n/a

Notes

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

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

See acompanying independent auditors' report

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

Required Supplementary Information
Schedule of Funding Progress for the Authority's Post-employment Healthcare Benefits (Unaudited)
June 30, 2021 and 2020

(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
June 30, 2021	$ -	$ 75,060	$ 75,060	0%	$ 113,711	66%
June 30, 2020	$ -	$ 79,948	$ 79,948	0%	$ 117,545	68%
June 30, 2019	$ -	$ 75,427	$ 75,427	0%	$ 120,262	63%
June 30, 2018	$ -	$ 72,670	$ 72,670	0%	$ 128,331	57%
June 30, 2017	$ -	$ 74,549	$ 74,549	0%	$ 128,331	58%
June 30, 2016	$ -	$ 76,226	$ 76,226	0%	$ 143,209	53%
June 30, 2015	$ -	$ 75,326	$ 75,326	0%	$ 135,965	55%
June 30, 2014	$ -	$ 72,027	$ 72,027	0%	$ 148,131	49%
June 30, 2013	$ -	$ 73,044	$ 73,044	0%	$ 149,613	49%
June 30, 2012	$ -	$ 71,703	$ 71,703	0%	$ 163,753	44%

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

Required Supplementary Information
Schedule of the Authority’s Proportionate Share of the ERS for Postemployment Benefits
June 30, 2021 and 2020

(In thousands)

For the fiscal year ended June 30,	Authority's proportion of total OPEB liability	Authority's proportionate share of total OPEB liability	Authority's covered-employee payroll	Authority's proportionate share of the net pension liability as percentage of covered-employee payroll	ERS plan's fiduciary net position	ERS plan's fiduciary net position a a percentage of the total pension liability
2021*	5.42999%	$ 47,492	$ -	n/a	n/a	n/a
2020*	5.43802%	$ 45,257	$ -	n/a	n/a	n/a
2019*	5.45638%	$ 45,951	$ -	n/a	n/a	n/a
2018*	5.24269%	$ 48,259	$ -	n/a	n/a	n/a
2017*	5.16898%	$ 47,581	$ -	n/a	n/a	n/a

Notes

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

Note: Fiscal year 2017 was the first year that the new requirements of GASB Statement No.75 were implemented by the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See acompanying independent auditors’ report

Supplemental Schedule
Debt Coverage Calculation and Rate Covenant
as required by the MAT

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

Supplemental Schedule
Debt Coverage Calculation and Rate Covenant
June 30, 2021 and 2020

(In thousands)

	2021	2020
Revenues		
Water and Sewer	$ 859,467	$ 844,265
Goverment	181,410	168,686
Service revenues (cash basis)	1,040,877	1,012,951
Other Income	2,829	1,440
Developers Contributions	823	1,515
Insurance Proceeds (BI)	-	50,000
Operating revenues (cash basis)	1,044,529	1,065,906
Operating expenses:		
Payroll and payroll related	296,479	271,910
Electricity	125,962	140,934
Other operating expenses	259,910	254,086
Total net operating expenses	682,351	666,930
FEMA Approppriations for Expenses	(25,018)	(6,268)
Subsidies (netted from revenues)	(5,946)	(5,414)
Non cash reserve and pension adjustments	(3,000)	(3,008)
Adjusted operating expenses	648,387	652,240
Total net revenues per MAT	$ 396,142	$ 413,666
Debt service coverage calculation		
Operating revenues	**$ 1,044,529**	**$ 1,065,906**
Senior debt (Net of funds available in the Senior Bond Fund of $43.6M)	256,756	250,791
Accumulated coverage ratio (Min 2.5x) - section 7.01 (a)(i) MAT	***4.07***	***4.25***
Senior subordinated debt	-	-
Accumulated coverage ratio (Min 2.0x) - section 7.01 (a)(ii) MAT	***4.07***	***4.25***
All bonds and Other Systems Indebtedness	263,934	271,711
Accumulated coverage ratio (Min 1.5x) - section 7.01 (a)(iii) MAT	***3.96***	***3.92***
Rate Covenant Calculation		
Total Obligations (Debt Service, Current Expenes and MAT required deposits)	$ 1,007,105	$ 1,041,863
Accumulated coverage ratio (Min 1.0x) - section 7.01 (a)(iv) MAT	***1.04***	***1.02***

Supplemental Schedule
Debt Coverage Calculation and Rate Covenant
June 30, 2021 and 2020

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

For the rate covenant calculation total debt service does not include debt service payable on the Commonwealth Supported Obligations because no debt service was due and payable by the Authority with respect to such Obligations. The Authority's obligation in respect of such Commonwealth Supported Obligations is contingent on its receipt from the Commonwealth of legislative appropriations earmarked to pay such debt service. In the absence of such appropriations, the Authority has no legal obligation to pay such Obligations.

The coverage ratio on all obligations was 1.04x and 1.02x for fiscal years 2021 and 2020, respectively.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Puerto Rico Aqueduct and Sewer Authority (the Authority) as of and for the fiscal years ended June 30 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority 's basic financial statements and have issued our report thereon dated March 10, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
March 10, 2023.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
LICENSE 217
EXPIRES DECEMBER 1, 2025.
STAMP E507510
OF THE PUERTO RICO SOCIETY OF
CPAS WAS AFFIXED TO THE FILE
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