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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, 2022

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

Table of Contents

Kevane Grant Thornton

Kevane Grant Thornton LLP
33 Bolivia Street
Suite 400
San Juan, Puerto Rico 00917-2013

T + 1 787 754 1915

F + 1 787 751 1284

E kgt@pr.gt.com

linkedin.com/company/kevane-grant-thornton
facebook.com/kevanegrantthornton

Report of Independent Certified Public Accountants

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

Opinion

We have audited the accompanying financial statements of **Puerto Rico Aqueduct and Sewer Authority** (the "Authority"), a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), which comprise the balance sheet as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Puerto Rico Aqueduct and Sewer Authority** as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note (1) to the financial statements, effective July 1, 2021, **Puerto Rico Aqueduct and Sewer Authority** implemented new accounting guidance for leases in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Our opinion is not modified with respect to this matter.

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

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

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

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

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of the **Puerto Rico Aqueduct and Sewer Authority**'s proportionate share of the total pension liability on page 72, the schedule of funding progress for post-employment healthcare benefits on page 73 , and the schedule of the proportionate share of the ERS for post-employment benefits on page 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the **Puerto Rico Aqueduct and Sewer Authority**'s basic financial statements. The supplemental schedule of financial results, debt coverage and rate covenant calculations per the 2012 amended and restated master agreement of trust (“schedule”) on pages 75-76 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 November 30, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
November 30, 2023.

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As management of Puerto Rico Aqueduct and Sewer Authority (the "Authority" or "PRASA"), we offer readers of the Authority's annual financial report our discussion and analysis of the Authority's financial performance during the fiscal year ended on June 30, 2022. Please read it in conjunction with the Authority's financial statements, which follow this section. Numbers included are rounded to facilitate the readers' analysis.

Implementation of New Accounting Standard for Leases Accounting

As disclosed in Notes 1 and 20 to the basic financial statements, in fiscal year 2022, the Authority adopted GASB Statement No. 87, *Leases* (GASB Statement No. 87) which establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets include buildings, land and equipment. Lessees are required to recognize a lease liability and an intangible right of use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources.

Financial Highlights

- The Authority's net position in fiscal year 2022 was ($453.4) million, which increased by $35.3 million, or 7.2%, when compared to fiscal year 2021 net position of ($488.7) million.

- Total operating revenues in fiscal year 2022 were $1,084.0 million, an increase of $40.0 million, or 3.8%, when compared to fiscal year 2021 total operating revenues of $1,044.0 million. During fiscal year 2022, water and wastewater revenues increased by $38.8 million, mainly as a result of rate adjustments and bad debt expense decreased by $1.1 million due to decrease in accounts receivable.

- Operating expenses increased by $51.5 million, or 5.6%, mainly due to the increase in electricity costs by $41.4 million, depreciation and amortization by $14.3 million, chemicals costs by $8.9 million and maintenance and repairs cost by $6.2 million. Operating expenses increases were partially offset by a decrease in payroll costs of $28.6 million as a result of higher capitalization rate and lower pension costs.

- Nonoperating expenses (net of nonoperating revenues) increased by $17.9 million when compared to $164.3 million in fiscal year 2021, mainly due to the gain, recorded in fiscal year 2021, of $57.3 million as a result of the settlement of a loan with the Government Development Bank Debt Recovery Authority ("GDB-DRA") which did not recur in 2022, and a decrease in interest expense of $39.2 million as a result of the issuance of the 2021 and 2022 Revenue Refunding Bonds, resulting in lower interest rates.

- Capital contributions increased by $73.3 million, from $30.0 million in fiscal year 2021 to $103.3 million, primarily as a result of proceeds of funds obligated by Rural Development, the Federal Emergency Management Agency ("FEMA"), the America Rescue Plan Act ("ARPA"), and the Community Development Block Grant ("CDBG") (which did not recur in 2022), among others, during fiscal year 2022 to reimburse the Authority for expenses incurred in its system recovery process after Hurricanes Irma and María (the "2017 Hurricanes"), the COVID-19 pandemic and the 2019/2020 earthquakes.

- Total assets and deferred outflow of resources increased by $38.5 million to $7,320.8 million, when compared to $7,282.3 million in fiscal year 2021. This increase is mainly due to an increase in current assets of $138.7 million (including current restricted cash and cash equivalents used to finance current debts service obligations and construction projects), an increase in right of use assets of $9.8 million, a decrease in non-current restricted cash and cash equivalents of $37.2 million, a decrease of capital assets of $58.7 million, and a decrease in deferred outflows of resources by $14.2 million.

Total liabilities and deferred inflow of resources increased by $3.2 million to $7,774.2 million when compared to $7,771.0 million in fiscal year 2021. The change was mainly the result of a decrease in noncurrent liabilities by $139.1 million, mostly as a result of a reduction in outstanding bonds payable, a reduction in pension liability and compensated absences and postemployment benefits, and an increase of $134.4 million in current liabilities, due to, among others, an increase in accounts payable of $57.5 million and an increase in unearned revenues of $64.7 million. Deferred inflow of resources increased by $8.0 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 year ended June 30, 2022, which include the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the financial statements.

Financial Analysis of the Authority

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

Analysis of Financial Results

The following table provides a summary of the Authority's net position as of June 30, 2022 and 2021 (in thousands):

	June 30		
	2022	2021	Change
Current and other assets	$ 1,390,496	$ 1,279,088	$ 111,408
Capital assets, net	5,572,981	5,631,639	(58,658)
Deferred outflow of resources	357,325	371,568	(14,243)
Total assets	7,320,802	7,282,295	38,507
Long-term debt outstanding	4,762,473	4,829,485	(67,012)
Other liabilities	2,901,123	2,838,855	62,268
Deferred inflow of resources	110,579	102,615	7,964
Total liabilities	7,774,175	7,770,955	3,220
Net position:			
Net investment in capital assets	1,005,959	1,155,577	(149,618)
Restricted	405,410	265,868	139,542
Unrestricted deficit	(1,864,742)	(1,910,105)	45,363
Total net position	$ (453,373)	$ (488,660)	$ 35,287

Net Position

The Authority's net position as of June 30, 2022 was approximately ($453.4) million. This is an increase of $35.3 million, from the net position, as of June 30, 2021 of ($488.7) million.

Total assets and deferred outflow of resources increased by $38.5 million to $7,320.8 million, when compared to $7,282.3 million in fiscal year 2021. This increase is mainly due to an increase in current and other assets of $111.4 million, netted by a decrease of capital assets by $58.7 million and a decrease in deferred outflow of resources by $14.2 million.

Current and other assets, increased by $111.4 million mainly due to the net effect of the following: (1) increase in cash and cash equivalents of $63.5 million mainly as a result of increase in collections; (2) increase in restricted cash of $63.7 million due to, among others, (i) the deposit of $45.0 million to comply with certain tax regulations following the issuance of 2020 bonds, (ii) the receipt of $65 million of ARPA funds , and (iii) the deposits for debt service payments due on July 1, 2022, (3) increase in receivables from federal agencies of $7.7 million, resulting from increase in capital contributions, and (4) increase in right of use lease of $9.8 million resulting from the implementation of GASB Statement No. 87, Leases in fiscal year 2022.

Capital assets decreased by $58.7 million, or 1%, to $5,573.0 million, primarily as a result of an increase in depreciation and amortization by $242.9 million, offset by an increase in capital assets being depreciated of $61.0 million and an increase of construction in progress by $120.3 million.

Deferred outflow of resources decreased by $14.2 million, mainly as result of the change of actuarial assumptions required by GASB Statements No. 73 and 75, resulting in a decrease of $36.6 million in pension and other post-employment benefit related items, and an increase of deferred loss on bonds refunding by $22.4 million as a result of the issuance of the 2021 and 2022 Revenue Refunding Bonds.

Total liabilities and deferred inflow of resources increased by $3.2 million to $7,774.2 million when compared to $7,771.0 million in fiscal year 2021.

Long-term debt outstanding decreased by $67.0 million as a result of the principal payments made during fiscal year and the impact of the 2021 and 2022 Revenue Refunding Bonds issuance, which refunded in full the outstanding balance of the 2012 Revenue Bonds, as further detailed in Note 12.

Other liabilities increased by $62.3 million, to $2,901.1 million, as a result of (i) an increase of $65 million in unearned revenues due to the receipt of federal funds for PRASA's system recovery and reconstruction projects, (ii) an increase of $53.3 million in accounts payable and accrued liabilities mainly due to an increase in obligations resulting from the reactivation of the capital improvement program, and (iii) a reduction of $66.5 million in personnel related liabilities (pension, compensated absences and postemployment benefits) due to the decrease in actuarial expense.

Deferred inflows of resources increased by $8.0 million as a result of the updated actuarial valuation of pensions and other post-employment benefits liability.

Capital Assets

Capital assets as of June 30, 2022 and 2021 were as follows (in thousands):

	June 30		
	2022	**2021**	**Change**
Capital assets being depreciated	$ 10,817,275	$ 10,756,265	$ 61,010
Accumulated depreciation and amortization	(5,873,595)	(5,633,604)	(239,991)
	4,943,680	5,122,661	(178,981)
Land	64,436	64,436	-
Construction in progress	554,129	433,806	120,323
Intangible Capital Assets	10,736	10,736	-
Capital assets, net	$ 5,572,981	$ 5,631,639	$ (58,658)

The decrease of $58.7 million in capital assets is due to the net effect of: increase of $61.0 million in capital assets being depreciated, an increase of $240.0 million in accumulated depreciation and amortization mainly due to current year depreciation, and increase of $120.3 million in construction in progress. Additions to construction in progress during fiscal year 2022 amounted to $185.2 million mainly due to the following:

- $66.1 million in renewal and replacement projects
- $113.3 million in the Authority's capital improvement program

The Authority had $554.1 million in construction in progress as of June 30, 2022. During fiscal year 2022, 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.

Debt Administration

Long-term debt for the fiscal years ended June 30, 2022 and 2021 were as follows (in thousands):

	June 30 2022	June 30 2021	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 Capital Appreciation Bonds	67,315	87,215	(19,900)
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	(46,470)
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	72,060	105,340	(33,280)
2020 Series B Term Bonds	18,050	18,775	(725)
2021 Series A Serial Bonds	92,330	-	92,330
2021 Series B Serial Bonds	842,410	-	842,410
2021 Series C Serial Bonds	155,090	-	155,090
2022 Series A Serial Bonds	112,310	-	112,310
2022 Series A Term Bonds	452,870	-	452,870
Add premium on bonds refunding	298,101	121,183	176,918
Total bonds	3,767,725	3,838,342	(70,617)
Notes payable:			
Water Pollution Control and Drinking Water Treatment Revolving Funds Loans	598,211	591,647	6,564
USDA Rural Development Loan Agreement	396,537	399,496	(2,959)
Total notes	994,748	991,143	3,605
Long-term debt outstanding	4,762,473	4,829,485	(67,012)
Other long term liabilities:			
Lease Liability (*)	10,152	9,957	195
Total Pension liability	1,858,641	1,899,647	(41,006)
Total OPEB obligation	108,060	122,553	(14,493)
Accrued compensated absences	41,382	45,505	(4,123)
Customer deposits	97,232	94,932	2,300
Early retirement obligation	19,166	26,058	(6,892)
Total other liabilities	2,134,633	2,198,652	(64,019)
Total – long-term obligations	6,897,106	7,028,137	(131,031)
Current portion	(244,259)	(225,493)	(18,766)
Long-term obligations, less current portion	$ 6,652,847	$ 6,802,644	$ (149,797)

(*) Beginning balance includes the changes due to implementation of FASB Statement No. 87, *Leases*.

The Authority's long-term debt decreased by $67.0 million, or 1.4%, from $4,829.5 million as of June 30, 2021, to $4,762.5 million as of June 30, 2022.

Bonds Payable

Bonds outstanding as of June 30, 2022 decreased by $70.6 million as a result of the combination of: (i) principal payments on 2008 Series A Convertible Capital Appreciation Bonds of $19.9 million, (ii) principal payments on 2012 Series A Serial Bonds of $42.2 million, (iii) principal payments on 2020 Series A Serial Bonds of $34.0 million, and (i) the impact of the refunding and defeasance of the 2012 Revenue Bonds Series A and B, with an outstanding balance of $1,806.4 million with the issuance of Revenue Refunding Bonds Series 2021A, 2021B, 2021C and 2022A in the amount of $1,655.0 million, resulting in a bond premium of $208.7 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.

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.

After the July 2019 debt modification of the Authority's outstanding loans with the SRFs, in collaboration and agreement with the EPA, the Authority regained access to funds from the SRFs. Since then and until June 30, 2022, the Authority entered into the following financial assistance agreements with the SRFs:

- 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 August 30, 2021, the Authority signed a $46 million financial assistance agreement for DWSRF funding for drinking water projects, of which $22.2 million are 30-year loans at a 1% interest rate and $24.10 million are subsidized loans (grants).
- On October 28, 2021, the Authority executed a financial agreement for $32 million of CWSRF funding for additional wastewater projects of which $23.8 million are 30-year loans at a 1% interest rate and $8.3 million are subsidized loans (grants).

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

The SRF loans are designated as Senior Indebtedness under the MAT and the total outstanding balance as of June 30, 2022 and 2021 amounted to $598.2 million and $591.6 million, respectively.

Rural Development

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

On July 26, 2019, the Authority and AAFAF consummated definitive agreements restructuring the Authority’s then outstanding debt with USDA RD. The debt was restructured into a new loan agreement 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 indebtedness under the Authority’s MAT.

The balance of the loan agreement with USDA RD as of June 30, 2022 and 2021 was $396.5 million and $399.5 million, respectively.

Pension Liability

Pension liability as of June 30, 2022, decreased by $41 million, or 2.2%, to $1,858.6 million compared to $1,899.6 million as of June 30, 2021, 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, 2022 and June 30, 2021 (in thousands):

	Years ended June 30		
	2022	**2021**	**Change**
Operating revenue:			
Revenues from water and sewer, net	$ 1,083,950	$ 1,043,981	$ 39,969
Total Operating Revenues	1,083,950	1,043,981	39,969
Operating expenses:			
Payroll and payroll related expenses	267,868	296,479	(28,611)
Electricity	167,346	125,962	41,384
Repairs and maintenance of capital assets	57,810	51,606	6,204
Professional and consulting services	36,120	31,623	4,497
Chemicals	50,838	41,943	8,895
Insurance	22,512	21,817	695
Materials and replacements	15,400	15,131	269
Other operating expenses	105,580	97,790	7,790
Operating expenses (excluding depreciation and amortization)	723,474	682,351	41,123
Depreciation and amortization	244,747	230,483	14,264
Cost of assets disposition	1,537	5,435	(3,898)
Total operating expenses	969,758	918,269	51,489
Operating (loss) income	114,192	125,712	(11,520)
Nonoperating revenue (expenses), net	(182,177)	(164,263)	(17,914)
Net income (loss) before capital contributions	(67,985)	(38,551)	(29,434)
Capital contributions	103,272	29,997	73,275
Increase (decrease) in net position	35,287	(8,554)	43,841
Net position at beginning of year	(488,660)	(480,106)	(8,554)
Net position, end of year	$ (453,373)	$ (488,660)	$ 35,287

The net position increased by $35.3 million, from ($488.7) million in fiscal year 2021, to ($453.4) million in fiscal year 2022.

Major fluctuations that resulted in the net position increase when compared to fiscal year 2021 operating results are as follows:

Increase in operating revenues	$	39,969
Increase in operating expenses		(51,489)
Increase in nonoperating expenses, net		(17,914)
Increase in capital contributions		73,275
Net change	$	43,841

Operating revenues increased by $40.0 million, or 3.8%, when comparing the Authority operating revenues for fiscal year 2022 with fiscal year 2021, as a result of the implementation of rate adjustments during the fiscal year, varying from 2.5% for residential customers up to 4.5% for government customers as well as a result of the phasing out of the COVID-19 pandemic negative impact in water consumption and collections during fiscal years 2020 and 2021.

Operating expenses increased by $51.5 million or 6.0% primarily due to the net effect of the following:

- Increase of $41.4 million in electricity expense mainly due to cost of kilowatt per hour, which increased from an average 25 cents/kwh in fiscal year 2021 to 29 cents/kwh in fiscal year 2022.
- Increase of $14 million in depreciation and amortization expense as a result of the reactivation of the capital improvement program and new assets being depreciated.
- Increase of $8.9 million in chemicals expense due to increase in chemicals costs.
- Increase of $7.8 million in other operating expense as a result of emergency generators units rentals and increased cost of fuels.
- Increase of $6.2 million in repairs and maintenance of capital assets required for the system operation, including an increase on emergencies generator and sewer facilities maintenances cost.
- Decrease of $28.6 million in payroll and payroll-related expenses, as a result of higher capitalization rate and lower pension costs.

Nonoperating expenses (netted from nonoperating revenues) increased by $17.9 million when compared to $164.3 million in fiscal year 2021, mainly due to the gain, recorded in fiscal year 2021, of $57.3 million as a result of the settlement of a loan with Government Development Bank Debt Recovery Authority ("GDB-DRA") (which did not recur in 2022), and a decrease in interest expense of $39.2 million as a result of the 2021 and 2022 debt refunding.

Capital contributions increased by $73.3 million, from $30.0 million in fiscal year 2021 to $103.3 million, primarily as a result of proceeds of funds obligated by Rural Development, FEMA, ARPA, and the CDBG, among others, during fiscal year 2022 to reimburse the Authority for expenses incurred in its system recovery process after the "2017 Hurricanes, the COVID-19 pandemic and the 2019/2020 earthquakes.

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.

2023 Fiscal Plan

On May 26, 2023, the Oversight Board approved its latest 6-year fiscal plan for the Authority (the "PRASA Fiscal Plan") pursuant to PROMESA. The PRASA Fiscal Plan includes certain initiatives, such as, among others, an improved metering system, physical water losses reduction, federal funding maximization, projects to reduce electricity costs and an aggressive execution of the capital improvement program. For more detail on PRASA's financial projections and measures under implementation or to be implemented as required by the Oversight Board please refer to the 2023 Fiscal Plan for the Authority published as published in the Oversight Board webpage.

Rate Adjustments

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

New State Revolving Fund ("SRF") Loans

The Authority entered into the following financial assistance agreements subsequent to fiscal year 2022 year closing:

- On September 22, 2022, the Authority signed a $11.8 million financial agreement for DWSRF funding for drinking water projects. including $5.6 million of loans and $6.2 million in grants.
- On January 24, 2023, a new financial agreement for CWSRF funding for $24.2 million was executed, including $22.6 million of loans and $1.6 million in grants.
- On June 12, 2023, a new financial agreement for DWSRF funding for $62.0 million was executed, including $54.5 million of loans and $7.5 million in grants.

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

Employees and Labor Relations

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

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

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 was 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 estimated impact of Hurricane FIONA in incremental expenses is around $25 million and $15 million for reconstruction and recovery projects. The Authority expects to recover the cost of most of the necessary remediations required 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 Senior Revenue 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 Sheet
June 30, 2022

(In thousands)

Assets and Deferred Outflow of Resources

Current assets:	
Cash and cash equivalents	$ 401,842
Accounts receivable, net	230,733
Receivables from federal agencies	40,513
Materials and supplies inventory, net	46,131
Prepayments and other assets	15,584
Restricted cash and cash equivalents	395,848
Total current assets	1,130,651
Restricted assets--	
Restricted cash, cash equivalents and other deposits	250,014
Right of use lease assets, net	9,831
Capital assets:	
Capital assets being depreciated	10,817,275
Accumulated depreciation and amortization	(5,873,595)
	4,943,680
Land and other nondepreciable assets	75,172
Construction in progress	554,129
Total capital assets, net	5,572,981
Deferred outflows of resources:	
Loss on debt refunding	48,132
Pension related	294,706
Other post-employment benefits related	14,487
Total deferred outflows of resources	357,325
Total assets and deferred outflows of resources	$ 7,320,802

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

Balance Sheet
June 30, 2022

(In thousands)

Liabilities, Deferred Inflow of Resources and Net Position

Current liabilities:	
Bonds payable	$ 114,062
Notes payable	12,061
Total pension liability	86,501
Accounts payable	229,214
Accrued liabilities	142,677
Accrued interest	294,588
Unearned revenue	100,011
Lease liability	2,603
Customers' deposits	7,519
Compensated absences, postemployment and other benefits	21,513
Total current liabilities	1,010,749
Noncurrent liabilities:	
Bonds payable	3,653,663
Notes payable	982,687
Lease liability	7,549
Total pension liability	1,772,140
Customers' deposits	89,713
Compensated absences, postemployment and other benefits	147,095
Total noncurrent liabilities	6,652,847
Deferred inflows of resources:	
Pension related	85,354
Other post-employment benefit related	25,225
Total deferred inflows of resources:	110,579
Total liabilities and deferred inflow of resources	7,774,175
Net Position:	
Net investment in capital assets	1,005,959
Restricted for environmental compliance, capital activity and other	405,410
Unrestricted deficit	(1,864,742)
Total net position	(453,373)
Total liabilities and net position	$ 7,320,802

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

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022

(In thousands)	
Operating revenues:	
Water	$ 729,784
Sewer	381,951
Bad debt expense	(27,785)
Total net operating revenues	1,083,950
Operating expenses:	
Payroll and payroll related	267,868
Electricity	167,346
Repairs and maintenance of capital assets	57,810
Professional and consulting services	36,120
Chemicals	50,838
Materials and replacements	15,400
Insurance	22,512
Service contract – Superaqueduct	4,499
Other operating expenses	101,081
Operating expenses (excluding depreciation and amortization)	723,474
Depreciation and amortization	244,747
Cost of assets disposition	1,537
Total operating expenses	969,758
Operating income	114,192
Nonoperating revenues (expenses):	
Interest expense, net of amortization of debt issuance cost, bond premium and discount, and deferred refunding loss	(187,654)
Interest income	2,858
Other income, net	2,619
Total non-operating expenses, net	(182,177)
Loss before capital contributions	(67,985)
Capital contributions --	
Federal grants and other contributions	103,272
Change in net position	35,287
Net position at beginning of year	(488,660)
Net position at end of year	$ (453,373)

The accompanying notes are an integral part of this statement.

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

Statement of Cash Flows
Year Ended June 30, 2022

(In thousands)

Cash flows from operating activities:	
Cash received from customers	$ 1,088,397
Cash paid to suppliers	(409,442)
Cash paid to employees and payroll related	(274,161)
Net cash provided by operating activities	404,794
Cash flows provided by noncapital financing activities--	
Net cash from other income	2,619
Cash flows from capital and related financing activities:	
Additions to utility plant and other capital assets	(185,617)
Proceeds from capital contributions	102,093
Proceeds from issuance of notes payable	16,564
Payments of bonds and notes	(109,089)
Interest paid on bonds, notes and lines of credit	(144,121)
Net cash used in capital and related financing activities	(320,170)
Cash flows used in investing activities--	
Interest received	2,858
Net change in cash and cash equivalents	90,101
Cash and cash equivalents, beginning of year	957,603
Cash and cash equivalents, end of year	$ 1,047,704
For purposes of the statements of cash flows, cash and cash equivalents include:	
Unrestricted	$ 401,842
Restricted	645,862
	$ 1,047,704

The accompanying notes are an integral part of this statement.

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

Statement of Cash Flows
Years Ended June 30, 2022

(In thousands)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 114,192
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	244,747
Cost of assets disposition	1,537
Bad debt expense	27,785
Change in assets and liabilities:	
Accounts receivable	(25,298)
Receivables from federal agencies	(7,687)
Materials and supplies inventory	(4,972)
Prepayments and other current assets	(376)
Accounts payable	59,384
Unearned revenue	(339)
Accrued compensated absences, post-employment and other benefits	(3,554)
Accrued liabilities	(4,197)
Customers' deposits	2,299
Pension liability	1,273
Total adjustments	290,602
Net cash provided by operating activities	$ 404,794

Non cash capital and financing transactions:

Issuance of refunding bonds	$ 1,863,680
Refunded debt	$ (1,825,401)
Debt issuance costs	$ (10,837)
Loss on refunding-deferred outflow	$ (25,700)

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

The Puerto Rico Aqueduct and Sewer Authority ("PRASA" or the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"). The Authority was created in 1945 under Act No. 40, as amended, and reenacted (the "Act"), for the purpose of owning, operating, and developing all of the public water and sewer systems in Puerto Rico (the "System"). The Authority provides water and wastewater services to the government, businesses, and residents of Puerto Rico. As a public corporation and an instrumentality of the Commonwealth, the Authority is exempt from the payment of income, property and municipal taxes. Under the terms of the Act, the Authority has broad powers, including, among others, to borrow money and issue revenue bonds for any of its corporate purposes. The Authority receives, in addition to the funds derived from operating its water and wastewater systems, grants from various agencies of the federal government of the United States of America and donations 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, 2022, include the financial position and operations of PRASA Holdings LLC, which is a limited liability company incorporated under the laws of the State of Delaware on March 6, 2014. PRASA Holdings, LLC was created, pursuant to Act No. 228 enacted on November 1, 2011, and Authority Resolution No. 2826, to engage in lawful activities, for which limited liability companies may be organized under the Delaware Limited Company Act, subject to the limitations contained in the Authority's enabling act.

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

During the fiscal year ended June 30, 2022, PRASA Holdings, LLC did not have operational activities. However, it has total assets and net position of $0.5 million as of June 30, 2022.

Summary of Significant Accounting Policies

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

Measurement Focus and Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

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

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

As of June 30, 2022, cash equivalent consists of demand deposit state and local government securities (Demand Deposit SLGS) amounting to $45.0 million and are presented within current restricted cash in the accompanying balance sheet. Demand Deposit SLGS are maintained by the Authority for compliance with Internal Revenue Service tax regulations related to the issuance of 2020 Bonds, which are tax-exempt.

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 $0.5 million as of June 30, 2022.

Right-of-Use Lease Assets

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

Capital Assets

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

Utility plant and other capital assets are carried at historical cost or estimated historical cost, which includes capitalized labor, materials and administrative costs. Based on GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the interest during construction on debt financed construction is expensed as incurred.

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

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

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

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

The Authority follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. No assets impairment was recorded during the fiscal year ended June 30, 2022.

Unearned Revenue

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

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

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

Debt issuance costs are classified as nonoperating expenses and the deferred loss from debt refunding is recorded as a deferred outflows of resources on the accompanying balance sheet.

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

Deferred Outflows and Inflows of Resources

In addition to assets, the Balance Sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents consumption of net position applicable to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Similarly, the Authority reports deferred inflows of resources on the balance sheet in a separate section following liabilities. This separate financial statement element, *deferred inflows of resources,* represents an 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 outflows/inflows 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 do not result in compensation to employees.

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

Termination Benefits

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

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 6.83718% for fiscal year 2022, and its share of the total pension liability recorded as of June 30, 2022 was $1,858.6 million. 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, 2021 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2022.

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.

Lease Liability

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

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 2022:

- GASB Statement No 87, *Leases*, establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets include buildings, land and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements. The adoption effect of the new lease standard resulted in recognition as of July 1, 2021, of right-of-use assets and a lease liability of approximately $9.9 million.

- GASB Statement No. 89 establishes accounting requirements for interest costs incurred before the end of a construction period and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period is not capitalized and included in the historical cost of a capital asset. The adoption of this statement had no impact on the Authority's financial statements.

- GASB Statement No. 93 establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. The adoption of this statement had no impact on the Authority's financial statements.

- GASB Statement No. 97 clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan. The adoption of this statement had no impact on the Authority's financial statements.

- GASB Statement No. 98 establishes the term Annual Comprehensive Financial Report and its acronym ACFR. The new term replaces Comprehensive Annual Financial Report and its acronym in generally accepted accounting principles for state and local governments. The adoption of this statement had no impact on the Authority's financial statements.

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
91	Conduit Debt Obligations	2023*
94	Public-Private and Public-Public Partnerships & Availability Payments Arrangements	2023
96	Subscription-Based Incorporation Technology Arrangements (SBITA)	2023
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 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.

Federal Grants and Other Contributions

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

The Authority receives contributions for capital projects from developers, customers, the Commonwealth Governmental Agencies, and Federal Agencies, such the US Department of Agriculture (“USDA”) (through the RD program) and the Environmental Protection Agency (“EPA”) (through the SRF programs). The Authority also receives contributions from the Federal Emergency Management Agency (“FEMA”) and other federal agencies, such as the Department of Housing, for recovery and resiliency operating expenses and capital projects, when a natural disaster occurs, and a state of emergency is declared by the president of the United States of America. Recently the Authority also received funds from the American Rescue Plan Act (“ARPA”) as included in Note 17.

(2) Deposits:

As of June 30, 2022, the carrying amount of deposits with financial institutions of the Authority consisted of the following (in thousands):

	Amount	
	Carrying amount	Bank balance
Unrestricted deposits in commercial banks in Puerto Rico	$ 401,842	$ 401,396
Restricted deposits in U.S. banks	45,001	45,001
Restricted deposits in commercial banks in Puerto Rico	600,861	600,861
Total	$ 1,047,704	$ 1,047,258

Cash and cash equivalents consist of demand deposits, Demand Deposit SLGS, and interest-bearing accounts, 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. Demand Deposits SLGS are held in trust by the The Bank of New York Mellon in a fiduciary capacity and are supported by the U.S. Government, therefore are not deemed to have significant custodial credit risk.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. During fiscal year 2022, 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, 2022 consisted of the following (in thousands):

Water and sewer services:		
Residential, industrial, and commercial	$	899,531
Government agencies and municipalities		96,064
		995,595
Other receivables:		
Central government		4,743
Other government agencies		3,410
Private entities		31,812
		39,965
Less allowance for uncollectible accounts		(804,827)
Total	$	230,733

Receivables from the Commonwealth amounted to approximately $4.7 million as of June 30, 2022. 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, which balance was fully reserved as of June 30, 2022.

(5) Receivables from Federal Agencies:

Receivables from federal agencies of approximately $40.5 million as of June 30, 2022, consist primarily of amounts to be received from FEMA and the Department of Housing (CDBG Program) 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. These receivables also include costs incurred for projects to be reimbursed with State Revolving Funds. 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 $46.1 million as of June 30, 2022 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 and federal funds, which will be used to pay the cost of construction of capital improvement projects. It also includes funds designed by the Authority for specific 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 $350.8 million as of June 30, 2022, 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, 2022 consisted of the following (in thousands):

Capital and construction funds	$	148,722
Operating reserve funds		186,637
Debt service funds		265,502
Other restricted funds		45,001
	$	645,862

(8) Right of Use Lease Assets and Capital Assets:

Right of Use Lease Assets

Changes in the Authority's right of use lease assets for the year ended June 30, 2022 are as follows (in thousands):

	Beginning Balance*	Additions	Reductions/ Adjustments	Ending Balance
Right of use lease assets:				
Building	$ 4,869	$ 2,565	$ -	$ 7,434
Commercial Offices	3,193	252	-	3,445
Equipment	1,895	-	-	1,895
	9,957	2,817	-	12,774
Less accumulated amortization for:				
Building	-	(1,519)	-	(1,519)
Commercial Offices	-	(978)	-	(978)
Equipment	-	(446)	-	(446)
	-	(2,943)	-	(2,943)
Right to use lease assets, net	**$ 9,957**	**$ (126)**	**$ -**	**$ 9,831**

* Beginning balance includes the impact of the implementation of GASB Statement No. 87, *Leases*.

Capital Assets

Changes in the Authority's utility plant and other capital assets for the year ended June 30, 2022, were as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 64,437	$ -	$ -	$ 64,437
Easement	10,735	-	-	10,735
Construction in progress	433,806	185,215	(64,892)	554,129
Total capital assets not being depreciated	508,978	185,215	(64,892)	629,301
Capital assets being depreciated:				
Infrastructure (water and sewer facilities)	9,595,764	52,372	(2,926)	9,645,210
Wells, tanks and meters	671,579	8,448	-	680,027
Buildings	83,366	7	-	83,373
Equipment, furniture, fixtures and vehicles	405,556	3,109	-	408,665
Total capital assets being depreciated	10,756,265	63,936	(2,926)	10,817,275
Less accumulated depreciation and amortization:				
Infrastructure (water and sewer facilities)	(4,854,137)	(210,654)	1,814	(5,062,977)
Wells, tanks and meters	(363,223)	(21,998)	-	(385,221)
Buildings	(48,761)	(1,361)	-	(50,122)
Equipment, furniture, fixtures and vehicles	(367,483)	(7,792)	-	(375,275)
Total accumulated depreciation	(5,633,604)	(241,805)	1,814	(5,873,595)
Total capital assets being depreciated, net	5,122,661	(177,869)	(1,112)	4,943,680
Total capital assets, net	$ 5,631,639	$ 7,346	$ (66,004)	$ 5,572,981

(9) Accrued Liabilities:

Accrued liabilities as of June 30, 2022 consisted of the following (in thousands):

Payroll and related accruals	$ 37,923
Legal, labor related and environmental contingencies	92,210
Contract retentions	12,544
Total	$ 142,677

(10) Early Retirement Obligations:

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

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

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

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

As of June 30, 2022, unpaid long term benefits granted in Act 211-2015 were discounted by a rate of 2.75%. The Authority’s obligation under Act 211-2015 for the fiscal year ended on June 30, 2022 was approximately $19.2 million.

(11) Long-Term Debt:

Long-term debt activity for the fiscal year ended June 30, 2022 was as follows (in thousands):

	Beginning balance	Additions	Payments/ Amortization	Refunded Amount	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	87,215	-	(19,900)	-	67,315	21,120	46,195
2012 Series A Revenue Bonds	1,695,055	-	(42,225)	(1,652,830)	-	-	-
2012 Series B Revenue Bonds	153,585	-	-	(153,585)	-	-	-
2020 Series A Revenue Bonds	1,351,300	-	(33,280)	-	1,318,020	12,475	1,305,545
2020 Series B Revenue Bonds	18,775	-	(725)	-	18,050	955	17,095
2021 Series A Revenue Bonds	-	92,330	-	-	92,330	7,060	85,270
2021 Series B Revenue Bonds	-	842,410	-	-	842,410	14,900	827,510
2021 Series C Revenue Bonds	-	155,090	-	-	155,090	-	155,090
2022 Series A Revenue Bonds	-	565,180	-	-	565,180	37,495	527,685
Subtotal bonds	3,717,159	1,655,010	(96,130)	(1,806,415)	3,469,624	94,005	3,375,619
Add bond premium	121,183	208,671	(12,767)	(18,986)	298,101	20,057	278,044
Total bonds	3,838,342	1,863,681	(108,897)	(1,825,401)	3,767,725	114,062	3,653,663
Direct Borrowings:							
Notes payable:							
Water Pollution Control and Safe Drinking Water Treatment Revolving Funds Loans	591,647	16,564	(10,000)	-	598,211	10,000	588,211
USDA Rural Development Loans	399,496	-	(2,959)	-	396,537	2,061	394,476
Total notes	991,143	16,564	(12,959)	-	994,748	12,061	982,687
Other long-term liabilities:							
Lease liability[1]	9,957	3,299	(3,104)	-	10,152	2,603	7,549
Total pension liabilty	1,899,647	48,196	(89,202)	-	1,858,641	86,501	1,772,140
Accrued compensated absences	45,505	9,840	(13,963)	-	41,382	6,510	34,872
Total OPEB liability	122,553	(7,947)	(6,546)	-	108,060	9,119	98,941
Early retirement obligation	26,058	-	(6,892)	-	19,166	5,884	13,282
Customers' deposits	94,932	7,767	(5,467)	-	97,232	7,519	89,713
Total other liabilities	2,198,652	61,155	(125,174)	-	2,134,633	118,136	2,016,497
Total – long-term obligations	$ 7,028,137	$ 1,941,400	$ (247,030)	$ (1,825,401)	$ 6,897,106	$ 244,259	$ 6,652,847

[1] Beginning balance includes the changes made due to the implementation of GASB Statement No. 87, *Leases*.

(12) Bonds Payable:

Bonds payable as of June 30, 2022, consisted of the following (in thousands):

PFC Commonwealth Appropriation Bonds:		
Series 2011:		
Series A, 6.50% due in semiannual interest payments and annual principal installments from August 1, 2027 to 2028	$	90,099
Series B, 5.50% – 6.00% due in semiannual interest payments and annual principal installments from August 1, 2024 to 2031		102,183
Series B, 5.50% – 6.00% due in semiannual interest payments and annual principal installments from August 1, 2024 to 2031		162,700
Series 2012:		
Series A, 3.10% – 5.35% due in semiannual interest payments and annual principal installments from August 1, 2015 to 2031		56,247
Revenue Bonds (Senior Lien):		
Series 2008:		
Series A, Convertible Capital Appreciation Bonds, 6.125%, due in semiannual interest payments and annual principal payments from July 1, 2017 to 2024		67,315
Revenue Refunding Bonds (Senior Lien):		
Series 2020:		
Series A, Serial Bonds, 4.00% - 5.00%, due in semiannual interest payments and annual principal payments from July 1, 2021 to 2025		72,060
Series A, Term Bonds, 5.00%, due in semiannual interest payments and annual principal payments from July 1, 2030 to 2047		1,245,960
Series B, Term Bonds, 4.50%, due in semiannual interest payments and annual principal payments from July 1, 2021 to 2024		18,050
Series 2021:		
Series A, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029		19,045
Series A, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2042		73,285
Series B, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029		143,320
Series B, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2047		699,090
Series C, Serial Bonds (Taxable), 2.75%-3.75% due in semiannual interest payments and annual principal payments from July 1, 2023 to July 1, 2027		155,090
Series 2022:		
Series A, Serial Bonds, 5.00% due in semiannual interest payments and annual principal payments from July 1, 2022 to July 1, 2029		112,310
Series A, Term Bonds, 4.00% - 5.00% due in semiannual interest payments and annual principal payments from July 1, 2033 to July 1, 2047		452,870
Subtotal		3,469,624
Bond premium		298,101
Total	$	3,767,725

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, 2022.

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, 2022, the Authority's share for the 2011 Series A, 2011 Series B, 2011 Series B (SA) and 2012 Series A Refunding Bonds was 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.

On January 20, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF by its Spanish acronym), on behalf of PFC, entered into a Restructuring Support Agreement (the "PFC RSA") with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (collectively, the "PFC Bonds"). The PFC RSA contemplated a restructuring and discharge of the PFC Bonds under a Qualifying Modification (the "PFC Qualifying Modification") under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds would be cancelled and extinguished under the PFC Qualifying Modification and the Authority would be discharged from any liability arising from or related to such promissory notes. Refer to Note 21 (g) for further developments on the PFC Qualifying Modification.

2008 Series A and B Revenue Bonds

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

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

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

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

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

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

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

As a result of the refunding, the balance of $1,248.77 million as of June 30, 2020 for the 2008 Revenue Bonds was reduced to $87.2 million as of June 30, 2021, which is the balance of the 2008 non-callable convertible capital appreciation bonds as of such date, which were not part of the refunded debt. The outstanding balance as of June 30, 2022 was $67.3 million, expected to be paid in full by July 1, 2024 based on the applicable amortization table.

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

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 indebtedness, pursuant to the terms of the MAT. As of June 30, 2021, the outstanding balance for the 2012 Revenue Bonds was $1,848.6 million. The 2012 Revenue Bonds were refunded in full in August 2021 and June 2022 as explained below under 2021 and 2022 Revenue Refunding Bonds. Therefore, there was no outstanding balance of the 2012 Revenue Bonds as of June 30, 2022.

2020 Revenue Refunding Bonds

On December 17, 2020, the Authority issued its Revenue Refunding Bonds Series 2020A and B (Senior Lien) (the "2020 Senior Bonds") in the amount of $1,351.3 million and $18.8 million, respectively. The proceeds of the 2020 Senior Bonds were used to (i) refinance a portion of the 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 and underwriters' discount. The par amount of the refunded bonds amounted to $1,427.6 million.

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

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

As of June 30, 2022 the outstanding balance for the 2020 Senior Bonds was $1,336.1 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 indebtedness under the MAT. Each purchaser of 2020 Senior Bonds consented by its purchase and execution of an investor letter to the terms and execution by the MAT Trustee of a Second Amended and Restated Master Agreement of Trust. The Second Amended and Restated Master

Agreement of Trust will be executed and become effective upon the receipt of the written consent of (1) the holders of all outstanding Bonds of each lien priority under the MAT and (2) the Federal Lenders (as defined in the MAT (currently, RD and EPA)); and provide among other changes, to convert the security on the Authority's revenue from a gross revenue pledge to a net revenue pledge.

2021 and 2022 Revenue Refunding Bonds

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.

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

The Refunding Bonds bear interest at rates ranging from 4% to 5% per annum with yields at the time of issuance ranging from 3.14% to 3.7% and maturity dates ranging from July 1, 2022 to July 1, 2047.

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

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

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

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

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

As of June 30, 2022 the outstanding balance for the Refunding Bonds was $1,655.0 million.

Debt Service Payments

Future principal and interest payments on all bonds payable outstanding as of June 30, 2022 are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
2023	$ 94,005	$ 305,308	$ 453,321
2024	141,017	158,769	245,778
2025	99,301	154,453	253,754
2026	101,151	149,255	250,406
2027	114,645	144,446	259,091
2028-2032	884,184	591,859	1,476,043
2033-2037	662,615	394,112	1,056,727
2038-2042	743,170	230,192	973,362
2043-2047	533,395	79,071	612,466
2048-2052	96,141	2,302	98,443
Total	3,469,624	$ 2,209,767	$ 5,679,391
Plus unamortized premium	298,101		
Bonds payable, net	$ 3,767,725		

(13) <u>Notes Payable (Direct Borrowings)</u>:

Notes payable as of June 30, 2022, consisted of the following (in thousands):

Clean Water State Revolving Fund Loans	$ 413,945
Drinking Water State Revolving Fund Loans	184,266
USDA Rural Development Loans	396,537
Total	$ 994,748

Puerto Rico Clean Water State Revolving Fund and Drinking Water State Revolving Fund Loans

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

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

SRFs, is authorized to assist PRDOH and PRDNER in the administration, financial and accounting activities of the SRFs.

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

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

After the July 2019 debt modification 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.

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

On October 28, 2021, the Authority executed a financial assistance agreement for $32 million of CWSRF funding for wastewater projects, consisting of a $23.8 million loan at a 1% interest rate with a 30-year amortization after project completion and a $8.3 million of subsidized loan with no principal repayment and 0% interest rate.

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

The Authority's outstanding balance under the SRF Loans as of June 30, 2022 was $598.2 million.

Rural Development Loan Agreement

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

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

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

The Authority's outstanding balance of the RD Loans was $397.5 million as of June 30, 2022.

Debt Service Payments

Future principal and interest payments on all notes payable outstanding as of June 30, 2022 are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
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	12,232	7,768	20,000
2028-2032	111,259	49,626	160,885
2033-2037	168,996	52,774	221,770
2038-2042	180,382	41,388	221,770
2043-2047	192,637	29,133	221,770
2048-2052	136,630	16,624	153,254
Permanent Loans	967,214	$ 238,432	$ 1,205,646
Construction Loans	27,534		
Total notes payable	$ 994,748		

Construction Loans are related to SRF new loans to finance projects still under construction or recently completed, and therefore, such balance does not have a principal amortization schedule as of the date 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 was transferred to the member accounts in the new Defined Contribution Plan, effective as of June 22, 2020.

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

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

Furthermore, under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date 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, 2021 (the measurement date used for financial reporting for fiscal year 2022) was determined by an actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021.

Actuarial Method and Key Assumptions

The actuarial valuation used the following actuarial methods and key assumptions for the values reported as of June 30, 2022:

Actuarial cost method	Entry Age Normal
Discount Rate	2.16%
Valuation date	July 1, 2020
Measurement date	June 30, 2021

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.

The mortality tables used in the actuarial valuations used for fiscal year 2022 (based on the valuation as of June, 30, 2021) were as follows:

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

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

- Post-retirement Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG2010 healthy retirees rates, adjusted by 100% males and 110% for females, projected using MP-2021 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scales MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The Authority's proportionate percentage share of the total pension liability increased to 6.83718% for fiscal year 2022 from 6.7658% % for fiscal year 2021, and the Authority's share of the total pension liability decreased from $1,899.6 million for the valuation reported in fiscal year 2021 to $1,858.6 million for the valuation reported in fiscal year 2022.

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, 2022, calculated using the discount rate of 2.16%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.16%) or 1 percentage point higher (3.16%) than the current rate (in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total pension liability	$ 2,123,571,698	$ 1,858,640,687	$ 1,643,958,271

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

For the fiscal year ended June 30, 2022, the Authority pension expense, as set forth in the actuarial report, was $83.9 million.

As of June 30, 2022, 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	$ 238,841	$ -	$ (48,576)	$ 190,265
Changes in proportion	2,412	12,559	-	14,971
Differences between actual and expected experience	3,918	-	(949)	2,969
Total	$ 245,171	$ 12,559	$ (49,525)	$ 208,205
Deferred inflow of resources:				
Changes of assumptions	$ 32,609	$ -	$ (10,646)	$ 21,963
Changes in proportion	11,290	-	(3,272)	8,018
Differences between actual and expected experience	42,763	12,610	-	55,373
Total	$ 86,662	$ 12,610	$ (13,918)	$ 85,354

Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities for the fiscal year ended June 30, 2022 will be recognized in the pension expense as follows (in thousands):

Year Ending June 30,		Amount
2023	$	34,770
2024		34,770
2025		46,358
Total	$	115,898

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 $14.9 million and $8.0 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 $86.5 million as of June 30, 2022, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2023.

(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, 2022, the employees covered by the benefit terms as of June 30, 2021 was used:

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, 2022 and 2021 was approximately $2.9 million and $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 was $63.9 million as of June 30, 2022, and the funding ratio was 0%, mostly as a result of an increase in the discount rate.

The OPEB Expense and OPEB Liability were computed as part of an actuarial valuation performed as of June 30, 2022 and based on the demographic data as of June 30, 2021, in accordance with parameters of GASB Statement No. 75 permitting reporting to be based on biennial valuations.

The following table illustrates the Total OPEB Liability as of June 30, 2022 based on the latest actuarial report (in thousands):

OPEB Liability at beginning of year	$	75,060
Changes recognized in fiscal year		
Service cost		1,798
Interest cost		1,629
Actual experience		-
Changes in assumptions		(11,677)
Benefit payments		(2,907)
Net changes		(11,157)
OPEB Liability at end of year	$	63,903

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 year ended June 30, 2022 (in thousands):

	Deferred outflow of resources	Deferred inflow of resources
Difference between actual and expected experience	$ 5,024	$ 6,689
Assumption changes	5,901	18,536
Total	$ 10,925	$ 25,225

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, 2022 (in thousands):

		Years		Balance		
Date Established	**Type of Base**	**Original**	**Remaining**	**Original**	**Remaining**	**Annual Payment**
6/30/2021	Assumptions	10.45	9.45	$ (11,677.1)	$ (10,559.7)	$ (1,117.4)
6/30/2020	Liability (Gain)/Loss	10.19	8.19	(6,072.1)	(4,880.3)	(595.9)
6/30/2020	Assumptions	10.19	8.19	484.0	388.9	47.5
6/30/2019	Assumptions	12.04	9.04	3,322.7	2,494.8	276.0
6/30/2018	Liability (Gain)/Loss	18.28	14.28	(2,315.7)	(1,808.9)	(126.7)
6/30/2018	Assumptions	18.28	14.28	3,861.9	3,016.9	211.3
6/30/2018	Assumptions	20.03	14.28	(2,853.5)	(2,229.1)	(156.1)
6/30/2016	Liability (Gain)/Loss	20.03	14.03	7,173.3	5,024.5	358.1
6/30/2016	Assumptions	20.03	14.03	(8,204.1)	(5,746.5)	(409.6)
	Total Charges				$ (14,299.4)	$ (1,512.8)

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

Fiscal Year	Amount
2023	$ (1,512.8)
2024	(1,512.8)
2025	(1,512.8)
2026	(1,512.8)
2027	(1,512.8)
Total Thereafter	(6,735.4)
Total to be amortized	$ (14,299.4)

Actuarial Cost Method

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

Actuarial Assumptions

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

Economic Assumptions

The discount rates considered for the fiscal year ended June 30, 2022 was 3.54%. In order to comply with GASB No. 75, 20-year Municipal Bond Rate term investments (Bond Buyer US weekly yields 20 General Obligation Bond Index) were used to represent the Authority's expected long-term return on internal assets used to finance the payment of plan benefits.

As the retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience) without negotiation of a new contract with the unions or an express Governing Board approval, the medical increase rate was zero percent for the fiscal year ended June 30, 2022. If the fixed benefit level increases in the future (by negotiation or plan amendment), the higher obligation will be recognized when the new contract or amendment is adopted.

The salary increase rate assumed for the actuarial valuation (not actual) is 2.50% as of June 30, 2022.

Demographic Assumptions

For the fiscal year ended June 30, 2022, 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-2021" mortality table was used for the valuation as of June 30, 2022.

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 3.54%, 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 (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability as of June 30, 2022	$ 72,179	$ 63,903	$ 56,891

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, 2022 was determined by the actuarial valuation as of July 1, 2020, with measurement date of June 30, 2021, 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 year ended June 30, 2022 (for measurement year ended on June 30, 2021) was 2.16%. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The retirement healthcare benefit is fixed, such that it will not increase the obligation under the plan (regardless of the claim experience). The medical increase rate was zero percent for the fiscal year ended June 30, 2022.

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

The Authority's proportionate percentage share of the total pension liability amounted to 5.53269% for fiscal year 2021, as reported for fiscal year 2022. The Authority participation in the ERS MIPC OPEB liability was $44.2 million for fiscal year 2022.

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

The following table illustrates the total ERS MIPC OPEB Liability under GASB Statement No. 75 for the fiscal year reported on June 30, 2022 (based on the measurements days as of June 30, 2021), as informed by the ERS to the Authority (in thousands):

OPEB liability at beginning of year	$ 47,493
OPEB expense	(594)
Benefit payments	(3,639)
Amortization of changes in proportion	897
OPEB Liability at end of year	$ 44,157

The following presents the total ERS MIPC OPEB liability recorded as of June 30, 2022 (based on the valuation as of June 30, 2021), calculated using the applicable discount rate of 2.16%, 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 (1.16%) or 1 percentage point higher (3.16%) than the current rate (in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability as of June 30, 2022	$ 48,470	$ 44,157	$ 40,485

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 year ended June 30, 2022, related to ERS MIPC amounted to $0.3 million.

Because all participants in the ERS MIPC are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date, which amounted to $3.6 million during fiscal year 2022, which will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2023.

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 SRF Loans and USDA RDL Loans are secured on a parity with the Authority's Revenue Bonds.

The MAT contains the following events of default:

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

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

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

(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 and (ii) a report of the Consulting Engineer as to the adequacy of existing rate and charges of the financial covenants for the then current fiscal year and the following fiscal year.

The MAT contains, financial covenants requiring the maintenance of certain debt service coverage ratios.

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

- Operating Revenues (as defined per the MAT) shall be at least equal to 250% of annual debt service with respect to Senior Indebtedness for the current fiscal year;
- Operating Revenues shall be at least equal to 200% of annual debt service with respect to Senior Indebtedness and Senior Subordinate Indebtedness for the current fiscal year;
- Operating Revenues shall be at least equal to 150% of annual debt service with respect to all Bonds and Other System Indebtedness for the current fiscal year; and
- Authority Revenues (as defined 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, 2022, the Authority rate covenant on all obligations was 1.06, as included in the Supplemental Schedule included herein.

(17) Capital and Other Contributions:

Capital and other contributions for the fiscal year ended June 30, 2022 were as follows (in thousands):

Federal grants:		
Federal Emergency Management Agency	$	41,982
US EPA Clean Water State revolving		16,427
USDA Rural Development Program		23,315
ARPA Funds		8,280
Contributions from governmental agencies and municipalities		8,754
Developer contributions		2,404
Other contributions		2,110
	$	103,272

(18) Related Party Transactions:

Operating revenues for services provided to the Commonwealth and its component units amounted to approximately $117.0 million during the fiscal year ended June 30, 2022. The Authority's accounts receivable for water and wastewater service to central government agencies and component units was $26.1 million as of June 30, 2022. As of that date, the accounts receivables from Central Government Accounts was $4.8 million.

As of June 30, 2022, the Authority had approximately $4.7 million of other receivables, from the Commonwealth and its component units, of which $3.7 million are fully reserved. Such receivables are reported as accounts receivable net in the accompanying balance sheets.

The Authority had approximately $11.9 million of excess of collections over billings from the Commonwealth, recorded as unearned revenue in the accompanying balance sheet as of June 30, 2022.

The Authority's cost for electricity purchased from LUMA, the private operator of the Puerto Rico Electric Power Authority ("PREPA"), which is a component unit of the Commonwealth, was $155.9 million during the fiscal year ended June 30, 2022. Additionally, the Authority purchased $10 million of raw water from PREPA during fiscal year ended June 30, 2022.

As of June 30, 2022, the Authority's accounts payable with PREPA and the ERS was $94.2 million. See Note 21(j) for information relating to attempts at settling disputed payables with PREPA and ERS.

(19) Labor Union Contracts:

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

As of June 30, 2022, the Authority headcount was 4,602, of which 2,973 employees were members of the UIA union and 116 were members of the HIEPAAA union. The remaining Authority employees consisted of (i) 1,093 management employees, (ii) 168 appointed employees and (iii) 254 employees under the pre-retirement program established by Act 211-2015 not rendering services to the Authority. The pre-retirement program provides government agencies and municipalities in Puerto Rico, such as the Authority, with a mechanism to help them generate savings in employee costs (payroll and fringe benefits), as well as to afford employees who enrolled in the ERS prior to April 1, 1990, the opportunity to receive certain benefits until they reach the optional retirement age, which for most employees is 61 years.

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

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

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

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

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

In February 2022, the Authority and UIA signed a Negotiation Agreement. The Negotiation Agreement, by which the parties are participating in mediation before the Puerto Rico Department of Labor ("***DOL***"), provides for the negotiation of revised pay scales, subject to compliance with PROMESA and the 2022 Fiscal Plan. The Negotiation Agreement also provides that the parties will promote payment of wage incentives starting in fiscal year 2023 for certain difficult recruitment positions such as plant operators and electro-mechanics; payment of a $600 premium by June 30, 2022 to recognize UIA members' employment commitment; and payment of Christmas bonus balances for fiscal years 2015 (by July 31, 2022) and 2016 (by July 31, 2023), without interest or penalties to active UIA members.

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

As a result of Act 9-2021, the UIA and HIEPAAA CBAs have been deemed extended for an additional year to July 1, 2024.

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

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

2006 Drinking Water Settlement Agreement.

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

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

System. The Authority submits quarterly compliance progress reports to the PRDOH under the 2006 Drinking Water Settlement Agreement and self-assesses any applicable stipulated penalties.

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

The long-term remedial measures are divided into three terms: Term 1 measures were to be completed by December 31, 2011, Term 2 measures were to be completed by December 31, 2016, and Term 3 measures are to be completed by December 31, 2021. All long-term remedial measures under Term 1 have been completed. Thirteen of the 18 Term 2 measures have been completed. Regarding the remaining five remedial measures, the Authority and PRDOH filed a joint motion to move three projects to Term 3 category and to have the other two eliminated, which motion was granted by the supervising court. Term 3 measures initially comprised a total of 13 projects, converted to 16 with the inclusion of the three projects moved from Term 2. Of these 16 projects, eight have been completed. The time frame for the completion of the remaining eight projects was December 31, 2021, but the Authority has negotiated with PRDOH modifications to certain due dates, which have been submitted to the court via motion and approved by it. Please refer to Note 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). The Authority has also been required to pay stipulated penalties because of certain missing or late deliverables, remedial measures and mitigation measures.

To the date of the issuance of these financial statements, as mentioned above, the Authority has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement.

2015 EPA Consent Decree

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

Concurrently with the filing of the Complaint, DOJ filed a consolidated Consent Decree executed among the EPA, Authority and Government of Puerto Rico (the “2015 EPA Consent Decree”) settling the matters addressed in the Complaint, under the terms agreed upon by the Authority, DOJ and EPA. The 2015 EPA Consent Decree is the result of an extensive negotiation process aimed, among other things, at resolving the claims addressed in the Complaint and the requirements of previous consent decrees related to the allegations included in the Complaint, specifically with the goal of implementing a system-wide NPDES permit compliance plan, continuing the implementation of operational and maintenance plans in all of the Authority's facilities, implementing remedial measures to address discharges and the alleged violations to the CWA occurring within the Authority's wastewater collection system of the Puerto Nuevo Wastewater Treatment Plant ("WWTP") in the Municipality of San Juan. On May 23, 2016, the District Court entered judgement approving the 2015 EPA Consent Decree. The Complaint was dismissed with prejudice and associated civil case was closed. Before the 2017 Hurricanes, the Authority had been in substantial compliance with the capital improvement and program deadlines of the 2015 EPA Consent Decree. In the aftermath of the 2017 Hurricanes, the Authority submitted a notification to EPA invoking the *force majeure* provisions of the 2015 EPA Consent Decree and indicating the possibility of some delays in projects and program due dates. In June 2018, the Authority requested time extensions for a period to be determined for certain obligations and stipulated penalties due under the 2015 EPA Consent Decree with the corresponding justifications due to lack of funding to reactivate the CIP, the ongoing debt renegotiation process and the impact of the 2017 Hurricanes. Negotiations regarding the amendment of the 2015 EPA Consent Decree were commenced by the Authority, DOJ and EPA in order to revise the compliance deadlines related to certain programs and projects under the 2015 EPA Consent Degree. In February 2023 the DOJ and the Authority reached an agreement on the amendments, which has been approved by the Authority's Governing Board. The Modification to the Consent Decree was approved by DOJ, it was lodged in Court, and on July 6, 2023 it was published in the Federal Register for a thirty (30) day period of public comments. Four persons and entities commented. DOJ and the Authority are currently discussing those comments and any changes that might be needed to include in the Modification to Consent Decree. 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 limitaions 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. 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 will be negotiated, if necessary, with EPA and DOJ at a later time.

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, 2021 and ending on April 30, 2022 was as follows:

Real and Personal Property

Coverage	Limit	Deductible
Stop Loss Limit	$300 million	As stated below
Property – All Other Perils (AOP) (including Data Processing, In Transit and equipment breakdown)	$150 million per occurrence, All Risks of Direct physical Loss or damage Insurance including Business interruption and Extra Expense, in excess of applicable deductible.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Windstorm	Included in $150 million property coverage.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Earthquake (EQ)	$300 million Combined Single Limit for Property Damage and Business Interruption each and every occurrence, excess of applicable deductible and excluding wind driven water.	$100 million each and every occurrence combined for Property Damage and Business Interruption, including Windstorm, Flood, Earthquake and Boiler & Machinery
Flood	$300 million Combined Single Limit for Property Damage and Business Interruption each and 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 and subject to the policy limits	$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	$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, 2022 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 year 2022.

Leases

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

The Authority leases facilities, office equipment and other assets under long-term, noncancellable lease agreements recorded in accordance with GASB Statement No. 87.

As of June 30, 2022, the Authority had minimum principal and interest payment requirements in its lessee activity as follows (expressed in thousands):

	Principal	Interest	Total
Fiscal year:			
2023	$ 2,603	$ 411	$ 3,014
2024	1,975	306	2,281
2025	1,880	217	2,097
2026	1,341	139	1,480
2027	524	96	620
2028-2032	1,605	224	1,829
2033-2037	224	5	229
Total	$ 10,152	$ 1,398	$ 11,550

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 $92.2 million as of June 30, 2022, presented within accrued liabilities in the accompanying balance sheets.

(21) Subsequent events:

Subsequent events were evaluated through November 30, 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 2022 financial statements.

(a) Environmental Compliance

Although the Authority is committed to bringing the Systems into material compliance with applicable law, due to the impact of the 2017 Hurricanes, the 2019/2020 earthquakes, the COVID-19 pandemic and more recently Hurricane Fiona, the Authority will not be able to comply with all the requirements of (i) the Consent Decree between the Authority and the Puerto Rico Department of Justice ("PRDOJ"), and the Environmental Protection Agency ("EPA") and the United States Department of Justice ("USDOJ"), approved by the district court on May 26, 2016 (the "2015 Consent Decree") and (ii) the comprehensive settlement agreement entered into between the Authority and the Puerto Rico Department of Health ("PRDOH") in December 2006 (the "2006 Drinking Water Settlement Agreement") on project execution timelines. Notwithstanding the force majeure clause invoked by the Authority after Hurricane Maria is still in effect, all efforts are made to maintain compliance on the regulations and permits established under the Clean Water Act ("CWA") and Safe Drinking Water Act ("SDWA"). The Authority and EPA have concluded the negotiation of revisions to the 2015 Consent Decree:

a) New Operational Remedial Measures were negotiated and approved under Term 1 and 2.
b) New compliance dates were also approved for the Capital Improvement Projects ("CIP") and new projects were included in the list (Appendix J).
c) A revised list of the sanitary pumping stations owned and operated by the Authority was submitted. This list will be included as an attachment.
d) New schedule to complete the Sewer System Reconnaissance and Cleaning in Areas Remaining of Puerto Nuevo RWWTP Sewer System and other related obligations.

The Authority's Governing Board approved the Modification to the Consent Decree in February of 2023. EPA and USDOJ have approved the amended agreement. It has been submitted to the district court and published in the Federal Register for a 30 day period of public comments, which ended on August 7, 2023. DOJ and the Authority are currently considering the comments made to determine if additional amendments are necessary, before submitting it to the Court for final approval.

In addition, the Authority has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement with PRDOH. Also, the Authority has negotiated on a case by case basis the stoppage of some imposed penalties and established new compliance dates for some remedial measures.

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

(b) 2023 Fiscal Plan

On May 26, 2023, the Oversight Board approved its latest 6-year fiscal plan for the Authority (the "PRASA Fiscal Plan") pursuant to PROMESA. The PRASA Fiscal Plan includes certain initiatives, such as, among others, an improved metering system, physical water losses reduction, federal funding maximization, projects to reduce electricity costs and an aggressive execution of the capital improvement program. For more detail on PRASA's financial projections and measures under implementation or to be implemented as required by the Oversight Board please refer to the 2023 Fiscal Plan for the Authority published as published in the Oversight Board webpage.

(c) Rate Adjustments

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

(d) New State Revolving Fund ("SRF") Loans

The Authority entered into the following financial assistance agreements subsequent to fiscal year 2022 year closing:

- On September 22, 2022, the Authority signed a $11.8 million financial agreement for DWSRF funding for drinking water projects. including $5.6 million of loans and $6.2 million in grants.
- On January 24, 2023, a new financial agreement for CWSRF funding for $24.2 million was executed, including $22.6 million of loans and $1.6 million in grants.
- On June 12, 2023, a new financial agreement for DWSRF funding for $62.0 million was executed, including $54.5 million of loans and $7.5 million in grants.

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

(e) Employees and Labor Relations

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

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

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

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

Upon the effective date of the PFC Qualifying Modification, the outstanding debt of the Authority described in Note 12 was cancelled and considered extinguished.

(g) 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 estimated impact of Hurricane FIONA in incremental expenses is around $25 million and $15 million for reconstruction and recovery projects. The Authority expects to recover the cost of most of the necessary remediations required from the impact of Hurricane Fiona from FEMA and/or insurance proceeds.

(h) Cybersecurity

PRASA detected a cybersecurity breach on March 13, 2023. The security protocols were immediately activated and the relevant authorities, (i) the Government of Puerto Rico Office of Innovation and Technology Service (PRITS), (ii) Federal Bureau of Investigation (FBI) and(iii) Cybersecurity and Infrastructure Security (CISA) were immediately notified to start the investigation and forensic analysis process. As part of the investigation, it was confirmed that personal information of PRASA’s customers and employees was exposed to unauthorized persons. PRASA took the necessary steps to notify the public and in coordination with PRITS, have taken the necessary measures to strengthen the security mechanisms within PRASA's information systems and reduce the possibility that an incident such as this will happen again. As of the date the financial statements were available to be issued no final determination has been made as to the final financial impact.

(i) Related Party Matters

The Authority has been working with both PREPA and ERS to settle outstanding disputed balances owing 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 2023, inclusive. Additionally, following an Interagency Agreement executed with PREPA on March 10, 2023, the adjusted balance owed for electricity services up to June 1, 2021 was paid in full by the date of the issuance of the financial statements. The outstanding balance for water purchase services up to September 30, 2022 is being paid in installments due in February 2024.

Required Supplementary Information

Schedule of the Authority's Proportionate Share of the Total Pension Liability (Unaudited)
June 30, 2022

(In thousands)

For the fiscal year ended June 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the total pension liability	Authority's covered-employee payroll	ERS plan's fiduciary position	ERS plan's fiduciary position as a percentage of the total pension liability
2022*	6.83718%	$ 1,858,641	$ -	n/a	n/a
2021*	6.76758%	$ 1,899,647	$ -	n/a	n/a
2020*	6.79642%	$ 1,688,941	$ -	n/a	n/a
2019*	6.83100%	$ 1,672,879	$ -	n/a	n/a
2018*	6.81390%	$ 1,921,832	$ -	n/a	n/a

Notes

* The amounts presented have a measurement date of the previous fiscal year-end.
* Currently there are no active participants in this plan. 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 the 10-year period has been completed, information is presented only for the years for which the required supplementary information is available.

See acompanying independent auditors' report.

Required Supplementary Information
Schedule of Funding Progress for the Authority's Post-employment Healthcare Benefits (Unaudited)
June 30, 2022

(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, 2022	$ -	$ 63,903	$ 63,903	0%	$ 116,624	55%
June 30, 2021	$ -	$ 75,060	$ 75,060	0%	$ 113,711	66%
June 30, 2020	$ -	$ 79,948	$ 79,948	0%	$ 117,545	68%
June 30, 2019	$ -	$ 75,427	$ 75,427	0%	$ 120,262	63%
June 30, 2018	$ -	$ 72,670	$ 72,670	0%	$ 128,331	57%
June 30, 2017	$ -	$ 74,549	$ 74,549	0%	$ 128,331	58%
June 30, 2016	$ -	$ 76,226	$ 76,226	0%	$ 143,209	53%
June 30, 2015	$ -	$ 75,326	$ 75,326	0%	$ 135,965	55%
June 30, 2014	$ -	$ 72,027	$ 72,027	0%	$ 148,131	49%
June 30, 2013	$ -	$ 73,044	$ 73,044	0%	$ 149,613	49%

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

Required Supplementary Information
Schedule of the Authority’s Proportionate Share of the ERS for Postemployment Benefits
June 30, 2022

(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
2022*	5.53269%	$ 44,157	$ -	n/a	n/a	n/a
2021*	5.42999%	$ 47,492	$ -	n/a	n/a	n/a
2020*	5.43802%	$ 45,257	$ -	n/a	n/a	n/a
2019*	5.45638%	$ 45,951	$ -	n/a	n/a	n/a
2018*	5.24269%	$ 48,259	$ -	n/a	n/a	n/a
2017*	5.16898%	$ 47,581	$ -	n/a	n/a	n/a

Notes

- ∗ The amounts presented have a measurement date of the previous fiscal year-end.
- ∗ Currently there are no active participants in this plan. 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 the 10-year period has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors’ report

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

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

Supplementary Information
Schedule of Financial Results, Debt Coverage and Rate Covenant Calculations
June 30, 2022

(In thousands)

Revenues	
Water and Sewer	$ 879,994
Government	195,355
Service revenues (cash basis)	1,075,349
Other Income	2,208
Developers Contributions	1,423
Operating revenues (cash basis)	1,078,980
Operating expenses:	
Payroll and payroll related	267,868
Electricity	167,346
Other operating expenses	288,260
Total net operating expenses	723,474
FEMA appropriations for expenses	(20,310)
Subsidies (netted from revenues)	(6,338)
Non cash reserve adjustments	(3,985)
Adjusted operating expenses	692,841
Total net revenues per MAT	$ 386,139

Debt service coverage calculation

Operating revenues available for Senior, Senior Subordinated and Subordinated debt	**$ 1,078,980**
Senior indebtedness	254,001
Accumulated coverage ratio (Min 2.5x) - section 7.01 (a) (i) MAT	***4.25***
Senior subordinated debt	—
Accumulated coverage ratio (Min 2.0x) - section 7.01 (a) (ii) MAT	***4.25***
All bonds and Other Systems Indebtedness	254,001
Accumulated coverage ratio (Min 1.5x) - section 7.01 (a) (iii) MAT	***4.25***

Rate covenant calculation

Total obligations (Debt Service, Current Expenses and MAT required deposits)	**1,012,118**
Accumulated coverage ratio (Min 1.0x) - section 7.01 (iv) MAT	***1.07***

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, as no debt service was due or 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 1.07x for fiscal year 2022

Kevane Grant Thornton

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

Kevane Grant Thornton LLP
33 Bolivia Street
Suite 400
San Juan, Puerto Rico 00917-2013

T + 1 787 754 1915

F + 1 787 751 1284

E kgt@pr.gt.com

linkedin.com/company/kevane-grant-thornton
facebook.com/kevanegrantthornton

To 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Puerto Rico Aqueduct and Sewer Authority**, which comprise the balance sheet as of June 30, 2022, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the **Puerto Rico Aqueduct and Sewer Authority**'s basic financial statements, and have issued our report thereon dated November 30, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Puerto Rico Aqueduct and Sewer Authority**'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the **Puerto Rico Aqueduct and Sewer Authority**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

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Report on Compliance and Other Matters

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

Purpose of this Report

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

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
November 30, 2023.

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(OF PUERTO RICO)
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