

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Basic Financial Statements and  
Required Supplementary Information

June 30, 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Puerto Rico Safe Drinking Water  
Treatment Revolving Loan Fund

### Report on the Financial Statements

We have audited the accompanying statement of net position of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund ("the Revolving Fund") as of June 30, 2020 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 basic financial statements, which collectively comprise the Revolving Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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



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To the Board of Directors of  
Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund  
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Revolving Fund as of June 30, 2020, and the related changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.



Galíndez LLC

San Juan, Puerto Rico  
April 22, 2022  
License No. LLC-322  
Expires December 1, 2023

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2020

As financial management of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Safe Drinking Water State Revolving Fund or SDWRF), we offer readers of the Revolving Fund's financial statements this narrative overview and analysis of the Revolving Fund's financial performance during the fiscal year ended June 30, 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial matters and activities and to identify any significant changes in the net position of the Revolving Fund. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole, which follow this section.

Financial Highlights

- The Revolving Fund's restricted net position increased approximately by \$19.5 million or 9.45% over the course of the year's operations, mainly resulting from a reversal in the provision for loan losses of approximately \$19.4 million. Management's analysis of the allowance for loan losses showed a reduction in the required reserves.
- Operating income was approximately \$18.8 million for fiscal year 2020, an increase of approximately \$15.8 million when compared to the prior year.
- Grants and contributions received experienced a decrease of approximately \$50.2 million, while contributions disbursed experienced an increase of approximately \$3.6 million, when compared to prior year.
- Loan receivable for capital improvements programs had a net increase of approximately \$20.8 million when compared to the previous year, which is mainly composed of collections of outstanding loans amounting to approximately \$1.9 million, new loans issued amounting to approximately \$3.3 million and a decrease in the allowance for loan losses amounting to approximately \$19.4 million during the year ended on June 30, 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Revolving Fund's basic financial statements, which are comprised of the basic financial statements and the notes to the basic financial statements. Since the Revolving Fund is comprised of a single enterprise fund, no fund level financial statements are shown.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Revolving Fund's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Revolving Fund's assets and liabilities, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities result in increased net position, which indicate an improved financial position.

The statement of revenues, expenses and changes in net position presents information showing how an entity's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The last of the required financial statements is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and non-capital financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net position may serve, over time, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. In the case of the Revolving Fund, assets exceeded liabilities by approximately \$225.8 million as of June 30, 2020. This represents an increase of approximately \$19.5 million or 9.45% over net position as of June 30, 2019. The total amount of net position is restricted as it only serves the purpose provided by the enabling legislation of providing loans and financing for drinking water infrastructure facilities. As of June 30, 2020, all loans and commitments have been granted to the Puerto Rico Aqueduct and Sewer Authority (PRASA).

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

For fiscal year 2020, the Revolving Fund's management decided that part of the allowance for loan losses was no longer necessary based on, among other, the terms of the PRASA Loan and debt restructuring agreement discussed in Note 6 of the basic financial statements. Management has recognized since the 2017 basic financial statements the effects of these subsequent events based on information available prior to the issuance of such financial statements. PRASA is in compliance with new loan payment terms. Also, as part of the PRASA's debt restructuring, the Commonwealth guaranty related to all the original financing agreements was terminated and any future right to the guaranty was waived. The notes are on parity with PRASA's senior bonds and other senior indebtedness.

The operation of the Revolving Fund is subject to the capital financing requirements of PRASA, and/or any other qualifying entity, and therefore, loan origination activity will be determined on an annual basis, depending upon PRASA's and/or any other qualifying entity's needs.

Condensed financial information on assets, liabilities, and restricted net position is presented below (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percent
Assets:				
Cash and cash equivalents	\$ 59,052	\$ 60,000	\$ (948)	-1.58%
Interest receivable	5	98	(93)	-94.90%
Loans receivable, net	167,079	146,252	20,827	14.24%
Total current assets	226,136	206,350	19,786	9.59%
Liabilities - accounts payable	334	53	281	530%
Net position - restricted	\$ 225,802	\$ 206,297	\$ 19,505	9.45%

Cash at June 30, 2020 amounted to approximately \$59 million resulting in an decrease of approximately \$948 thousand from approximately \$60 million as of June 30, 2019, or a decrease of 1.58%. The increase in loans receivable was mostly due to the reversal in the allowance for loan losses of approximately \$19.4 million during the year 2020. Consequently, the net position increased by approximately \$19.5 million primarily due to the release of provision for loan losses amounting to approximately \$19.4 million.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

Condensed financial information on revenues, expenses, and change in net restricted position is presented below (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percent
Operating recovery, net	\$ 18,828	\$ 2,980	\$ 15,848	531.81%
Non-operating revenues (expenses):				
Interest income on deposits	666	649	17	2.62%
Contributions	3,627	53,848	(50,221)	-93.26%
Contributions to PRASA	(3,616)	-	(3,616)	100.00%
Change in restricted net position	19,505	57,477	(37,972)	-66.06%
Net position - beginning of year	206,297	148,820	57,477	38.62%
Net position - end of year	\$ 225,802	\$ 206,297	\$ 19,505	9.45%

The change in net position decreased by approximately \$38 million when compared to the previous year. The negative variance results principally from a decrease in contribution from the Commonwealth amounting to approximately \$53.3 million, received in the fiscal year 2019, which was offset by a release on provision for loan losses of approximately \$19.4 million in the fiscal year 2020.

Contributions from the Environmental Protection Agency amounting to approximately \$3.6 million were received and contributions to PRASA amounting to approximately \$3.6 million were made during the year ended on June 30, 2020.

Currently Known Facts

PRASA Debt's Restructuring

In July 2019, the Commonwealth of Puerto Rico reached an agreement with the Environmental Protection Agency (EPA) to restructure some \$596 million in PRASA debt with the SRF's, of which approximately \$192.5 million pertained to the Revolving Fund. PRASA and the Commonwealth reached an understanding with the federal agency's Water Pollution Control and Drinking Water State Revolving Fund programs (SRF). The agreements modify the economic terms of approximately \$596 million in outstanding SRF loans, eliminate the Commonwealth's guaranty of such debt, and designate the new federal debt as parity senior debt with PRASA's other senior debt pursuant to the terms of PRASA's existing Master Agreement of Trust. The agreement ended the need for continued forbearance agreements related to the federal debt and alleviated certain uncertainties about PRASA's future.



Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

Mitigating Factors to Going Concern

Future capitalization grants are dependent on the availability of funds from the Commonwealth to match a required percentage under Federal Law; which in turn depends on budgetary appropriations made by the Legislature and the certification of such allocations by the Oversight Board (see Notes 6 and 10), which actions are beyond the control of the Revolving Fund. Notwithstanding, the aforementioned remediating activities already in effect alleviate the substantial doubt about the Revolving Fund's ability to continue serving the purposes of the safe drinking water treatment revolving loan program. The Department of Health under the Commonwealth has always complied with the matching requirement and will continue directing its exertions towards complying with it.

Requests for Information

This financial report is designed to provide those interested with a general overview of the Revolving Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Statement of Net Position

June 30, 2020

Assets

Current assets

Cash and cash equivalents	\$ 59,051,522
Interest receivable	4,852
Loans receivable from Puerto Rico Aqueduct and Sewer Authority	<u>3,300,000</u>
Total current assets	62,356,374

Non current assets - Loans receivable from

Puerto Rico Aqueduct and Sewer Authority, net	<u>163,779,344</u>
Total assets	<u><u>226,135,718</u></u>

Liabilities and Net Position

Liabilities - accounts payable	<u>333,933</u>
Net position - restricted	<u>225,801,785</u>
Total liabilities and net position	<u><u>\$ 226,135,718</u></u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2020

Operating (recovery) expenses:	
Release of provision for loan losses	\$ (19,359,000)
General and administrative	<u>530,323</u>
Total operating recovery, net	<u>(18,828,677)</u>
Operating income	<u>18,828,677</u>
Non-operating revenues (expenses):	
Interest income on deposits	665,531
Contributions from Environmental Protection Agency	3,627,186
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(3,616,039)</u>
Total non-operating revenue	<u>676,678</u>
Change in net restricted position	19,505,355
Net position - beginning of year	<u>206,296,430</u>
Net position - end of year	<u>\$ 225,801,785</u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment

Revolving Loan Fund

Statement of Cash Flows

For the Year Ended June 30, 2020

Cash flows from operating activities:	
Cash paid for general and administrative expenses	\$ (249,726)
Loan disbursement	(3,395,915)
Principal collected on loans	<u>1,927,778</u>
Net cash used in operating activities	<u>(1,717,863)</u>
Cash provided by investing activities -	
Interest collected on deposits	<u>758,917</u>
Cash flows from non-capital financing activities:	
Contributions received from the Environmental Protection Agency	3,627,186
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(3,616,039)</u>
Net cash provided by non-capital financing activities	<u>11,147</u>
Net change in cash	(947,799)
Cash and cash equivalents - beginning of year	<u>59,999,321</u>
Cash and cash equivalents - end of year	<u>\$ 59,051,522</u>
Reconciliation of operating income to net cash	
used in operating activities:	
Operating income	\$ 18,828,677
Adjustments to reconcile operating income to net cash used in	
operating activities:	
Release of provision for loan losses	(19,359,000)
Net increase in loans receivable from	
Puerto Rico Aqueduct and Sewer Authority	(1,468,137)
Increase in accounts payable	<u>280,597</u>
Net cash used in operating activities	<u>\$ (1,717,863)</u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements

June 30, 2020

Note 1 - Reporting entity

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Fund) was created by Act 32 of the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) on July 7, 1997. The Revolving Fund was constituted separately and independently from any other funds or resources of the Commonwealth. It is presented as an enterprise fund of the Commonwealth.

The Revolving Fund is administered, pursuant to Act 5 of July 21, 1977, as amended (the Act 5), by the Puerto Rico Department of Health (the DOH). Pursuant to the Act 5, the DOH, on behalf of the Commonwealth, is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA).

DOH, Puerto Rico Infrastructure Financing Authority (PRIFA), Puerto Rico Aqueduct and Sewer Authority (PRASA), and the Fiscal Agency and Financial Advisory Authority (FAFAA) entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Fund. Under the memorandum of understanding, FAFAA provides assistance in maintaining the accounting records of the Revolving Fund.

On June 30, 2017, PRASA, PRIFA, Puerto Rico Department of Natural and Environmental Resources (DNER) and the Puerto Rico Department of Health (DOH), entered into an Escrow Deposit Agreement (Escrow Agreement) with Banco Popular de Puerto Rico (BPPR or Escrow Agent). The Escrow Agreement was established, among other things, (1) to account for irrevocable escrow accounts, (2) hold deposit of the escrowed assets and (3) to apply such escrowed assets solely in accordance with the escrow agreement.

The Escrow Agreement emerged as part of and as a condition to the second amendment to the Forbearance Agreement as PRASA agreed to execute certain minimum payments to PRIFA for the sole benefit of the Revolving Fund.

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Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 1 - Reporting entity – (continued)

Pursuant to the operating agreements with EPA, PRIFA is required to establish trust fund accounts to hold separate and apart from its assets or those of any of the agencies of the Commonwealth, in which it will deposit all funds received from borrowers of the Revolving Fund funds. PRASA will not have and will not exercise any dominion or control over the escrowed assets until the date that the Escrow Agent receives a certificate of compliance with the operating agreements with EPA and duly constituted in accordance with the laws of the Commonwealth.

Amendments to the Operating Agreements and Memorandum of Understanding-Incorporation into Trust Agreement

Effective September 18, 2018, DOH and EPA entered into a revised Drinking Water State Revolving Fund Operating Agreement (the Revolving Fund Operating Agreement). On September 18, 2018, PRIFA and DOH entered into an amendment to the December 27, 2016 memorandum of understanding between PRIFA and DOH attached to and referenced in the Revolving Fund Operating Agreement.

DOH, PRIFA and FAFAA, with the consent of EPA, have agreed to incorporate into the Revolving Fund Operating Agreement, The Trust Agreement (the Trust Agreement) with BPPR, as Trustee (the Trustee), pursuant to which the Trustee shall receive all capitalization grant funds, investment earnings and funds recovered under the Commonwealth Fiscal Plan related to the Revolving Fund, and set them aside in a Trust separate and apart from any and all proprietary funds of PRIFA, DOH, and the Commonwealth, its agencies and instrumentalities, all in accordance with the further terms and conditions provided in the Trust Agreement. The Trust Agreement between DOH, PRIFA and Banco Popular of Puerto Rico was executed on December 18, 2018.

Note 2 - Summary of significant accounting policies

The accounting and reporting policies of the Revolving Fund conform to Accounting Principles Generally Accepted in the United States of America (GAAP) for governments, as prescribed by the Governmental Accounting Standards Board (GASB).

During the fiscal year ended on June 30, 2020, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Revolving Fund.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Following is a description of the Revolving Fund's most significant accounting policies:

Measurement focus, basis of accounting, and financial statements presentation

The Revolving Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position report information on all activities of the Revolving Fund. The Revolving Fund's activities are distinguished as proprietary activities. The Revolving Fund's activities generally are financed through intergovernmental revenues, other non-exchange revenues and interest income from its loans and deposits. Following is a description of the Revolving Fund's financial statements.

The statement of net position presents the Revolving Fund's assets and liabilities, with the difference reported as net position. Net position may be reported as:

- Restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Restricted net assets result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted component of net position consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

As of June 30, 2020, the Revolving Fund net position is presented as restricted.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Measurement focus, basis of accounting, and financial statements presentation – (continued)

The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Operating expenses are those that relate to the administration of the Revolving Fund. Other items not meeting the definition of program revenues or operating expense are reported as non-operating revenues or expenses.

Cash and cash equivalents

Time deposits with maturities at date of purchase of three months or less are classified as cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. As of June 30, 2020, The Revolving Fund maintains approximately \$59.1 million in cash equivalents.

Loan receivable and allowance for loan losses

Loans are presented at the outstanding principal balance reduced by allowance for loan losses. The allowance for loan losses is established through a provision recorded in the statement of revenues, expenses and changes in net position. The allowance for loan losses is based on management's evaluation of the risk characteristics of the loans including such factors as the nature of individual credit outstanding, past loss experience, known and inherent risk in the portfolios' sources of repayment, adverse situation that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amount previously charged off are credited to the respective allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change if economic and other conditions differ substantially from the assumptions used in making the estimates. Such adjustment to original estimates, as necessary, are made in the period on which these factors and other relevant considerations indicate that loss levels vary from previous estimates.

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Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Loan receivable and allowance for loan losses – (continued)

The Revolving Fund considers loans as impaired based on current information and events, including significant delays in the receipt of the scheduled debt service payments. To establish an allowance for loans losses, the Revolving Fund's management used applicable authoritative literature, general background information and recent relevant information included in the Commonwealth and PRASA's fiscal plan, as further discussed in Notes 6 and 10.

In relation to income recognition, the Revolving Fund classifies loans as nonaccrual when management determines if any of the following characteristics are present: (a) a loan was six months past due; (b) it has no current source of repayment; (c) it is not covered by formal commitment from the Puerto Rico Aqueduct and Sewer Authority; and (d) it does not have designated collateral, or such collateral is insufficient. Based on these four elements, when a loan is placed in nonaccrual status, interest receivable is reversed from interest income. Interest income on nonaccrual loan is thereafter recognized in income only to the extent that it is collected. Nonaccrual loans are returned to accrual status when management has adequate evidence to believe that the loans would perform as contracted.

Also, as the loans made and collected (including interests on loans) are part of a governmental program, the loan activities are reported as operating activities in the statement of cash flows.

Recent accounting pronouncements

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2020:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2019. As amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, the effective date is postponed by one year.

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

This Statement also addresses arrangements-often characterized as leases- that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2020. As amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, the effective date is postponed by one year.

- GASB Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting*

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

*for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement were originally effective for reporting periods beginning after June 15, 2020. As amended by GASB Statement No. 95, Postponement of the effective dates of Certain Authoritative Guidance, the effective date is postponed by one year.*

- GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR). The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The removal of LIBOR as an appropriate benchmark interest rate was originally effective for reporting periods ending after December 31, 2021. All other requirements of this Statement were originally effective for reporting periods beginning after June 15, 2020. As amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, the effective dates are postponed by one year.

- GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance* does not postpone the effective date of this Statement because the pandemic of COVID – 19 was factored into the statement’s effective date.

- GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

- *Statement No. 83, Certain Asset Retirement Obligations*
- *Statement No. 84, Fiduciary Activities*
- *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
- *Statement No. 90, Majority Equity Interests*
- *Statement No. 91, Conduit Debt Obligations*
- *Statement No. 92, Omnibus 2020*
- *Statement No. 93, Replacement of Interbank Offered Rates*
- *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- *Implementation Guide No. 2018-1, Implementation Guidance Update – 2018*
- *Implementation Guide No. 2019-1, Implementation Guidance Update – 2019*

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

- *Implementation Guide No. 2019-2, Fiduciary Activities.*

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

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

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

The requirements of this Statement are effective immediately.

- GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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

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

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*- This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 2 - Summary of significant accounting policies – (continued)

Recent accounting pronouncements – (continued)

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have, if any, on the Revolving Fund's basic financial statements.

Note 3 - Operations

PRASA's past inability to meet in full its scheduled debt service payments on the loans granted by the Revolving Fund, together with past credit losses in the Revolving Fund's deposits with Government Development Bank of Puerto Rico (GDB), brought a significant reduction in the Revolving Fund's net position and liquidity, as well as temporarily halting the disbursements of funds for the construction of wastewater infrastructure to PRASA. However, in the prior year, the Commonwealth of Puerto Rico recapitalized the Revolving Fund by making a contribution, which was deposited in a separate trust account, from which the Revolving Fund now has resumed its operations and has made disbursements of funds for the construction of wastewater infrastructure.

Also, as further discussed in Notes 6 and 8 below, on July 26, 2019, the delinquent loans of the Revolving Fund to PRASA were restructured and, as a result of the restructuring, PRASA has been able to meet in full its scheduled debt service since then.

In addition, as disclosed in Note 10, on May 27, 2021, the Oversight Board approved and certified a 5-year fiscal plan for PRASA (the PRASA Fiscal Plan), which is expected to improve PRASA's financial position and ability to meet its obligations. Moreover, as also disclosed in Note 10, on April 23, 2021, the Oversight Board approved and certified its own fiscal plan for the Commonwealth (the Commonwealth Fiscal Plan), which commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return the Commonwealth to fiscal stability and economic growth.

Nonetheless, there is no certainty that the PRASA Fiscal Plan or the Commonwealth Fiscal Plan will be fully implemented, or, if implemented, will ultimately provide the intended results. All these plans and measures, and PRASA's ability to reduce its deficit and continue meeting in full its scheduled debt service, depend on a number of factors and risks, some of which are not wholly within the PRASA's control.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 4 - Transactions with Puerto Rico Infrastructure Financing Authority

Since the Puerto Rico Infrastructure Financing Authority (PRIFA) had certain responsibilities with the Revolving Fund, PRIFA provided certain management services to the Revolving Fund amounting to \$24,950, for which the DOH owed to PRIFA as of June 30, 2020. The amount for management services was reimbursed by the DOH to PRIFA during the fiscal year ending on June 30, 2022.

Note 5 - Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure of a depository financial institution, the entity will not be able to recover its deposits. The Revolving Fund does not have a custodial credit policy.

Cash and cash equivalents as of June 30, 2020 were deposited as follows:

Type of Deposit	Amount
Cash deposits at commercial bank	\$ 778
Time deposits at commercial bank	59,050,744
	\$ 59,051,522

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.

Note 6 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA)

At June 30, 2020, loans, all to PRASA, consist of the outstanding balances as following:

	Loans Balance	Allowance for Loans Losses	Loans Balance, net
Total loans receivable from PRASA	\$ 186,438,344	\$ (19,359,000)	\$ 167,079,344

As fully disclosed below, PRASA's restructured loan is due in semiannual installments, bearing interest at 0% per annum from year 1 thru 10 and 1% for the next 20 years.

Also, as part of the restructuring of the loan, there are approximately \$4.4 million of undisbursed loan funds available for PRASA, which when requested and disbursed by the Revolving Fund, will have the same repayment terms and interest rate disclosed above.



Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 6 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

Loans receivable, as of June 30, 2020, mature as follows:

Years Ending June 30,	Amount
2021	\$ 3,300,000
2022	3,300,000
2023	3,300,000
2024	3,300,000
2025	3,300,000
2026-2030	18,462,325
2031-2035	37,131,690
2036-2040	39,030,609
2041-2045	41,026,640
2046-2049	34,287,080
	\$ 186,438,344

The Revolving Fund is operated as a direct loan program, whereby most of the loans made to PRASA are funded by capitalization grants from the EPA and a Commonwealth match equaling 20% of the EPA's capitalization grant. All of the outstanding loans are funded with EPA capitalization grants, state match funds, and with funds from the results of the operations of the SDWRF.

Pursuant to Act 96 of June 30, 2015 (the Act 96), the Commonwealth guaranteed the payment of principal and interest on most of the outstanding Revolving Fund loans granted to PRASA. However, pursuant to the refinancing of the loans disclosed below, the Commonwealth guaranty related to all the original financing agreements was terminated effective on July 26, 2019.

Notwithstanding the refinancing disclosed below, the current financial situation PRASA is precarious and the possibility that available resources will be insufficient to fulfill its obligations to the Revolving Fund prevail. Before the refinancing of the loans, PRASA was also experiencing a challenging financial scenario, with its ability to fulfill all of its financial commitments, including those obligations incurred under the Revolving Fund's loans. As a result, PRASA has been seeking relief through the modification of its debt obligations.

The Commonwealth's guaranty related to all the original financing agreements, and the bonds and loans issued was terminated on July 26, 2019, and the new loans are not subject to the guaranty, and the obligations of PRASA under the new loan agreements and the notes will not constitute

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 6 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

Commonwealth guaranteed indebtedness under the trust agreement. Any future right to the Commonwealth guaranty was waived.

Loans are considered impaired based on current information and events, including a letter to the Electronic Municipal Market Access System (EMMA) dated March 16, 2016 and the eventual significant delays in the receipt of the scheduled debt service payments.

The letter to EMMA disclosed the situation that caused a backlog of unpaid obligations to contractors on PRASA's capital improvement program (CIP). In summary, as a result of the recent obstacles faced by PRASA in gaining access to the bond market for the issuance of its revenue bonds to cover the cost of its CIP, it has been unable to pay certain outstanding contractor receivables and had to suspend its ongoing CIP projects. The action plan proposed in such letter to face the situation included the following: (1) rate increases (currently in implementation stage), (2) set aside certain funds within the master agreement trust in order to make payments to its contractors, which did not include any payment to the Revolving Fund, (3) the approval by the Senate of Puerto Rico of the legislation to create a special purpose entity for a bond issuance (the creation of such entity never materialized), (4) PRASA had a \$180 million credit line from GDB (no longer available due to the wind down and restructuring of GDB in November 2018) and (5) obtaining financing from a willing investor, with or without the approval of legislation.

Considering that the action plan has had no significant development and that beginning on June 30, 2016, a series of debt forbearance agreements were entered with PRASA (see Note 8), the Revolving Fund established an allowance for loan losses on identified impaired loans based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate.

As mentioned above, the Commonwealth's guaranty related to all the original financing agreements, and the bonds and loans issued was terminated, and the new loans are not subject to the guaranty and the obligations of PRASA under the new loan agreements and the notes will not constitute Commonwealth guaranteed indebtedness under the trust agreement. Any future right to the Commonwealth guaranty was waived.

PRASA's debt restructuring

On July 26, 2019, the U.S. Environmental Protection Agency (EPA) and Puerto Rico Aqueduct and Sewer Authority (PRASA) restructured certain delinquent loans – amounting to approximately \$596 million in principal – owed to Puerto Rico's Water Pollution Control (WP) and Drinking Water (DW) State Revolving Fund (SRF) programs. PRASA entered into two loan agreements in order to restructure certain existing loans from the SRF funds and the notes issued by PRASA under the new

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 6 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

PRASA's debt restructuring – (contued)

loan agreements superseded and replaced all outstanding obligations with the SRF funds. The SRF also waived all accrued and unpaid interest with respect to the old debt. The two new loan agreements (one for the WP and one for DW) each have a term of thirty years commencing on January 1, 2020 (effective date) and bear interest at 0.0% for the first 10 years and 1% for the next 20 years. The loans and notes issued by PRASA to the applicable SRF were incurred by PRASA as other system indebtedness and have been designated as senior indebtedness under the master agreement of trust, between PRASA and Banco Popular de Puerto Rico, as trustee, and as amended by the seventh supplemental agreement of trust. The new loans provided by the SRF to PRASA are not Commonwealth guaranteed indebtedness, as defined in the trust agreement and the Commonwealth guaranty related to all the original financing agreements was terminated.

As a result of this restructuring, during the year ended on June 30, 2020, management was able to release allowance for loan losses amounting to approximately \$19.4 million, that was provided in prior years, and which is included as release of provision for loan losses in the accompanying statement of revenues, expenses and changes in net position for the year then ended.

Note 7 - Capitalization grants

The Safe Drinking Water Act (the SDWA), as amended, is the main federal law that ensures the quality of the United States' drinking water. Under the SDWA, the EPA sets standards for drinking water quality and oversees different localities, and water suppliers who implement those standards. The SDWA created the federal Drinking Water State Revolving Fund to make funds available to public water systems to finance infrastructure construction and improvements needed to comply with the SDWA water quality requirements. The SDWA authorizes the EPA to award capitalization grants to states which, in turn, provide low interest loans and other types of financial assistance to eligible systems.

These grants are routinely subject to financial and compliance audits in accordance with the provisions of the *Title 2, U.S. Code of Federal Regulation Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Award* (Uniform Guidance) and compliance audits by the EPA. The latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance. All funds drawn from the EPA and the matching funds from the Commonwealth are recorded as non-operating revenues. As of June 30, 2020, the EPA has awarded capitalization grants amounting to \$248,301,000 to the Revolving Fund, of which \$199,591,724 have been drawn for loans, administrative expenses and technical assistance expenses.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 7 - Capitalization grants – (continued)

The following summarizes the capitalization grants awarded, amounts drawn on each grant as of the statement of net position date, and balances available for future draws:

June 30,	Grant amount	Total draws at June 30, 2019	Draws during 2020	Total draws at June 30, 2020	Available at June 30, 2020
1998	\$ 22,783,800	\$ 22,783,800	\$ -	\$ 22,783,800	\$ -
1999	10,716,700	10,716,700	-	10,716,700	-
2000	11,137,800	11,137,800	-	11,137,800	-
2001	11,183,800	11,183,800	-	11,183,800	-
2002	10,741,300	10,741,300	-	10,741,300	-
2003	10,676,700	10,676,700	-	10,676,700	-
2004	11,075,500	11,075,500	-	11,075,500	-
2005	11,052,100	11,052,100	-	11,052,100	-
2006	8,229,300	8,229,300	-	8,229,300	-
2007	8,229,000	8,229,000	-	8,229,000	-
2008	8,146,000	8,146,000	-	8,146,000	-
ARRA	19,500,000	19,500,000	-	19,500,000	-
2009	8,146,000	8,146,000	-	8,146,000	-
2010	13,573,000	13,573,000	-	13,573,000	-
2011	9,418,000	9,418,000	-	9,418,000	-
2012	8,975,000	8,533,313	-	8,533,313	441,687
2013	8,421,000	6,391,839	1,904,791	8,296,630	124,370
2014	8,845,000	6,430,386	1,617,940	8,048,326	796,674
2015	8,787,000	-	104,455	104,455	8,682,545
2016	8,312,000	-	-	-	8,312,000
2017	8,241,000	-	-	-	8,241,000
2018	11,107,000	-	-	-	11,107,000
2019	11,004,000	-	-	-	11,004,000
	<u>\$ 248,301,000</u>	<u>\$ 195,964,538</u>	<u>\$ 3,627,186</u>	<u>\$ 199,591,724</u>	<u>\$ 48,709,276</u>

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Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 7 - Capitalization grants – (continued)

At June 30, 2020, the Revolving Fund had \$11,004,000, \$11,107,000, \$8,241,000 and \$8,312,000 from the grants awarded by the EPA for the federal fiscal years ended September 30, 2019, 2018, 2017 and 2016, respectively, that are available to be drawn for loan commitments once all the EPA requirements have been met. As of June 30, 2020, PRIFA, PRASA and other parties have not executed financial agreements related to these awards. The grants awarded by the EPA are available to be drawn for administrative and technical assistance expenses. Also, as of June 30, 2020, certain amounts are still available for drawdowns from the grants awarded during the federal fiscal years ended on September 30, 2012, 2013, 2014 and 2015, which already have financial agreements executed and from which partial drawdowns have been made. See Note 10 for subsequent events.

Also, during the year ended on June 30, 2020, the Revolving Fund contributed \$3,616,039 to PRASA for different projects.

The Bipartisan Budget Act of 2019 provides that notwithstanding the requirements of section 603(d) of the Federal Water Pollution Control Act or section 1452(f) of the Safe Drinking Water Act, the state or territory shall utilize the full amount of such funds, excluding existing loans, to provide additional subsidization to eligible recipients in the form of forgiveness of principal, negative interest loans or grants or any combination of these. Provided further, that such funds may be used for eligible projects whose purpose is to repair damage incurred as a result of Hurricanes Irma and María, reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster at treatment works as defined by section 212 of the Federal Water Pollution Control Act or a public drinking water system under section 1452 of the Safe Drinking Water Act. Provided further, that any project involving the repair or replacement of a lead service line shall replace the entire lead service line, not just a portion.

Note 8 - Revolving funds loan forbearance

On June 30, 2016, in light of PRASA's liquidity constraints, PRIFA, DOH, and the Puerto Rico Department of Natural and Environmental Resources (DNER) entered into a forbearance agreement with PRASA (the Forbearance Agreement), under which PRIFA, among other things, agreed to a temporary forbearance of its rights and remedies under the Revolving Fund Loan documents against PRASA and under the Commonwealth Guaranty through December 30, 2016.

The Forbearance Agreement was reached in order to facilitate a reasonable due diligence and negotiation period necessary to achieve definitive agreements for the restructuring of PRASA's obligations related to such Revolving Fund Loan facilities.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 8 - Revolving funds loan forbearance – (continued)

At different dates between December 14, 2016 through May 28, 2019, PRIFA, DNER, DOH and PRASA have entered into nine additional amendment agreements, the last one expired on July 31, 2019, to amend certain provisions of the forbearance and to provide for an additional temporary forbearance of potential defaults and events of default that may arise under the Forbearance Agreement and the Revolving Loan documents.

As disclosed in Note 6, on July 26, 2019, the forbearance agreements were terminated and escrowed funds applied to the SRF loans as part of the PRASA's debt restructuring agreement.

Note 9 - Administrative expenses

As provided by federal laws and regulations, reasonable costs of administering the Revolving Fund are reimbursable under federal programs up to a maximum of 4% of the capitalization grant awarded each year. The federal government also reimburses expenses incurred in training and certifying personnel as well as technical matters and other set-asides, as determined by the Department of Health. During the year ended June 30, 2020, total reimbursement of administrative expenses amounted to \$530,323.

Note 10 - Subsequent events

Subsequent events were evaluated through April 22, 2022, the date the basic financial statements were available to be issued. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Revolving Fund. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

The PRASA Fiscal Plan and other matters

On May 27, 2021, the Oversight Board approved and certified a 5-year fiscal plan for PRASA (the PRASA Fiscal Plan). The PRASA Fiscal Plan includes a series of new initiatives, including, among others, rate increases, new federal funds, pension reform, electricity expense reduction, Christmas bonus elimination, health care savings, reductions in physical water losses, organizational optimization, chemical expense reduction, among others. Detailed information about the PRASA Fiscal Plan is disclosed in the portal page of the Oversight Board.

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 10 - Subsequent events – (continued)

The PRASA Fiscal Plan and other matters – (continued)

On December 17, 2020, PRASA issued 2020 Series A and Series B Revenue Refunding Bonds amounting to \$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 Trust Agreement, excluding the non-callable convertible capital appreciation bonds, (ii) refinance all PRASA's Revenue Refunding Bonds 2008 Series A and Series B each guaranteed by the Commonwealth and (iii) pay cost of issuance of the 2020 Senior Bonds. The 2020 Bonds bear coupons 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 rates ranging from July 1, 2021 to July 1, 2047. The proceeds of the 2020 Bonds amounting to \$1,471.1 million, including \$101 million in premium, were used to pay (i) \$10.4 million in underwriters discount and other cost of issuance and (ii) deposit \$1,460.7 million in an irrevocable trust with an escrow agent to pay outstanding principal and accrued interest for the refunded bonds on the applicable redemption date. As a result, the refunded bonds are considered defeased.

The defeasance of the refunded bonds resulted in a reduction in PRASA's total debt service payments over the next 27 years of approximately \$348.2 million and resulted in an economic gain of approximately \$213.3 million.

Financial assistance agreement

On July 20, 2021, the Fiscal Oversight and Management Board for Puerto Rico approved a Financial Assistance Agreement with PRASA amounting to \$46.3 million which is composed of \$22.2 million as a senior interest bearing (1%) loan with a 30-year amortization term and the remaining \$24.1 million as non-interest bearing and principal forgiveness loan. The proceeds of this financial assistance agreement will finance various water treatment plants and water intake projects.

Capitalization agreements

As of the date these basic financial statements are available to be issued, the Revolving Fund received capitalization grant award notifications for the fiscal years 2020 through 2021, as follows:

<u>Date received</u>	<u>Award fiscal year</u>	<u>Grant amount</u>
October 30, 2020	2020	\$ 11,011,000
September 17, 2021	2021	<u>11,001,000</u>
Total		<u>\$ 22,012,000</u>

Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 10 - Subsequent events – (continued)

Commonwealth of Puerto Rico Plan of Adjustment

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.



Puerto Rico Safe Drinking Water Treatment  
Revolving Loan Fund

Notes to Basic Financial Statements – (continued)

June 30, 2020

Note 10 - Subsequent events – (continued)

Commonwealth of Puerto Rico Plan of Adjustment – (continued)

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.