

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Basic Financial Statements and
Required Supplementary Information and
Supplemental Schedule of
Expenditures of Federal Awards

June 30, 2024

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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 Audit of the Financial Statements

Opinion

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, 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Revolving Fund's basic financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Revolving Fund as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Revolving Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Revolving Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund
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Auditors' 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 auditors' 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 GAAS 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 GAAS 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 the Revolving Fund'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 Revolving Fund'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.



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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2025 on our consideration of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Fund) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revolving Fund's internal control over financial reporting and compliance.



DLLC322-595
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund



San Juan, Puerto Rico
March 27, 2025
License No. LLC-322
Expires December 1, 2026

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2024

The Puerto Rico Infrastructure Financing Authority (PRIFA), as operating agent for the financial and accounting activities (as defined in the MOU, as amended) of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (herein referred to as the Safe Drinking Water State Revolving Fund, the Revolving Fund or SDWRF), offers 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, 2024. This discussion and analysis is designed to assist the reader in focusing on 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 which follow this section.

Financial Highlights

- The Revolving Fund's restricted net position increased approximately by \$8 million over the course of the year operations.
- Operating loss was approximately (\$729) thousand for the fiscal year 2024 versus operating loss of approximately (\$721) thousand in 2023, representing an increase in loss of approximately \$8 thousand, mainly related to an increase in operating income of approximately \$39 thousand and an increase of operating expenses of approximately \$47 thousand when compared to the prior year.
- Interest income on deposits amounted to approximately \$3.9 million for the fiscal year 2024 versus an interest income of approximately \$2.6 million in 2023, representing an interest income increase of approximately \$1.3 million when compared to the prior year.
- Grants and contributions received experienced a decrease of approximately \$423 thousand, while contributions disbursed experienced an increase of approximately \$3.6 million, when compared to prior year.
- Loans receivable for capital improvements programs had a net increase of approximately \$4.7 million when compared to the previous year.

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, 2024

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 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 indicates 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 cash came 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 \$263.6 million as of June 30, 2024. 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, 2024, 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, 2024

Financial Analysis – (continued)

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	
	2024	2023	Amount	Percent
Assets:				
Restricted cash and cash equivalents	\$ 76,393	\$ 72,724	\$ 3,669	5.05%
Interest receivable	389	315	74	23.49%
Loans receivable	187,715	183,031	4,684	2.56%
Total assets	<u>264,497</u>	<u>256,070</u>	<u>8,427</u>	<u>3.29%</u>
Liabilities - accounts payable	<u>892</u>	<u>436</u>	<u>456</u>	<u>105%</u>
Net position - restricted	<u>\$ 263,605</u>	<u>\$ 255,634</u>	<u>\$ 7,971</u>	<u>3.12%</u>

Restricted cash and cash equivalents at June 30, 2024 amounted to approximately \$76.4 million resulting in an increase of approximately \$3.7 million from approximately \$72.7 million as of June 30, 2023, or an increase of 5.05%.

Loan receivable amounted to approximately \$187.7 million resulting in an increase of approximately \$4.7 million when compared to the previous year. The increase is mainly composed of collections of outstanding loans amounting to approximately \$3.3 million and new loans disbursed amounting to approximately \$8 million during the year ended on June 30, 2024.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2024

Financial Analysis – (continued)

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

	June 30,		Change	
	2024	2023	Amount	Percent
Operating income - interest on loans	\$ 39	\$ -	\$ 39	100%
Operating expenses	(768)	(721)	(47)	6.52%
Operating loss	(729)	(721)	(8)	1.11%
Non-operating revenues (expenses):				
Interest income on deposits	3,857	2,552	1,305	51.14%
Contributions	14,208	14,631	(423)	-2.89%
Contributions to PRASA	(9,365)	(5,737)	(3,628)	63.24%
Total	8,700	11,446	(2,746)	-23.99%
Change in net restricted position	7,971	10,725	(2,754)	-25.68%
Net position - beginning of year	255,634	244,909	10,725	4.38%
Net position - end of year	<u>\$ 263,605</u>	<u>\$ 255,634</u>	<u>\$ 7,971</u>	<u>3.12%</u>

The change in net position decreased approximately by \$2.8 million when compared to the previous year. The change is mainly related to an increase in interest income on time deposits of approximately \$1.3 million, a decrease in contributions from EPA and the Commonwealth of approximately \$423 thousand and an increase in the contributions to PRASA of approximately \$3.6 million when compared with the year ended on June 30, 2023.

Contributions from the Environmental Protection Agency (EPA) and the Commonwealth amounting to approximately \$14.2 million were received and contributions to PRASA amounting to approximately \$9.4 million were made during the year ended on June 30, 2024.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2024

Currently Known Facts

Capitalization grants

As of the date these basic financial statements were available to be issued, the Revolving Fund received capitalization grant awards notifications for the federal fiscal year 2023 as follows:

Date received	Award fiscal year	Awarded amount
August 14, 2024	2023	\$ 7,640,000
August 19, 2024	2023	28,650,000
August 27, 2024	2023	222,288,000
September 5, 2024	2023	21,055,000
September 9, 2024	2023	4,938,000
Total		\$ 284,571,000

Financial Assistance Agreements

On August 23, 2024, the Fiscal Oversight and Management Board for Puerto Rico, approved the following assistance agreement:

- PRASA - \$29,920,480 to finance substantial repairs, improvements and new construction. The agreement funding structure is as follows: \$17,670,480 will be provided as an interest bearing 1% senior loan with a 30 years repayment period and \$12,250,000 will be provided through a non interest bearing principal forgiveness loan.

On November 27, 2024, the Fiscal Oversight and Management Board for Puerto Rico, approved the following assistance agreement:

- PRASA - \$35,905,000 to finance repairs, improvements and new construction of various water treatments plants. The agreement funding structure is as follows: \$14,458,500 will be provided as an interest bearing 1% senior loan with a 30 years repayment period and \$21,446,500 will be provided through a non interest bearing principal forgiveness loan.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2024

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, 2024

Assets

Current assets

Loans receivable from Puerto Rico Aqueduct and Sewer Authority	\$ 3,436,515
Interest receivable from:	
Deposits and certificate of deposits	350,903
Loans	<u>38,915</u>
Total current assets	<u>3,826,333</u>

Non current assets

Restricted cash and cash equivalents	76,392,788
Loans receivable from Puerto Rico Aqueduct and Sewer Authority	<u>184,278,138</u>
Total non current assets	<u>260,670,926</u>
Total assets	<u><u>264,497,259</u></u>

Liabilities and Net Position

Current liabilities:

Accounts payable	336,298
Due to Puerto Rico Department of Health	517,676
Due to Puerto Rico Infrastructure Financing Authority	<u>38,023</u>
Total liabilities	<u>891,997</u>

Net position - restricted	<u>263,605,262</u>
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Total liabilities and net position	<u><u>\$ 264,497,259</u></u>
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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, 2024

Operating income (expenses):	
Interest income on loan	\$ 38,915
General and administrative	<u>(767,863)</u>
Operating loss	<u>(728,948)</u>
Non-operating revenues (expenses):	
Interest income on deposits	3,856,626
Contributions from Environmental Protection Agency	12,545,470
Contributions from Commonwealth of Puerto Rico	1,662,400
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(9,364,688)</u>
Total non-operating revenue	<u>8,699,808</u>
Change in net restricted position	7,970,860
Net position - beginning of year	<u>255,634,402</u>
Net position - end of year	<u>\$ 263,605,262</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, 2024

Cash flows from operating activities:	
Cash paid for general and administrative expenses	\$ (311,785)
Loan disbursement	(7,983,437)
Principal collected on loans	<u>3,300,000</u>
Net cash used in operating activities	<u>(4,995,222)</u>
Cash flows provided by investing activities:	
Interest collected on deposits	<u>3,820,398</u>
Cash flows from non-capital financing activities:	
Contributions received from the Environmental Protection Agency	12,545,470
Contributions received from the Commonwealth of Puerto Rico	1,662,400
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(9,364,688)</u>
Net cash provided by non-capital financing activities	<u>4,843,182</u>
Net change in restricted cash and cash equivalents	3,668,358
Restricted cash and cash equivalents - beginning of year	<u>72,724,430</u>
Restricted cash and cash equivalents - end of year	<u>\$ 76,392,788</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (728,948)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in loans receivable from Puerto Rico Aqueduct and Sewer Authority	(4,683,437)
Increase in interest receivable on loans	(38,915)
Increase in accounts payable	15,782
Increase in due to Puerto Rico Department of Health	517,676
Decrease in due to Puerto Rico Infrastructure Financing Authority	<u>(77,380)</u>
Net cash used in operating activities	<u>\$ (4,995,222)</u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements

June 30, 2024

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 and the Puerto Rico Infrastructure Financing Authority (PRIFA), entered on December 30, 2016, into a Memorandum of Understanding (MOU), subsequently amended on September 17, 2018, to include the Fiscal Agency and Financial Advisory Authority (FAFAA). Under the MOU, as amended, each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Fund pursuant to the Operating Agreement entered between the EPA and the DOH on September 28, 2018. Pursuant to the MOU, as amended, DOH will remain as the administrator for the Revolving Fund, PRIFA will act as the operating agent to provide assistance with the financial and accounting activities, and FAFAA will conduct the financial capabilities analysis of any eligible assistance recipient of funds, provide the necessary information to the DOH and PRIFA to the extent as possible for the development of the different programs compliance reports reviews, provide assistance as fiscal agent, financial advisor and information agent of the Commonwealth to ensure that the monies are safeguarded in a trust structure and to assist the DOH as deemed necessary with the administration of the program.

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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 17, 2018, PRIFA and DOH entered into an amendment to the December 30, 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 Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as applicable to governmental entities. The Revolving Fund follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. 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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

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 basic 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, 2024, the Revolving Fund net position is presented as restricted.

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

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

Restricted 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, 2024, the Revolving Fund maintains approximately \$76.4 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.

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 PRASA fiscal plan, as further discussed in Note 5.

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

Loan receivable and allowance for loan losses – (continued)

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.

New accounting pronouncement adopted

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

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

That preferability should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

New accounting pronouncement adopted – (continued)

beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

This statement does not have any impact on the Revolving Fund's basic financial statements.

Recent accounting pronouncements

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2024:

- GASB Statement No 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

Recent accounting pronouncements – (continued)

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority. Concentrations and constraints may limit a government’s ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government’s vulnerability to the risk of a substantial impact.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

Recent accounting pronouncements – (continued)

The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 103, Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

Management's Discussion and Analysis - This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions.

Unusual or Infrequent Items - This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

Recent accounting pronouncements – (continued)

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position - This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

Major Component Unit Information - This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information - This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 104, Disclosures of Certain Capital Assets. The State and local governments are required to provide detailed information about capital assets in notes to financial statements. Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96,

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

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

Recent accounting pronouncements – (continued)

Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. 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 - Due to Puerto Rico Infrastructure Financing Authority

As established in the MOU between DOH, AAFAF and PRIFA, DOH and PRIFA have performed certain managerial, administrative and duties related to the accounting of the Revolving Fund which resulted in amounts due to DOH and PRIFA of approximately \$518 thousand and \$38 thousand, respectively, included in the accompanying Statement of Net Position.

Note 4 - 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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 4 - Custodial credit risk – (continued)

Restricted cash and cash equivalents as of June 30, 2024 were deposited as follows:

Type of Deposit	Book Balance	Bank Balance
Cash deposits at commercial bank	\$ 863	\$ 863
Time deposits at commercial bank	<u>76,391,925</u>	<u>76,391,925</u>
	<u>\$ 76,392,788</u>	<u>\$ 76,392,788</u>

The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited more than federal depository insurance.

Note 5 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA)

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 ranging approximately from 11.30% to 16.67% 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's guaranty related to all the original financing agreements, and the guaranty related to all the bonds and loans issued, was terminated on July 26, 2019. The new loans are not subject to the guaranty, and the obligations of PRASA under the new loan agreements and the notes do not constitute Commonwealth guaranteed indebtedness under the trust agreement. Any future right to the Commonwealth guaranty was waived.

Before the refinancing of the loans, PRASA was 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. 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.

As of June 30, 2024, all the loan funds have been disbursed under the repayment terms and interest rate disclosed above and there are no undisbursed loan funds available for PRASA.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 5 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

Loans receivable, as of June 30, 2024, mature as follows:

Fiscal Years Ending June 30,	Amount
2025	\$ 3,436,515
2026	3,437,884
2027	3,439,266
2028	3,440,662
2029	3,442,073
2030-2034	35,550,801
2035-2039	39,412,661
2040-2044	41,428,230
2045-2049	43,546,875
2050	5,008,817
	182,143,784
Plus: construction loans - projects in process	5,570,869
Total loan	\$ 187,714,653

PRASA's debt restructuring

On July 26, 2019, the U.S. Environmental Protection Agency (EPA) and the 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. The notes issued by PRASA under the new 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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 5 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

PRASA's debt restructuring – (continued)

As disclosed above, the new loans provided by the SRF to PRASA are not the Commonwealth guaranteed indebtedness, as defined in the trust agreement and the Commonwealth guaranty related to all the original financing agreements was terminated.

PRASA's operations

The following presents information obtained from PRASA's audited financial statements as of June 30, 2023, and PRASA's 2024 Fiscal Plan, as certified on June 11, 2024 by the Financial Oversight and Management Board for Puerto Rico (unaudited). The Revolving Fund considered this information, along with the debt restructuring and PRASA's ability to meet its scheduled debt service, in assessing the realizable value of the loans receivable from PRASA as of June 30, 2024.

As disclosed on PRASA's 2024 Fiscal Plan, PRASA's financial condition has improved materially since 2017, mainly due to the implementation of various revenue enhancing and debt optimization measures, including modest and gradual rate increases across all customer segments, proactive collection of past due amounts from government accounts, and various debt modification and debt refunding transactions. PRASA's debt optimization strategies resulted in about \$1.3 billion in debt service relief through the debt modification with its Federal Lenders, refunding a significant portion of its outstanding 2008 Senior bonds and all of the 2008 Guaranteed bonds in 2020 and 2021, refunding all the outstanding 2012 Serie A and B senior bonds and the executed loan settlement with the Government Development Bank Debt Recovery Authority of an outstanding loan. Furthermore, renewed access to State Revolving Fund Loans and grants, Federal Emergency and Management Agency ("FEMA") recovery in the amount \$278 million and the grant obligation of \$3.7 billion in Federal Emergency Management Agency (FEMA) recovery, mitigation and reconstruction funds and Community Development Block Grant – Disaster Recovery Flexible Match (CDBG-DR Program) are collectively expected to provide the necessary financial support to improve, rebuild, recover and upgrade critical wastewater facilities.

With the new funds and debt service relief PRASA has a unique and generational opportunity to invest in its infrastructure at much lower cost than usual without the need to access capital markets in the short term.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 5 - Loans receivable from Puerto Rico Aqueduct and Sewer Authority (PRASA) – (continued)

PRASA's operations – (continued)

Given PRASA's current fiscal situation and given the need to prioritize improving its systems performance, the 2024 Certified Fiscal Plan outlines areas of opportunity largely related to its operations and capital investment, such as "non-revenue water", capital delivery, and metering infrastructure upgrades. Through the successful and timely implementing of each of the measures identified herein, PRASA is expected to improve its financial and operational system capacity of its system.

Nonetheless, there is no certainty that the PRASA 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.

Note 6 - 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 in the Statement of Revenues, Expenses and Changes in Net Position.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 6 - 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:

<u>Award fiscal year</u>	<u>Grant amount</u>	<u>Total draws at June 30, 2023</u>	<u>Draws during 2024</u>	<u>Total draws at June 30, 2024</u>	<u>Available at June 30, 2024</u>
2016	\$ 8,312,000	\$ 5,929,185	\$ 2,382,815	\$ 8,312,000	\$ -
2017	8,241,000	1,516,690	4,399,915	5,916,605	2,324,395
2018	11,107,000	1,270,991	475,791	1,746,782	9,360,218
2019	11,103,000	107,550	48,096	155,646	10,947,354
2020	11,011,000	46,857	3,051,070	3,097,927	7,913,073
2021	11,001,000	-	2,187,783	2,187,783	8,813,217
2022	<u>60,905,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,905,000</u>
	<u>\$ 121,680,000</u>	<u>\$ 8,871,273</u>	<u>\$ 12,545,470</u>	<u>\$ 21,416,743</u>	<u>\$ 100,263,257</u>

At June 30, 2024, the Revolving Fund had \$60,905,000 from the grants awarded by the EPA for the federal fiscal year ended September 30, 2022 that are available to be drawn for loan commitments once all the EPA requirements have been met. As of June 30, 2024, 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, 2024, certain amounts are still available for drawdowns from the grants awarded during the federal fiscal years ended on September 30, 2017, 2018, 2019, 2020 and 2021, which already have financial agreements executed and from which partial drawdowns have been made. See Note 8 for subsequent events.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 6 - Capitalization grants – (continued)

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.

During the year ended on June 30, 2024, the Revolving Fund contributed \$9,364,688 to PRASA for different projects.

Note 7 - 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, 2024, total reimbursement of administrative expenses amounted to \$767,863.

Note 8 - Subsequent events

Subsequent events were evaluated through March 27, 2025, 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.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2024

Note 8 - Subsequent events – (continued)

Capitalization grants

As of the date these basic financial statements are due available to be issued, the Revolving Fund received capitalization grant awards notifications for the federal fiscal year 2023 as follows:

<u>Date received</u>	<u>Award fiscal year</u>	<u>Awarded amount</u>
August 14, 2024	2023	\$ 7,640,000
August 19, 2024	2023	28,650,000
August 27, 2024	2023	222,288,000
September 5, 2024	2023	21,055,000
September 9, 2024	2023	<u>4,938,000</u>
Total		<u>\$ 284,571,000</u>

Financial Assistance Agreements

On August 23, 2024, the Fiscal Oversight and Management Board for Puerto Rico, approved the following assistance agreements:

- PRASA - \$29,920,480 to finance substantial repairs, improvements and new construction. The agreement funding structure is as follows: \$17,670,480 will be provided as an interest bearing 1% senior loan with a 30 years repayment period and \$12,250,000 will be provided through a non interest bearing principal forgiveness loan.

On November 27, 2024, the Fiscal Oversight and Management Board for Puerto Rico, approved the following assistance agreements:

- PRASA - \$35,905,000 to finance repairs, improvements and new construction of various water treatments plants. The agreement funding structure is as follows: \$14,458,500 will be provided as an interest bearing 1% senior loan with a 30 years repayment period and \$21,446,500 will be provided through a non interest bearing principal forgiveness loan.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Expenditures of Federal Awards

June 30, 2024

Federal Agency/ (Pass-Through Agency) and Program Title	AL Number	Other Award Number	Expenditures			Passed-Through to Subrecipients	Note
			From Direct Awards	From Pass-Through Awards	Total		
Drinking Water State Revolving Funds Cluster: U.S Environmental Protection Agency (Pass-through from the Puerto Rico Department of Health)							
		FS - 99290416 FS - 99290417 FS - 99290418 FS - 99290419 FS - 99290420 FS -					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	99290421	\$ -	\$ 13,001,548	\$ 13,001,548	\$ 12,233,685	Note 4 and Note 5
Total Drinking Water State Revolving Fund Cluster			\$ -	\$ 13,001,548	\$ 13,001,548	\$ 12,233,685	

See accompanying notes to the schedule of expenditures of federal awards

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Schedule of Expenditures of Federal Awards

June 30, 2024

Note 1 - Basis of presentation

The accompanying supplementary Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (“the Revolving Fund”) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the Revolving Fund’s financial statements.

Because the Schedule presents only a selected portion of the activities of the Revolving Fund, it is not intended to, and does not present the net position, changes in net position, and cash flows of the Revolving Fund.

Note 2 - Summary of significant accounting policies

- a. The Schedule is prepared from the Revolving Fund’s accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be available or may be limited as to reimbursement.
- b. The financial transactions are recorded by the Revolving Fund in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- c. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, or when paid, whichever occurs first.
- d. The Revolving Fund has elected not to use the 10-percent de minimis indirect costs rate as allowed under the Uniform Guidance.

Note 3 - Assistance Listing Numbers (ALN)

The Assistance Listing numbers (ALN) included in the Schedule are determined based on the program name, review of grant contract information and the public descriptions of federal assistance listings published by the U.S. Government on sam.gov.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2024

Note 4 - Capitalization grants

During the year ended June 30, 2024, grants and loans disbursed to subrecipient amounted to \$13,410,682, of which \$12,233,685 were received from the U.S. Environmental Protection Agency (EPA), and \$1,176,997 were received from the state match.

Grants are not subject to loan or interest charges. The balance of loans previously granted amounting to \$183,031,216 is not included in the schedule since the Revolving Fund is not deemed to have continuing compliance with requirements.

Note 5 - Reconciliation of the Schedule with the statement of revenues, expenses and changes in net position

The following presents a reconciliation between the Schedule with the contributions received from the EPA as presented in the statement of revenues, expenses and changes in net position:

<u>For the year ended on June 30, 2024:</u>	<u>Amount</u>
Expenditures per Schedule of Expenditures of Federal Awards	\$ 13,001,548
Add: expenditures incurred in prior years but claimed for reimbursement during the year ended on June 30, 2024	296,465
Less: expenditures incurred during the year ended June 30, 2024 that have not been claimed for reimbursement to the EPA	<u>(752,543)</u>
Contributions from EPA per statement of revenues, expenses and changes in net position	<u>\$ 12,545,470</u>

PART II

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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*



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited 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, the financial statements of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund ("the Revolving Fund"), which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Revolving Fund's basic financial statements, and have issued our report thereon dated March 27, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Revolving Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Revolving Fund'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 or significant deficiencies may exist that have not been identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Revolving Fund’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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 result of that testing, and not to provide an opinion on the effectiveness of the Revolving Fund’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 Revolving Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



DLLC322-596
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

A handwritten signature in blue ink that reads "Galíndez LLC".

San Juan, Puerto Rico
March 27, 2025
License No. LLC-322
Expires December 1, 2026

PART III

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Independent Auditors' Report on Compliance for Each Major Federal
Program and Report on Internal Control Over Compliance in Accordance with
the Uniform Guidance



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund's (the Revolving Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Revolving Fund's major federal program for the year ended June 30, 2024. The Revolving Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Revolving Fund and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Revolving Fund's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Revolving Fund's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Revolving Fund's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Revolving Fund's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Revolving Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Revolving Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Revolving Fund's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Revolving Fund's response to noncompliance findings identified in our audit described in the accompanying schedule of questioned costs. The Revolving Fund's response was not subject to the other auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency and other deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. As a result of our auditing procedures, we identified a significant deficiency in internal control controls over compliance and other deficiency in internal controls over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2024-001 and 2024-002, respectively.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on the Revolving Fund's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Revolving Fund's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
Page 39



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



DLLC322-597
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

A handwritten signature in blue ink that reads "Galíndez LLC".

San Juan, Puerto Rico
March 27, 2025
License No. LLC-322
Expires December 1, 2026

PART IV

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Part I - Summary of Auditors' Results

Financial Statements

- a) Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified opinion.
- b) Material weaknesses in internal control over financial reporting identified: None.
- c) Significant deficiencies in internal control over financial reporting identified that are not considered to be material weaknesses: None.
- d) Noncompliance that is material to the financial statements: None.

Federal Awards

- a) Are there any reportable findings under Uniform Guidance § 200.516: Yes, there are reportable findings, which are included in the schedule of findings and questioned costs as items 2024-001 and 2024-002.
- b) Major program:

<u>Name of Federal Program or Cluster:</u>	<u>AL Number</u>
U.S. Environmental Protection Agency: (Passthrough from the Puerto Rico Department of Health) Drinking Water State Revolving Funds Cluster: Capitalization Grants for Drinking Water State Revolving Funds	66.468

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part I - Summary of Auditors' Results – (continued)

- c) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- d) Auditee qualified as a low-risk auditee under Uniform Guidance § 200.520: No.
- e) Internal control over compliance with major programs:
 - i. Material weaknesses identified? No.
 - ii. Significant deficiencies identified? Yes, there is one significant deficiency which is included in the schedule of findings and questioned costs as item 2024-001.
- f) Type of auditors' report issued on compliance for major programs: Unmodified opinion.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards

None

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards

Finding No. 2024-001 – Allowable Activities - Loans Repayments

Federal Program

ALN 66.468 - Capitalization Grants for Drinking Water State Revolving Funds

Name of Federal Agency

U.S Environmental Protection Agency

Pass-through Entity

Puerto Rico Department of Health (DOH)

Category

Compliance/Significant Deficiency on Internal Control

Criteria

Under the Safe Drinking Water Act, Puerto Rico Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) is a federal program that provides low-interest loans to eligible entities, such as states, tribes, and municipalities, for the construction of water quality infrastructure projects. The regulations governing the Puerto Rico Capitalization Grants for Drinking Water State Revolving Funds are outlined in Title 40 of the Code of Federal Regulations (40 CFR), specifically in Part 35, Subpart L. Under § 35.3520 Authorized types of assistance are the following: a) loans, b) *refinancing existing debt obligations*, c) guarantee or purchase insurance for local debt obligations, d) Guarantee DWSRF debt obligations, e) Loan guarantees for “sub-State revolving funds, f) Earn interest on fund accounts and g) DWSRF administrative expenses. Loans may be awarded only if: (i) All principal and interest payments on loans are credited directly to the DWSRF; (ii) The annual repayment of principal and payment of interest begins not later than one year after project completion; (iii) The loan is fully amortized not later than twenty years after project completion; and (iv) Each loan recipient establishes one or more dedicated sources of revenue for repayment of the loan.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2024-001 – Allowable Activities – Loans Repayments – (continued)

Criteria – (continued)

In addition, in September 2, 2022, the Puerto Rico Infrastructure Authority (PRIFA) (in its capacity as operating agent for the Revolving Fund), the Puerto Rico Department of Health (as administrator of the Revolving Fund) and the Puerto Rico Aqueduct and Sewer Authority (PRASA) entered into a loan agreement (the loan agreement) that authorized PRASA for the application of new loans, as set forth on the loan schedules attached to the loan agreement. As established in the Section 3.3 of the loan agreement, “PRASA shall repay each loan in principal instalments payable to PRIFA for credit to the Fund semi-annually on the dates set forth in the applicable Note; provided, however, that in all events in accordance with the Program requirements, (i) the first (1st) principal instalment with respect to each loan commences not later than the earlier of (A) one (1) year from the construction completion date of the applicable Projects and (B) ten (10) years following the issue date of the applicable Note, and (ii) each loan is required to be paid in full within the earlier of (A) thirty (30) years of the construction completion date of the applicable Projects and (B) forty (40) years of the issue date of the applicable Note”. Also, on September 2, 2022 and as part of the loan agreement, PRASA signed the notes payable related to the loan agreement, which stated the following: “Principal of this Note shall be paid in sixty (60) equal semi-annual installments on January 1 and July 1 of each year, beginning on the earlier of (x) the first July 1 following the date on which the Projects identified on the Loan Schedule for the loan are completed and (y) July 1, 2052”. Furthermore, the notes payable executed with the loan agreement state the following: “Interest on the outstanding principal amount of the loan shall accrue from the date of each disbursement at one percent (1%) per annum and shall be payable on January 1 and July 1 of each year (or if such day is not a business day (as such term is defined in the Trust Agreement), the next preceding business day), commencing on the first January 1 or July 1 after PRASA makes a draw on the loan in accordance with Section 3.2 of the Loan Agreement”.

Moreover, 40 CFR 35.3550 (i) *Specific capitalization grant requirements - Use generally accepted accounting principles*, establishes the following requirement: “(i) The accounting system used for the DWSRF program must allow for proper measurement of: (1) revenues earned and other receipts, including but not limited to, loan repayments, capitalization grants, interest earnings, state match deposits, and net bond proceeds”.

Condition Found

Principal and interest have not been collected from the Revolving Fund on projects that were completed since before the execution of the loan agreement, which are included as part of the financial agreement dated September 2, 2022. Therefore, repayment of principal and payment of interest should have begun on their respective dates, as set forth in the loan agreement and notes payable executed thereto.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2024-001 – Allowable Activities – Loans Repayments – (continued)

Cause

Due to administrative errors and delays, the P.R. Department of Health, as administrator of the Revolving Fund, did not monitor or enforce financial covenants established in loan agreements. In addition, PRASA failed to communicate with the P.R. Department of Health regarding the completion of the projects, causing the non-compliance with the federal regulations and also the violation of the terms of the loan agreement.

Effect

Possible consequences for the non-compliance event may include fines or monetary penalties, legal actions, loss of funding, among others. Also, the non-compliance event can negatively impact the reputation of the recipient, leading to a loss of trust and credibility.

As stated in 40 CFR 35.3585(a), “failure to satisfy the terms of the capitalization grant agreement, including unmet conditions or assurances or invalid certifications, is grounds for a finding of noncompliance. In addition, if the State does not manage the SRF in a financially sound manner (e.g. allows consistent and substantial failures of loan repayments), the Regional Administrator (RA) may take corrective action as provided under this section”. Also, the 40 CFR 35.3585(c) establishes the following: “If within 60 days of receipt of the noncompliance notice, a State fails to take the necessary actions to obtain the results required by the RA, or to provide an acceptable plan to achieve the results required, the RA shall withhold payments to the State rotatory fund (SRF) until the State has taken acceptable actions. If the State fails to take the necessary corrective action deemed adequate by the RA within twelve months of receipt of the original notice, any withheld payments shall be de-obligated and reallocated to other States”.

Questioned Cost

None. No balance or reimbursement is owed to the U.S Environmental Protection Agency because of this finding.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2024-001 – Allowable Activities – Loans Repayments – (continued)

Context

The following table summarizes the loans completed, for which the accumulation of interests and beginning of period of collection had not been commenced on time. Interest receivable not billed or recorded on books during the correct accounting year amounted to \$38,915 as of July 1, 2023.

<u>ID Project</u>	<u>Description</u>	<u>Loan Amount</u>	<u>Final Acceptance of Completion</u>
PWSID 3924(a)	Toa Vaca WTP, Villalba	\$ 4,477,679	September 2, 2022

Identification of a repeat finding

This is not a repeated finding from the immediate previous audit.

Views of responsible officials and planned corrective actions

The management of the Revolving Fund agrees with this finding. Please refer to the corrective action plan section on pages 48-49.

Recommendation

We recommend that the PR Department of Health and PRIFA institute and reenforce communication policies and procedures that stipulate the administrative process and responsible officials regarding the determination of the completion of projects under the loan agreements and the beginning for the periods of repayment of principal and interests to the Revolving Fund. It is critically important that timely and accurate collections be produced to ensure that the goals and purposes of the fund have been achieved and accounted for properly. Also, the administrator of the program should establish stronger internal controls for the monitoring, supervision and enforcement of the compliance requirements on the federal regulations and on the loan agreements. It is critically important that PRASA assumes its responsibility for compliance with the federal regulations and the loan agreement and notes executed thereto, ensuring they have met all the necessary requirements and guidelines; this includes, and its not limited to, following regulations related to financial management, reporting and program implementation. PRASA and the Revolving Fund should be proactive in understanding and fulfilling their obligations to maintain compliance. It is essential for PRASA and the Revolving Fund to prioritize compliance with federal regulations to avoid consequences and maintain their integrity.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2024-002 – Rental Costs of Real Property and Equipment

Federal Program

ALN 66.468 - Capitalization Grants for Drinking Water State Revolving Funds

Name of Federal Agency

U.S Environmental Protection Agency

Pass-through Entity

Puerto Rico Department of Health (DOH)

Category

Other matter

Criteria

2 CFR § 200.465 - *Rental costs of real property and equipment* states that:

“Rental costs are allowable to the extent that the rates are reasonable in light of such factors as costs of comparable rental properties; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and if other options are available.”

Condition Found

When renewing the rental contract for the administration of the Revolving Fund, the DOH, as the Revolving Fund administrator, complied with statutory laws and procedures governing contract renewal. However, under the applicable regulations, if a contract renewal does not include a fee increase, there is no statutory requirement to evaluate comparable rental properties or conduct a periodic market study to assess potential changes in market conditions.

As a result, the Revolving Fund lacks, within its existing processes and documentation, established policies and procedures for performing and documenting such assessments and did not conduct the evaluation required under 2 CFR § 200.465 in a timely manner. However, during discussions with the auditors, the required evaluation was performed, demonstrating that the rental costs remain reasonable in accordance with federal regulations.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs – (Continued)

For the Year Ended June 30, 2024

Part III -Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2024-002 – Rental Costs of Real Property and Equipment – (continued)

Cause

The DOH, as administrator of the Revolving Fund, followed the statutory provisions of the Office of Management and Budget of Puerto Rico and the Revisory Board of the Real Property of Puerto Rico, governing the rent contract renewals, which do not require a periodic assessment of possible changes in market conditions.

Effect

The absence of policies and procedures for evaluating and documenting rental reasonableness may limit the Revolving Fund's ability to demonstrate that rental costs remain aligned with market conditions over time. Without periodic assessments, there is a risk that rental agreements may not reflect the most cost-effective options available, potentially leading to inefficiencies in the use of funds. Establishing a formal process for conducting and documenting these evaluations would enhance transparency and support compliance with 2 CFR § 200.465.

Questioned Cost

None. No balance or reimbursement is owed to the U.S Environmental Protection Agency because of this finding.

Context

The Revolving Fund currently incurs an annual rental cost of \$160,424, which includes rent, utilities, security services, maintenance and parking spaces, among other.

Identification of a repeat finding

This is not a repeated finding from the immediate previous audit.

Views of responsible officials and planned corrective actions

The management of the Revolving Fund agrees with this finding. Please refer to the corrective action plan section on pages 48-49.

Recommendation

We recommend implementing a periodic assessment of rental rates that could help ensure that the Revolving Fund continues to allocate resources efficiently and in alignment with 2 CFR § 200.465.

PART V

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Corrective Action Plan

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Corrective Action Plan

For the Year Ended June 30, 2024

Finding No. 2024-001 -Allowable Activities-Loans repayments

Condition Found

Principal and interest have not been collected from the Revolving Fund on projects that were completed since before the execution of the loan agreement, which are included as part of the financial agreement dated September 2, 2022. Therefore, repayment of principal and payment of interest should have begun on their respective dates, as set forth in the loan agreement and notes payable executed thereto.

Views of Responsible Officials and Corrective Action Plan

Once the final inspection of a construction project is performed, DOH will submit notifications to PRASA requesting the Notice of Substantial Completion letter from PRASA concurring that the project is acceptable of the operation. Such letter will be an attachment to the formal notification that DOH will send to PRASA and PRIFA. DOH's letter will specify the starting operating date and the useful life of the project. Therefore, PRIFA will be in position to collect principal and interest for the project according to federal regulations and as established in the loan agreement.

Name (s) of the Contact Person (s) Responsible for Corrective Action

Ángel Pantoja Rodríguez, Secretary of the Treasury Department, Eduardo Rivera Cruz, Executive Director Puerto Rico Infrastructure Financing Authority and Victor Ramos, Secretary of the Puerto Rico Department of Health.

Anticipated Completion Date

Immediately

Finding No. 2024-002 – Rental Costs of Real Property and Equipment

Condition Found

When renewing the rental contract for the administration of the Revolving Fund, the DOH, as the Revolving Fund administrator, complied with statutory laws and procedures governing contract renewal. However, under the applicable regulations, if a contract renewal does not include a fee increase, there is no statutory requirement to evaluate comparable rental properties or conduct a periodic market study to assess potential changes in market conditions.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Corrective Action Plan

For the Year Ended June 30, 2024

Finding No. 2024-002 – Rental Costs of Real Property and Equipment – (continued)

Condition Found – (continued)

As a result, the Revolving Fund lacks, within its existing processes and documentation, established policies and procedures for performing and documenting such assessments and did not conduct the evaluation required under 2 CFR § 200.465 in a timely manner. However, during discussions with the auditors, the required evaluation was performed, demonstrating that the rental costs remain reasonable in accordance with federal regulations.

Views of Responsible Officials and Corrective Action Plan

Having addressed and resolved the matter in reference, we also concur what was discussed with the auditors, that the required information was provided demonstrating that the costs for rent are reasonable and are in accordance with the provisions of the federal regulations, proceeded as follows:

- In parallel to the current process of renewal of the lease contract, the Program performed the reasonableness study for rent cost, regardless of the non-requirement within the current procedure. The study confirmed that the rent costs are reasonable and cost effective.
- For the purpose and as part of the corrective action plan, the Program incorporated as part of its processes a procedure to achieve the implementation of periodic evaluation of rental costs. This procedure includes among others, the frequency in which such evaluations will be carried out.
- The Program, as Administrator, will recommend the Department of Health's management the need to incorporate the periodic requirement in compliance with the 2 CFR § 200.465 federal section.

Name (s) of the Contact Person (s) Responsible for Corrective Action

Ángel Pantoja Rodríguez, Secretary of the Treasury Department, Eduardo Rivera Cruz, Executive Director Puerto Rico Infrastructure Financing Authority and Victor Ramos, Secretary of the Puerto Rico Department of Health.

Anticipated Completion Date

Immediately

PART VI

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Summary Schedule of Prior Year Audit Findings

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2024

Part VI - Summary Schedule of Prior Audit Findings

There are no audit findings in the immediate previous audit.