

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, 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund ("the Revolving Fund") as of June 30, 2021 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Revolving Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Revolving Fund as of June 30, 2021, and the related changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 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.

Other 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
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2022, 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.



Galíndez LLC

San Juan, Puerto Rico
October 7, 2022
License No. LLC-322
Expires December 1, 2023

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2021

As financial management 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), we offer readers of the Revolving Fund's financial statements this narrative overview and analysis of the Revolving Fund's financial performance during the fiscal year ended June 30, 2021. This discussion and analysis is designed to assist the reader in focusing on the significant financial matters and activities and to identify any significant changes in the net position of the Revolving Fund. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole, which follow this section.

Financial Highlights

- The Revolving Fund's restricted net position increased approximately by \$19.1 million or 8.46% over the course of the year's operations, mainly resulting from a reversal in the provision for loan losses of approximately \$19.4 million. Management's analysis of the allowance for loan losses showed a reduction in the required reserves.
- Operating income was approximately \$18.7 million for fiscal year 2021, a decrease of approximately \$102 thousand when compared to the prior year.
- Grants and contributions received experienced a decrease of approximately \$2.1 million, while contributions disbursed experienced an decrease of approximately \$2.4 million, when compared to prior year.
- Loan receivable for capital improvements programs had a net decrease of approximately \$1.5 million when compared to the previous year, which is mainly composed of collections of outstanding loans amounting to approximately \$3.3 million, new loans issued amounting to approximately \$1.8 million and a decrease in the allowance for loan losses amounting to approximately \$19.4 million during the year ended on June 30, 2021.

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, 2021

Basic Financial Statements

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

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

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

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

Notes to the Basic Financial Statements

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

Financial Analysis

Net position may serve, over time, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. In the case of the Revolving Fund, assets exceeded liabilities by approximately \$244.9 million as of June 30, 2021. This represents an increase of approximately \$19.1 million or 8.46% over net position as of June 30, 2020. 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, 2021, 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, 2021

For fiscal year 2021, the Revolving Fund's management decided to release the allowance for loan losses based on, among other factors, the capacity of PRASA to increase service charge, progress made in the implementation of operational and financial measures which improve the financial condition of PRASA and terms of PRASA Loan and debt restructuring agreement discussed in Note 5 of the basic financial statements.

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	
	2021	2020	Amount	Percent
Assets:				
Cash and cash equivalents	\$ 60,441	\$ 59,052	\$ 1,389	2.35%
Interest receivable	5	5	-	0.00%
Loans receivable, net	<u>184,949</u>	<u>167,079</u>	<u>17,870</u>	<u>10.70%</u>
Total assets	245,395	226,136	19,259	8.52%
Liabilities - accounts payable	<u>487</u>	<u>334</u>	<u>153</u>	<u>46%</u>
Net position - restricted	<u>\$ 244,908</u>	<u>\$ 225,802</u>	<u>\$ 19,106</u>	<u>8.46%</u>

Cash at June 30, 2021 amounted to approximately \$60.4 million resulting in an increase of approximately \$1.4 million from approximately \$59 million as of June 30, 2020, or a increase of 2.35%. The increase in loans receivable was mostly due to the reversal in the allowance for loan losses of approximately \$19.4 million during the year 2021 which was offset by a net decrease amounting to \$1.5 million. Consequently, the net position increased by approximately \$19.1 million primarily due to the release of provision for loan losses.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2021

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

	June 30,		Change	
	2021	2020	Amount	Percent
Operating recovery, net	\$ 18,726	\$ 18,828	\$ (102)	-0.54%
Non-operating revenues (expenses):				
Other income	13	-	13	100.00%
Interest income on deposits	60	666	(606)	-90.99%
Contributions from EPA	1,509	3,627	(2,118)	-58.40%
Contributions to PRASA	<u>(1,202)</u>	<u>(3,616)</u>	<u>2,414</u>	<u>-66.76%</u>
Change in net position	19,106	19,505	(399)	-2.05%
Net position restricted - beginning of year	<u>225,802</u>	<u>206,297</u>	<u>19,505</u>	<u>9.45%</u>
Net position restricted - end of year	<u>\$ 244,908</u>	<u>\$ 225,802</u>	<u>\$ 19,106</u>	<u>8.46%</u>

The change in net position decreased by approximately \$399 thousand when compared to the previous year. The negative variance results principally from a decrease in interest income amounting to approximately \$606 thousand, which was offset by a decrease in contributions received from Environmental Protection Agency amounting to \$2.1 million and also a decrease in Contributions made to PRASA amounting to \$2.4 million.

Contributions from the Environmental Protection Agency amounting to approximately \$1.5 million were received and contributions to PRASA amounting to approximately \$1.2 million were made during the year ended on June 30, 2021.

Currently Known Facts

Financial assistance agreement

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2021

Capitalization agreements

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

<u>Date received</u>	<u>Award fiscal year</u>	<u>Grant amount</u>
September 17, 2021	2021	<u>\$ 11,001,000</u>

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, 2021

Current assets	
Cash and cash equivalents	\$ 60,441,009
Interest receivable	4,966
Loans receivable from Puerto Rico Aqueduct and Sewer Authority	<u>3,300,000</u>
Total current assets	63,745,975
 Non current assets - Loans receivable from Puerto Rico Aqueduct and Sewer Authority, net	 <u>181,649,847</u>
Total assets	<u><u>245,395,822</u></u>
 Liabilities and Net Position	
 Liabilities - accounts payable	 <u>487,385</u>
 Net position - restricted	 <u>244,908,437</u>
 Total liabilities and net position	 <u><u>\$ 245,395,822</u></u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2021

Operating recovery (expenses):	
Release of provision for loan losses	\$ 19,359,000
General and administrative	<u>(633,456)</u>
Total operating recovery, net	<u>18,725,544</u>
Operating income	<u>18,725,544</u>
Non-operating revenues (expenses):	
Other income	12,825
Interest income on deposits	60,735
Contributions from Environmental Protection Agency	1,509,363
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(1,201,815)</u>
Total non-operating revenue, net	<u>381,108</u>
Change in net restricted position	19,106,652
Net position restricted - beginning of year	<u>225,801,785</u>
Net position restricted - end of year	<u>\$ 244,908,437</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, 2021

Cash flows from operating activities:	
Cash paid for general and administrative expenses	\$ (480,004)
Loan disbursement	(1,811,503)
Principal collected on loans	<u>3,300,000</u>
Net cash provided by operating activities	<u>1,008,493</u>
Cash provided by investing activities -	
Interest collected on deposits	<u>60,621</u>
Cash flows from non-capital financing activities:	
Other receipts	12,825
Contributions received from the Environmental Protection Agency	1,509,363
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(1,201,815)</u>
Net cash provided by non-capital financing activities	<u>320,373</u>
Net change in cash	1,389,487
Cash and cash equivalents - beginning of year	<u>59,051,522</u>
Cash and cash equivalents - end of year	<u>\$ 60,441,009</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 18,725,544
Adjustments to reconcile operating income to net cash provided by operating activities:	
Release of provision for loan losses	(19,359,000)
Net decrease in loans receivable from Puerto Rico Aqueduct and Sewer Authority	1,488,497
Increase in accounts payable	<u>153,452</u>
Net cash provided by operating activities	<u>\$ 1,008,493</u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 1 - Reporting entity

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

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

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

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

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

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 1 - Reporting entity – (continued)

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

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

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

Note 2 - Summary of significant accounting policies

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

During the fiscal year ended on June 30, 2021, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Revolving Fund.

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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 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 which 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, 2021, 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 the Schedule of Expenditures of Federal Awards

June 30, 2021

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

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, 2021, The Revolving Fund maintains approximately \$60.4 million in cash and 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 Commonwealth and PRASA's fiscal plan, as further discussed in Notes 5 and 8.

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 the Schedule of Expenditures of Federal Awards

June 30, 2021

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.

Recent accounting pronouncements

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2021:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2019. As amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, the effective date is postponed by one year.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

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

- GASB Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of *Statement No. 84, Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

The requirements of this Statement were originally effective for reporting periods beginning after June 15, 2020. As amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, the effective date is postponed by one year.

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

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

- GASB Statement No. 94, *Public Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

June 15, 2022, and all reporting periods thereafter. GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance* does not postpone the effective date of this Statement because the pandemic of COVID – 19 was factored into the statement’s effective date.

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

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

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

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

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Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

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

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

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

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

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

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

- GASB Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
 - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
 - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
 - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
 - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
 - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
 - Disclosures related to nonmonetary transactions.
 - Pledges of future revenues when resources are not received by the pledging government.
 - Clarification of provisions in Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
 - Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

Recent accounting pronouncements – (continued)

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 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.

- GASB Statement No 101, *Compensated Absences*. 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.

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 the Schedule of Expenditures of Federal Awards

June 30, 2021

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.

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

Note 3 - Transactions with Puerto Rico Infrastructure Financing Authority

Since the Puerto Rico Infrastructure Financing Authority (PRIFA) had certain responsibilities with the Revolving Fund, PRIFA provided certain management services to the Revolving Fund amounting to \$26,200, which as of June 30, 2021 were paid by the DOH.

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.

Cash and cash equivalents as of June 30, 2021 were deposited as follows:

<u>Type of Deposit</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash deposits at commercial bank	\$ 863	\$ 863
Time deposits at commercial bank	60,440,146	60,440,146
	<u>\$ 60,441,009</u>	<u>\$ 60,441,009</u>

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

At June 30, 2021, loans, all to PRASA, consist of the outstanding balances as following:

	Loans Balance	Allowance for Loans Losses	Loans Balance, net
Total loans receivable from PRASA	<u>\$ 184,949,847</u>	<u>\$ -</u>	<u>\$ 184,949,847</u>

As fully disclosed below, PRASA's restructured loan is due in semiannual installments, no interest bearing from year 1 thru 10 and bearing interests at 1% per annum for the next 20 years.

Also, as part of the restructuring of the loan, there are approximately \$2.6 million of undisbursed loan funds available for PRASA, which when requested and disbursed by the Revolving Fund, will have the same repayment terms and interest rate disclosed above.

Loans receivable, as of June 30, 2021, mature as follows:

Years Ending June 30,	Amount
2022	\$ 3,300,000
2023	3,300,000
2024	3,300,000
2025	3,300,000
2026	3,300,000
2027-2031	22,441,250
2032-2036	37,503,935
2037-2041	39,421,891
2042-2046	41,437,932
2047-2049	27,644,839
	<u>\$ 184,949,847</u>

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

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 will 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.

During previous years, the Revolving Fund established an allowance for loan losses on identified impaired loans based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. However, after PRASA's debt restructuring and improvements in the financial condition of PRASA, which has been able to meet in full its scheduled debt service, the Revolving Fund was able to release allowance for loan losses amounting to approximately \$19.4 million, that was provided in prior years, and which is included as release of provision for loan losses in the accompanying statement of revenues, expenses and changes in net position for the year ended on June 30, 2021.

PRASA's debt restructuring

On July 26, 2019, the U.S. Environmental Protection Agency (EPA) and Puerto Rico Aqueduct and Sewer Authority (PRASA) restructured certain delinquent loans – amounting to approximately \$596 million in principal – owed to Puerto Rico's Water Pollution Control (WP) and Drinking Water (DW) State Revolving Fund (SRF) programs. PRASA entered into two loan agreements in order to restructure certain existing loans from the SRF funds. 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) no interest bearing for the first 10 years and bearing 1% interest rate 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 the Schedule of Expenditures of Federal Awards

June 30, 2021

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

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

PRASA operations

The following presents information obtained from PRASA's audited financial statements as of June 30, 2020 and PRASA's 2022 Fiscal Plan, as certified on May 20, 2022 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, 2021.

As disclosed on PRASA's 2022 Fiscal Plan, PRASA's financial condition has improved due to the implementation of various revenue enhancing and debt restructuring measures, including rate increases across all customer segments, proactive collection of past due amounts from government accounts, and various debt restructuring transactions. PRASA's debt restructuring efforts resulted in about \$1.3 billion in debt service relief through the debt modification with its Federal Lenders, the 2020 and 2021 refunding agreements for outstanding senior debt, and the executed loan settlement with Government Development Bank /Debt Restructured Authority. Furthermore, renewed access to State Revolving Fund Loans in the amount \$241 million and the grant obligation of \$3.7 billion in Federal Emergency Management Agency (FEMA) and \$200 million in Community Development Block Grant – Disaster Recovery Flexible Match (CDBG-DR Program) for a portion of PRASA's local (state) match are expected to provide the necessary financial support to improve, rebuild, recover and upgrade critical wastewater facilities. With a total \$5.75 billion in new funds and debt service relief PRASA has a historic opportunity to invest in its infrastructure at much lower cost than it would otherwise have access to and reduce the prospect of systemic operating deficit over the Certified Fiscal Plan time period. This will promote long term fiscal responsibility and operational sustainability, which is another step forward in the transformation of PRASA's finances and operations which began under PROMESA in 2017.

Given PRASA's fiscal improvements and given the urgency and priority on improving its systems performance, the 2022 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. By implementing each of the measures, PRASA will further improve its financial and operational system condition.

Puerto Rico Safe Drinking Water Treatment
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Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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

PRASA operations – (continued)

In addition, as disclosed in Note 8, on May 20, 2022, the Oversight Board approved and certified a 5-year fiscal plan for PRASA (the PRASA Fiscal Plan), which is expected to improve PRASA's financial position and ability to meet its obligations.

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

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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>June 30,</u>	<u>Grant amount</u>	<u>Total draws at June 30, 2020</u>	<u>Draws during 2021</u>	<u>Total draws at June 30, 2021</u>	<u>Available at June 30, 2021</u>
2012	\$ 8,975,000	\$ 8,533,313	\$ 441,687	\$ 8,975,000	\$ -
2013	8,421,000	8,296,630	124,370	8,421,000	-
2014	8,845,000	8,048,326	624,966	8,673,292	171,708
2015	8,787,000	104,455	192,913	297,368	8,489,632
2016	8,312,000	-	125,427	125,427	8,186,573
2017	8,241,000	-	-	-	8,241,000
2018	11,107,000	-	-	-	11,107,000
2019	11,004,000	-	-	-	11,004,000
2020	11,011,000	-	-	-	11,011,000
	<u>\$ 84,703,000</u>	<u>\$ 24,982,724</u>	<u>\$ 1,509,363</u>	<u>\$ 26,492,087</u>	<u>\$ 58,210,913</u>

At June 30, 2021, the Revolving Fund had \$11,011,000, \$11,004,000, \$11,107,000 and \$8,241,000 from the grants awarded by the EPA for the federal fiscal years ended September 30, 2020, 2019, 2018 and 2017, respectively, that are available to be drawn for loan commitments once all the EPA requirements have been met. As of June 30, 2021, 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, 2021, certain amounts are still available for drawdowns from the grants awarded during the federal fiscal years ended on September 30, 2014, 2015 and 2016 which already have financial agreements executed and from which partial drawdowns have been made. See Note 8 for subsequent events.

Also, during the year ended on June 30, 2021, the Revolving Fund contributed \$1,201,815 to PRASA for different projects.

The Bipartisan Budget Act of 2019 provides that notwithstanding the requirements of section 603(d) of the Federal Water Pollution Control Act or section 1452(f) of the Safe Drinking Water Act, the state or territory shall utilize the full amount of such funds, excluding existing loans, to provide additional subsidization to eligible recipients in the form of forgiveness of principal, negative interest loans or grants or any combination of these. Provided further, that such funds may be used for eligible projects whose purpose is to repair damage incurred as a result of Hurricanes Irma and María, reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster at treatment works as defined by section 212 of the Federal Water

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 6 - Capitalization grants – (continued)

Pollution Control Act or a public drinking water system under section 1452 of the Safe Drinking Water Act. Provided further, that any project involving the repair or replacement of a lead service line shall replace the entire lead service line, not just a portion.

Note 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, 2021, total reimbursement of administrative expenses amounted to \$633,456.

Note 8 - Subsequent events

Subsequent events were evaluated through October 7, 2022, the date the basic financial statements were available to be issued. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Revolving Fund. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

Financial assistance agreement

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

Capitalization agreements

As of the date these basic financial statements are available to be issued, the Revolving Fund received a capitalization grant award notification for the fiscal year 2021, as follows:

<u>Date received</u>	<u>Award fiscal year</u>	<u>Grant amount</u>
September 17, 2021	2021	<u>\$ 11,001,000</u>

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 8 - Subsequent events – (continued)

The PRASA Fiscal Plan and other matters

On May 20, 2022, the Oversight Board approved its latest 6-year fiscal plan for PRASA (the PRASA Fiscal Plan). The PRASA Fiscal Plan includes a series of new initiatives, including among others, periodic rate increases, a project for improving commercial services, reductions in electricity costs and physical water losses, and new federal funding. Detailed information about the PRASA Fiscal Plan is disclosed in the portal page of the Oversight Board.

On August 25, 2021 PRASA issued Revenue Refunding Bonds Series 2021A, 2021B and 2021C (Senior Lien) in a total principal amount of \$1,089.8 million and on June 15, 2022, PRASA issued its Revenue Refunding Bonds, Series 2022A (Senior Lien) in a total principal amounting to \$565.2 million (together, the Refunding Bonds) to refinance in the aggregate all PRASA Revenue Bonds, Series 2012A and 2012B (Senior Lien) (the Refunded Bonds) with outstanding principal balance amounting to \$1,806 million. The refunding bonds bear interest at rates ranging from 4% to 6% per annum with yields at the time of issuance or expected issuance ranging from 3.14% to 3.7% and maturity dates ranging from July 1, 2022 to July 1, 2047.

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

The 2021 and 2022 debt refunding resulted in a reduction of PRASA's total debt service payments over the next 26 years of approximately \$569.7 million and an economic gain of approximately \$385 million.

On January 5, 2021 the President of the United States announced that the Federal Emergency Management Agency (FEMA) would award federal grant funds to help rebuild PRASA water and wastewater treatment plants, pumping stations, dams and reservoirs affected by Hurricane María. On January 8, 2021, the funds were obligated through an agreement by which FEMA agreed to pay \$3.66 billion to PRASA for recovery and resiliency capital projects related to damage suffered by PRASA during the Hurricane María. The amount represents the federal government 90% of funding share of \$4.07 billion fixed cost estimate for repairing such damage to PRASA facilities. PRASA is required to meet 10% cost share requirement for its FEMA funded permanent work projects under the 2021 agreement. PRASA plans to meet its cost share portion with federal Housing and Urban

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 8 - Subsequent events – (continued)

The PRASA Fiscal Plan and other matters – (continued)

Development Community Development Block Grant – Disaster Recovery Flexible Match Program funds, as they become available. On September 2, 2021 the Department of Housing of Puerto Rico and PRASA entered into a sub-award agreement for \$200 million to fund state match of the FEMA Award.

Debt transaction with PRASA

Through a letter dated August 14, 2022 and other supporting documentation, the Fiscal Agency and Financial Advisory Authority (AAFAF) requested to the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) the approval of the Puerto Rico Department of Health (“PRDOH”) and the Puerto Rico Infrastructure Financing Authority (“PRIFA”) for the Puerto Rico Aqueduct and Sewer Authority (“PRASA”), to enter into a \$11,855,580 Financial Assistance Agreement (the “Agreement”) using funds from the Drinking Water State Revolving Fund Program (the “Program”). The Agreement’s structure breaks down the funding as follows: (i) \$5,602,180 as an interest-bearing (1.00%) senior loan with a 30-year repayment period; and (ii) \$6,253,400 as a non-interest bearing (0.00%) principal forgiveness loan. The Agreement arises from a restructured loan agreement executed on July 26, 2019 between PRDOH and PRIFA that enabled PRASA to apply for additional loans and grants under the Program.

On August 26, 2022, the Revolving Fund received the approval from the the Oversight Board for the debt transaction as requested by AAFAF.

Commonwealth of Puerto Rico Plan of Adjustment

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

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 8 - Subsequent events – (continued)

Commonwealth of Puerto Rico Plan of Adjustment – (continued)

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on November 28, 2021 [ECF No. 19367] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge’s Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties’ motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers’ associations. See Case No. 22-1080. On July 18, 2022, the First Circuit affirmed the Title III Court’s finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119.

Oral argument on the merits of the remaining three appeals [Case Nos. 22-1079, 22-1092, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

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

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Note 8 - Subsequent events – (continued)

Submission of single audit reporting package

The Single Audit reporting package, as defined and required in Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for fiscal year ended June 30, 2020, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19.

State Revolving Fund activities were affected by the Executive Orders issued by the Governor of Puerto Rico, and subsequently, the Office of Management and Budget (OMB), through the issuance of the memorandum M-20-17, provided an extension for single audit submission for fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 -Audit Requirements, to six (6) months beyond the normal due date.

The State Revolving Fund did not comply with the submission of the Single Audit package for the fiscal year ended on June 30, 2020 at the date established in the extensions. The submission of this report is expected to be completed before December 31, 2022.

Also, OMB memo M-21-20 provided a 6-month single audit extension for recipients and subrecipients that have fiscal year ends through June 30, 2021, that had not filed their single audit with the Federal Audit Clearinghouse as of March 19, 2021. Moreover, on September 18, 2022, Puerto Rico was declared a major disaster area under the Stafford Act. Consistent with this declaration and the complications created by hurricane Fiona, OMB has granted a six-month extension for all single audits that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. The Revolving Fund expects to submit the single audit reporting package for the year ended on June 30, 2021 within the extended due date.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

Federal Agency/ (Pass-Through Agency) and Program Title	Assistance Listing Number	Other Award Number	Expenditures			Passed-Through to Subrecipients	Note
			From Direct Awards	From Pass- Through Awards	Total		
U.S Environmental Protection Agency Drinking Water State Revolving Funds Cluster: (Pass-through from the Puerto Rico Department of Health)		FS - 99290412 FS - 99290413 FS - 99290414 FS - 99290415 FS -					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	99290416	\$ -	\$ 1,675,640	\$ 1,675,640	\$ 1,042,195	Note 4 and Note 5
Total Drinking Water State Revolving Fund Cluster			<u>\$ -</u>	<u>\$ 1,675,640</u>	<u>\$ 1,675,640</u>	<u>\$ 1,042,195</u>	

See accompanying notes to the schedule of expenditures of federal awards

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2021

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. Assistance Listing numbers are presented for those programs for which such numbers were available.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to the Schedule of Expenditures of Federal Awards (Continued)

June 30, 2021

Note 4 - Capitalization grants

During the year ended June 30, 2021, grants and loans disbursed to subrecipient amounted to \$1,277,966, of which \$1,042,195 represent the federal share received from the U.S. Environmental Protection Agency (EPA), and \$235,771 represent the state matching funds.

Grants are not subject to loan or interest charges. The balance of loans previously granted amounting to \$184,949,847 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, 2021:</u>	<u>Amount</u>
Expenditures per Schedule of Expenditures of Federal Awards	\$ 1,675,640
Add: expenditures incurred in prior years but claimed for reimbursement during the year ended on June 30, 2021	229,631
Less: expenditures incurred during the year ended June 30, 2021 that have not been claimed for reimbursement to the EPA	<u>(395,908)</u>
Contributions from EPA per statement of revenues, expenses and changes in net position	<u>\$ 1,509,363</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

Report on the Financial Statements

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, 2021, 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 October 7, 2022.

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 may exist that have not been identified.

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



Galíndez LLC

San Juan, Puerto Rico
October 7, 2022
License No. LLC-322
Expires December 1, 2023

PART III

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
the Uniform Guidance

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR 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

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, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Revolving Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Revolving Fund's compliance.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
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Opinion on Major Federal Program

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, 2021.

Report on Internal Control Over Compliance

Management of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund's internal control over compliance.

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 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
Page 3

Purpose of this Report

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.



Galíndez LLC

San Juan, Puerto Rico
October 7, 2022
License No. LLC-322
Expires December 1, 2023

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, 2021

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: None.
- b) Major program:

<u>Name of Federal Program or Cluster:</u>	<u>Assistance Listing 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, 2021

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? No
- f) Type of auditor's 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.

Part III - Findings and Questioned Costs Relating to Federal Awards

None.

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, 2021

N/A

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, 2021

Part VI – Summary of Prior Year Audit Findings

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2020-001	ALN 66.468 Capitalization Grants for Drinking Water State Revolving Funds	Year ended June 30, 2020	The data collection form and the reporting package for the year ended on June 30, 2020 was not submitted to the Federal Audit Clearinghouse within the timeframe prescribed by the Uniform Guidance.	Due to historically extraordinary circumstances and events disclosed at length in the notes to the Financial Statements as of and for the year ended June 30, 2020, particularly Notes 3, 8 and 10, management was unable until recently to come up with reasonable audit certainty as to the some of the balances contained in the Revolving Fund's financial statements; delaying their issuance and rendering management unable to file the Data Collection Form (DCF) in a timely manner. For the time period since the issuance of the fiscal year 2015 financial statements of the Revolving Fund and with a fiscally challenging government administration transition in the process, management has been working non-stop with local agencies and the United States Environmental Protection Agency to bring the Revolving Fund back to its regular operation, while providing audit certainty as to the balances contained in the financial statements.	None.	Corrected.	Management started the corrective actions and expects to complete them by December 2022.

* * * * *