

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, 2023

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying statement of net position of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (“the Revolving Fund”) as of June 30, 2023, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Revolving Fund’s basic financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Revolving Fund as of June 30, 2023, and the related changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Revolving Fund’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund
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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2024, 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
March 26, 2024
License No. LLC-322
Expires December 1, 2026

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2023

The Puerto Rico Infrastructure Financing Authority (PRIFA), 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, 2023. This discussion and analysis is designed to assist the reader in focusing on significant financial matters and activities and to identify any significant changes in the net position of the Revolving Fund. We encourage readers to consider the information presented here in conjunction with the basic financial statements which follow this section.

Financial Highlights

- The Revolving Fund's restricted net position increased approximately by \$10.7 million over the course of the year's operations.
- Operating expenses were approximately (\$721) thousand for the fiscal year 2023 versus operating expenses of approximately (\$687) thousand in 2022, representing an increase in operating expenses of approximately \$34 thousand when compared to the prior year.
- Interest income amounted to approximately \$2.5 million for the fiscal year 2023 versus an interest income of approximately \$134 thousand in 2022, representing an interest income increase of approximately \$2.4 million when compared to prior year.
- Grants and contributions received experienced an increase of approximately \$4.4 million, while contributions disbursed experienced a decrease of approximately \$3.9 million, when compared to prior year. Increase of \$4.4 million in grants and contributions received is mainly related to the Department of Health State Match received amounting to \$3.1 million.
- Loans receivable for capital improvements programs had a net decrease of approximately \$155 thousand when compared to the previous year.

Overview of the Financial Statements

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2023

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 indicates an improved financial position.

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

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

Notes to the Basic Financial Statements

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

Financial Analysis

Net position may serve, over time, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. In the case of the Revolving Fund, assets exceeded liabilities by approximately \$255.6 million as of June 30, 2023. 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, 2023, 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, 2023

Financial Analysis – (continued)

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

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

	June 30,		Change	
	2023	2022	Amount	Percent
Assets:				
Restricted cash and cash equivalents	\$ 72,724	\$ 61,956	\$ 10,768	17.38%
Interest receivable	315	45	270	600.00%
Loans receivable	183,031	183,186	(155)	-0.08%
Total assets	256,070	245,187	10,883	4.44%
Liabilities - accounts payable	436	278	158	57%
Net position - restricted	\$ 255,634	\$ 244,909	\$ 10,725	4.38%

Restricted cash and cash equivalents at June 30, 2023 amounted to approximately \$72.7 million resulting in an increase of approximately \$10.8 million from approximately \$61.9 million as of June 30, 2022, or an increase of 17.38%.

Loan receivable amounted to approximately \$183 million resulting in a decrease of approximately \$155 thousand when compared to the previous year. The decrease is mainly composed of collections of outstanding loans amounting to approximately \$3.3 million and new loans issued amounting to approximately \$3.1 million during the year ended on June 30, 2023.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2023

Financial Analysis – (continued)

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

	June 30,		Change	
	2023	2022	Amount	Percent
Operating (expenses)	\$ (721)	\$ (687)	\$ (34)	4.95%
Non-operating revenues (expenses):				
Interest income on deposits	2,552	134	2,418	1804.48%
Contributions	14,631	10,228	4,403	43.05%
Contributions to PRASA	(5,737)	(9,674)	3,937	-40.70%
Change in net restricted position	10,725	1	10,724	1072400.00%
Net position - beginning of year	244,909	244,908	1	0.00%
Net position - end of year	\$ 255,634	\$ 244,909	\$ 10,725	4.38%

The net position increased by \$10.7 million when compared to the previous year. The change is mainly related to an increase in interest income from time deposits of approximately \$2.4 million, an increase in contributions from EPA and the Commonwealth of approximately \$4.4 million and a decrease in the contributions to PRASA of approximately \$3.9 million in comparisons with the year ended in June 30, 2022.

Contributions from the Environmental Protection Agency and the Commonwealth amounting to approximately \$14.6 million were received and contributions to PRASA amounting to approximately \$5.7 million were made during the year ended on June 30, 2023.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

June 30, 2023

Currently Known Facts

Capitalization grants

As of the date these basic financial statements are available to be issued, the Revolving Fund received capitalization grant awards notifications for the fiscal year 2022 as follows:

<u>Date received</u>	<u>Award fiscal year</u>	<u>Awarded amount</u>
September 14, 2023	2022	7,555,000
September 19, 2023	2022	28,350,000
September 22, 2023	2022	<u>17,992,000</u>
Total		<u>\$ 53,897,000</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, 2023

Assets

Current assets

Interest receivable	\$ 314,675
Loans receivable from Puerto Rico Aqueduct and Sewer Authority	<u>3,300,000</u>
Total current assets	<u>3,614,675</u>

Non current assets

Restricted cash and cash equivalents	72,724,430
Loans receivable from Puerto Rico Aqueduct and Sewer Authority	<u>179,731,216</u>
Total non current assets	<u>252,455,646</u>
Total assets	<u><u>256,070,321</u></u>

Liabilities and Net Position

Liabilities - accounts payable	320,516
Due to Puerto Rico Infrastructure Financing Authority	<u>115,403</u>
Total liabilities	<u>435,919</u>
Net position - restricted	<u>255,634,402</u>
Total liabilities and net position	<u><u>\$ 256,070,321</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, 2023

Operating expenses - general and administrative	\$ <u>(721,332)</u>
Non-operating revenues (expenses):	
Interest income on deposits	2,552,150
Contributions from Environmental Protection Agency	7,085,614
Contributions from Commonwealth of Puerto Rico	7,546,785
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(5,737,359)</u>
Total non-operating revenue	<u>11,447,190</u>
Change in net restricted position	10,725,858
Net position - beginning of year	<u>244,908,544</u>
Net position - end of year	<u>\$ 255,634,402</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, 2023

Cash flows from operating activities:	
Cash paid for general and administrative expenses	\$ (563,829)
Loan disbursement	(3,145,171)
Principal collected on loans	<u>3,300,000</u>
Net cash used in operating activities	<u>(409,000)</u>
Cash flows provided by investing activities:	
Interest collected on deposits	<u>2,282,133</u>
Cash flows from non-capital financing activities:	
Contributions received from the Environmental Protection Agency	7,085,614
Contributions received from the Commonwealth of Puerto Rico	7,546,785
Contributions to Puerto Rico Aqueduct and Sewer Authority	<u>(5,737,359)</u>
Net cash provided by non-capital financing activities	<u>8,895,040</u>
Net change in restricted cash and cash equivalents	10,768,173
Restricted cash and cash equivalents - beginning of year	<u>61,956,257</u>
Restricted cash and cash equivalents - end of year	<u>\$ 72,724,430</u>
Reconciliation of operating expenses to net cash used in operating activities:	
Operating expenses	\$ (721,332)
Adjustments to reconcile operating expenses to net cash used in operating activities:	
Net decrease in loans receivable from	
Puerto Rico Aqueduct and Sewer Authority	154,829
Increase in accounts payable	75,275
Increase in due to Puerto Rico Infrastructure Financing Authority	<u>82,228</u>
Net cash used in operating activities	<u>\$ (409,000)</u>

See notes to basic financial statements

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements

June 30, 2023

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

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

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

Note 1 - Reporting entity – (continued)

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

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

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

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

Note 2 - Summary of significant accounting policies

The accounting and reporting policies of the Revolving Fund conform to Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as applicable to governmental entities. The Revolving Fund follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

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

Measurement focus, basis of accounting, and financial statements presentation

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

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

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

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

As of June 30, 2023, the Revolving Fund net position is presented as restricted.

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

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

Restricted cash and cash equivalents

Time deposits with maturities at date of purchase of three months or less are classified as cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. As of June 30, 2023, the Revolving Fund maintains approximately \$72.7 million in cash equivalents.

Loan receivable and allowance for loan losses

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

The Revolving Fund considers loans as impaired based on current information and events, including significant delays in the receipt of the scheduled debt service payments. To establish an allowance for loans losses, the Revolving Fund's management used applicable authoritative literature, general background information and recent relevant information included in the PRASA fiscal plan, as further discussed in Note 5.

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Loan receivable and allowance for loan losses – (continued)

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

New accounting pronouncement adopted

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

This Statement also addresses arrangements-often characterized as leases- that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment.

- 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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

New accounting pronouncements adopted – (continued)

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.

- 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.
- 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 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.

Management evaluated all these accounting pronouncements and concluded that they are not applicable to the Revolving Fund.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Recent accounting pronouncements

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2023:

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

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

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

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

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Recent accounting pronouncements – (continued)

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.

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.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Recent accounting pronouncements – (continued)

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

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

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

The disclosure should include descriptions of the following:

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Recent accounting pronouncements – (continued)

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

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

Note 3 - Due to Puerto Rico Infrastructure Financing Authority

As established in the MOU between DOH, AAFAF and PRIFA, PRIFA has performed certain managerial and administrative duties related to the accounting related to the Revolving Fund which resulted in an amount due to PRIFA of approximately \$115 thousand, included in the accompanying Statement of Net Position, from which the DOH has paid approximately \$97 thousand after June 30, 2023.

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.

Restricted cash and cash equivalents as of June 30, 2023 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	<u>72,723,567</u>	<u>72,723,567</u>
	<u>\$ 72,724,430</u>	<u>\$ 72,724,430</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 Basic Financial Statements (Continued)

June 30, 2023

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

The Revolving Fund is operated as a direct loan program, whereby most of the loans made to PRASA are funded by capitalization grants from the EPA and a Commonwealth match ranging approximately from 11.30% to 16.67% of the EPA's capitalization grant. All of the outstanding loans are funded with EPA capitalization grants, state match funds, and with funds from the results of the operations of the SDWRF.

Pursuant to Act 96 of June 30, 2015 (the Act 96), the Commonwealth guaranteed the payment of principal and interest on most of the outstanding Revolving Fund loans granted to PRASA. However, pursuant to the refinancing of the loans disclosed below, the Commonwealth's guaranty related to all the original financing agreements, and the guaranty related to all the bonds and loans issued, was terminated on July 26, 2019. The new loans are not subject to the guaranty, and the obligations of PRASA under the new loan agreements and the notes do not constitute Commonwealth guaranteed indebtedness under the trust agreement. Any future right to the Commonwealth guaranty was waived.

Before the refinancing of the loans, PRASA was experiencing a challenging financial scenario with its ability to fulfill all of its financial commitments, including those obligations incurred under the Revolving Fund's loans. As a result, PRASA has been seeking relief through the modification of its debt obligations. As fully disclosed below, PRASA's restructured loan is due in semiannual installments, bearing interest at 0% per annum from year 1 thru 10 and 1% for the next 20 years.

As of June 30, 2023, all the loan funds have been disbursed under the repayment terms and interest rate disclosed above and there are no undisbursed loan funds available for PRASA.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

Loans receivable, as of June 30, 2023, mature as follows:

Fiscal Years Ending June 30,	Amount
2024	\$ 3,300,000
2025	3,300,000
2026	3,300,000
2027	3,300,000
2028	3,300,000
2029-2033	30,618,745
2034-2038	38,259,658
2039-2043	40,216,262
2044-2048	42,272,927
2049-2050	<u>13,098,513</u>
	<u>\$ 180,966,105</u>
Plus: construction loans - projects in process	<u>2,065,111</u>
Total Loan	<u>\$ 183,031,216</u>

PRASA's debt restructuring

On July 26, 2019, the U.S. Environmental Protection Agency (EPA) and the Puerto Rico Aqueduct and Sewer Authority (PRASA) restructured certain delinquent loans – amounting to approximately \$596 million in principal – owed to Puerto Rico's Water Pollution Control (WP) and Drinking Water (DW) State Revolving Fund (SRF) programs. PRASA entered into two loan agreements in order to restructure certain existing loans from the SRF funds. The notes issued by PRASA under the new loan agreements superseded and replaced all outstanding obligations with the SRF funds. The SRF also waived all accrued and unpaid interest with respect to the old debt. The two new loan agreements (one for the WP and one for DW) each have a term of thirty years commencing on January 1, 2020 (effective date) and bear interest at 0.0% for the first 10 years and 1% for the next 20 years. The loans and notes issued by PRASA to the applicable SRF were incurred by PRASA as other system indebtedness and have been designated as senior indebtedness under the master agreement of trust, between PRASA and Banco Popular de Puerto Rico, as trustee, and as amended by the seventh supplemental agreement of trust.

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

PRASA's debt restructuring – (continued)

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

PRASA's operations

The following presents information obtained from PRASA's audited financial statements as of June 30, 2021, and PRASA's 2023 Fiscal Plan, as certified on May 26, 2023 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, 2023.

As disclosed on PRASA's 2023 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 the Government Development Bank Debt Recovery Authority. Furthermore, renewed access to State Revolving Fund Loans in the amount \$278 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 \$6.17 billion in new funds and debt service relief PRASA has a unique and generational opportunity to invest in its infrastructure at much lower cost than usual without the need to access capital markets and reduce the prospect of systemic operating deficit over the Certified Fiscal Plan time period and beyond.

Given PRASA's steady fiscal improvements and its urgent need to prioritize improving its systems performance, the 2023 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
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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

PRASA's operations – (continued)

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

Note 6 - Capitalization grants

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

These grants are routinely subject to financial and compliance audits in accordance with the provisions of the *Title 2, U.S. Code of Federal Regulation Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Award* (Uniform Guidance) and compliance audits by the EPA. The latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance. All funds drawn from the EPA and the matching funds from the Commonwealth are recorded as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

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>Amount Awarded</u>	<u>Total draws at June 30, 2022</u>	<u>Draws during 2023</u>	<u>Total draws at June 30, 2023</u>	<u>Available at June 30, 2023</u>
2015	\$ 8,787,000	\$ 8,765,299	\$ 21,701	\$ 8,787,000	\$ -
2016	8,312,000	1,404,433	4,524,752	5,929,185	2,382,815
2017	8,241,000	140,737	1,375,953	1,516,690	6,724,310
2018	11,107,000	262,190	1,008,801	1,270,991	9,836,009
2019	11,103,000	-	107,550	107,550	10,995,450
2020	11,011,000	-	46,857	46,857	10,964,143
2021	11,001,000	-	-	-	11,001,000
2022	<u>7,008,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,008,000</u>
	<u>\$ 76,570,000</u>	<u>\$ 10,572,659</u>	<u>\$ 7,085,614</u>	<u>\$ 17,658,273</u>	<u>\$ 58,911,727</u>

At June 30, 2023, the Revolving Fund had \$7,008,000 and \$11,001,000 from the grants awarded by the EPA for the federal fiscal years ended September 30, 2022 and 2021, respectively, that are available to be drawn for loan commitments once all the EPA requirements have been met. As of June 30, 2023, 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, 2023, certain amounts are still available for drawdowns from the grants awarded during the federal fiscal years ended on September 30, 2016, 2017, 2018, 2019 and 2020, which already have financial agreements executed and from which partial drawdowns have been made. See Note 8 for subsequent events.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

Note 6 - Capitalization grants – (continued)

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

During the year ended on June 30, 2023, the Revolving Fund contributed \$5,737,359 to PRASA for different projects.

Note 7 - Administrative expenses

As provided by federal laws and regulations, reasonable costs of administering the Revolving Fund are reimbursable under federal programs up to a maximum of 4% of the capitalization grant awarded each year. The federal government also reimburses expenses incurred in training and certifying personnel as well as technical matters and other set-asides, as determined by the Department of Health. During the year ended June 30, 2023, total reimbursement of administrative expenses amounted to \$721,332.

Note 8 - Subsequent events

Subsequent events were evaluated through March 26, 2024, the date the basic financial statements were available to be issued. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Revolving Fund. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

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Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Basic Financial Statements (Continued)

June 30, 2023

Note 8 - Subsequent events – (continued)

Capitalization grants

As of the date these basic financial statements are available to be issued, the Revolving Fund received capitalization grant awards notifications for the fiscal year 2022 as follows:

<u>Date received</u>	<u>Award fiscal year</u>	<u>Grant amount</u>
September 14, 2023	2022	\$ 7,555,000
September 19, 2023	2022	28,350,000
September 22, 2023	2022	<u>17,992,000</u>
Total		<u>\$ 53,897,000</u>

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Expenditures of Federal Awards

June 30, 2023

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		
Drinking Water State Revolving Funds Cluster:							
U.S Environmental Protection Agency							
(Pass-through from the Puerto Rico Department of Health)							
		FS - 99290415 FS -					
		99290416 FS -					
		99290417 FS -					
		99290418 FS -					
		99290419 FS -					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	99290420	\$ -	\$ 7,243,118	\$ 7,243,118	\$ 6,521,786	Note 4 and Note 5
Total Drinking Water State Revolving Fund Cluster			\$ -	\$ 7,243,118	\$ 7,243,118	\$ 6,521,786	

See accompanying notes to the schedule of expenditures of federal awards

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Schedule of Expenditures of Federal Awards

June 30, 2023

Note 1 - Basis of presentation

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

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

Note 2 - Summary of significant accounting policies

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

Note 3 - Assistance Listing Numbers (ALN)

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

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2023

Note 4 - Capitalization grants

During the year ended June 30, 2023, grants and loans disbursed to subrecipient amounted to \$8,882,530, of which \$6,521,786 were received from the U.S. Environmental Protection Agency (EPA), and \$2,360,744 were disbursed from the state match and loan repayment funds.

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

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

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

<u>For the year ended on June 30, 2023:</u>	<u>Amount</u>
Expenditures per Schedule of Expenditures of Federal Awards	\$ 7,243,118
Add: expenditures incurred in prior years but claimed for reimbursement during the year ended on June 30, 2023	181,478
Less: expenditures incurred during the year ended June 30, 2023 that have not been claimed for reimbursement to the EPA	<u>(338,982)</u>
Contributions from EPA per statement of revenues, expenses and changes in net position	<u>\$ 7,085,614</u>

PART II

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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



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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund ("the Revolving Fund"), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Revolving Fund's basic financial statements, and have issued our report thereon dated March 26, 2024.

Report on Internal Control over Financial Reporting

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

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

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

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
Page 2

Report on Compliance and Other Matters

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

Purpose of This Report

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



Galíndez LLC

San Juan, Puerto Rico
March 26, 2024
License No. LLC-322
Expires December 1, 2026

PART III

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

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

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

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund's ("the Revolving Fund") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Revolving Fund's major federal program for the year ended June 30, 2023. The Revolving Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

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

We are required to be independent of the Revolving Fund and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Revolving Fund's compliance with the compliance requirements referred to above.

To the Board of Directors of
Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund
Page 2

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

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

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
March 26, 2024
License No. LLC-322
Expires December 1, 2026

PART IV

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs

Puerto Rico Safe Drinking Water Treatment
Revolving Loan Fund

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

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: No.
- 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, 2023

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 IV - Corrective Action Plan

N/A.

PART V

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, 2023

Part V - Summary Schedule of Prior Audit Findings

Finding Number	Program	Fiscal Year	Noncompliance	Corrective Action	Questioned Costs	Status	Comments
2022-001	AL Number 66.468 Drinking Water State Revolving Funds Cluster: Capitalization Grants for Drinking Water State Revolving Funds	Year ended June 30, 2022	The data collection form and the reporting package for the year ended on June 30, 2022 was not submitted to the Federal Audit Clearinghouse within the timeframe prescribed by the Uniform Guidance.	Management is requiring DOH to formalize a Subaward, as established in the MOU, as amended, to facilitate and respond to the lack of funding to cover all the related expenses for the administrative responsibilities assigned to PRIFA. EPA has been informed and communication will be maintained until the Subaward is finally signed. Management plans are to file the data collection form for the fiscal year ended on June 30, 2022 on or before June 30, 2023, and the data collection form for the fiscal year ending on June 30, 2023 on or before March 31, 2024, which will result in elimination of the finding.	None.	Resolved	None.