SOLID WASTE AUTHORITY
(NOW THE DEPARTMENT
OF NATURAL AND ENVIRONMENTAL RESOURCES
OF THE COMMONWEALTH OF PUERTO RICO)

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(WITH THE ADDITIONAL REPORT REQUIRED
BY GOVERNMENT AUDITING STANDARDS)

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants and Consultants

SOLID WASTE AUTHORITY
(Now the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico)

Financial Statements
For the Fiscal Year Ended June 30, 2019

(With the Additional Report Required by the Government Auditing Standards)

CONTENTS

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of **Solid Waste Authority** (**the SWA**), now the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **SWA's** 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 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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PO Box 25070
San Juan, PR 00928-5070
Tel. (787)283-2100 Fax (787)283-2115

Ave. San Claudio #369, Suite #2
Río Piedras, Puerto Rico 00926
www.irizarryrodriguezcpa.com

Basis for Qualified Opinion

Noncompliance with GASB No. 42 *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*

As discussed in **Notes 5** and **17,** during the month of September 2017 Puerto Rico suffered the passing of hurricanes Irma and Maria which caused a catastrophic impact through the Island. The **SWA** has not evaluated the impact of the damages caused by these hurricanes on capital assets being depreciated stated at **$94,055,542**, net of accumulated depreciation**,** as of June 30, 2019. Accordingly, any possible impairment on its assets has not been identified and a provision for loss on impairment of assets has not been recognized for any damage occurred.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the **SWA**, as of June 30, 2019 and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Reporting Entity

As described on **Note 1**, the Law No. 171 of August 2, 2018 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 adopted pursuant to Law No. 122 of December 18, 2017. Accordingly, the **SWA's** faculties, functions, services and structures were consolidated with the Puerto Rico Department of Natural and Environmental Resources.

The financial statements of the **SWA** presented herein, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the activities attributable to the transactions of the **SWA**. They do not purport to, and do not, present fairly the financial position of the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern. As discussed in **Note 19** to the financial statements, the **SWA** has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. Also, the **SWA** has defaulted in the payment of principal and interest on bonds and line of credits. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

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 **19**, and the Schedule of the Proportionate Share of Collective Total Pension Liability and the Schedule of Proportionate Share of the Collective Total OPEB Liability on pages **65** and **66**, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2021, on our consideration of the **SWA's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 **SWA's** internal control over financial reporting and compliance.

IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
October 8, 2021

The Stamp Number **E417181** was affixed
in the original of this Report

The **Solid Waste Authority (SWA**) is a public corporation and a governmental instrument of the Commonwealth of Puerto Rico, created by Law No. 70 of June 23, 1978, as amended. The main purpose of the **SWA** is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the **SWA** has the responsibility of educating the community in this respect as well as the development and implementation of the required programs needed for the reduction and reuse of solid waste.

Law No. 171 of August 2, 2018 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the JCA"), the Solid Waste Authority (hereinafter "the **SWA**") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the National Parks Program"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017.

As of the date of the financial statement, the Department has not finished the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the Department and those of the **SWA** are kept using different accounting systems and internal controls. Also, the Department uses the cash method basis of accounting, while **SWA** uses the accrual method of accounting for financial statement presentation.

Accordingly, the financial statements of the **SWA** cannot be consolidated and presented in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2019. The financial statements of the **SWA** presented herein, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the activities attributable to the transactions of the **SWA**.

They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

This discussion and analysis of the **SWA's** financial performance provides an overview of the **SWA's** financial activities for the fiscal year ended on June 30, 2019. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for the prior year as this information is available for the fiscal year ended on June 30, 2018. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. A broader basis in focusing important issues;
2. Acknowledgement of an overview of the **SWA's** financial activities;
3. Provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. Identification of uses of funds in the financing of **SWA's** variety of activities;
5. Assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2018-2019 deserve special mention:

1. Total assets and deferred outflows of resources amounted to **$109,161,499**, resulting in a decrease of **$7,131,054** when compared to the prior fiscal year 2018. The decrease in total assets and deferred outflows of resources was caused by the net effect of a decrease in cash of **$582,056**, a decrease in accounts receivable of **$1,429,183,** a decrease in capital assets of **$5,121,024,** a decrease in other assets of **$132,782** and an increase of deferred outflows of resources of **$133,991**.
2. Total liabilities and deferred inflows of resources decreased by **$25,695,820.** This net increase was caused by an increase in current liabilities of **$4,367,820**, a decrease in long-term liabilities of **$30,938,568** and an increase on deferred inflows of resources of **$874,928**.
3. The **SWA's** total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by **$1,024,600** as of June 30, 2019 and, during the year then ended, experienced an decrease in the balance of net position (deficit) of **$18,564,766** when compared to the fiscal year 2018.
4. During the fiscal year 2019, operating revenues and other credits amounted to **$22,597,802**, an increase of **$20,101,617** when compared to the fiscal year 2018. This increase was caused by the recognition of **$21,705,776** of the recapture of deposits from Governmental Bank. Also, during the current fiscal year, total operating expenses amounted to **$3,319,423**, a decrease of **$7,630,877** when compared to the fiscal year 2018. This decrease was caused by the net effect of pension transactions amounting to **($6,812,453)**.

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Non-operating revenues (expenses) changed by **$1,785,588**, from (**$2,499,201)** of net expenses in 2018 to (**$713,613)** of net expenses in 2019. The change was mainly caused by a loss on impairment on capital assets amounting to **$1,126,789** recorded during the fiscal year 2018.

6. Interest expense related to long term-debt charged to operations during the fiscal year 2019 amounted to **$4,538,540**, which resulted a decrease of **$902,726** compared to the fiscal year 2018 (**$5,441,266**).

7. Cash and cash equivalents decreased by **$582,056**, from **$12,632,393** in 2018 to **$12,050,337** in 2019.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements: the (i) Statement of Net Position, (ii) the Statements of Revenues, Expenses and Changes in Net Position, (iii) the Statements of Cash Flows and (iv provided information about the activities of the **SWA** that together present an image of the **SWA's** finances. These statements show how these services were financed in the short-term as well as what remains for future activities.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

As describe before, under the Department's Reorganization Plan, the **SWA** became part of the Department. However, **SWA** is presented in the Commonwealth's government-wide financial statements as an enterprise fund.

The approach used in the presentation of the financial statements of the **SWA** is based on a government-wide view. Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting, which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

Each statement will distinguish between the governmental and business-type activities of the primary government and between the total primary government and it's discretely presented component units by reporting each in separated columns. Fiduciary activities, whose resources are not available to finance the government's programs, will be excluded from the government-wide financial statements.

An enterprise fund essentially encompasses the same functions reported as business-type activities in the government-wide financial statements. Substantially, all services are provided to customers not related to the Commonwealth of Puerto Rico.

The **SWA's** financial statements are presented attached to this document and are accompanied by notes to the financial statements, which provide information essential to their full understanding.

FINANCIAL STATEMENTS COMPONENTS

The financial statements consist of the Statement of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial Statements, which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position (Deficit) reflects information of the **SWA** as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. The statement of revenues, expenses and changes in net position shows how the **SWA's** net position changed during the fiscal year. All current fiscal year revenues and expenses are recognized regardless of when cash is received or paid. An important purpose of the design of this statement is to show the financial reliance of the **SWA's** functions on revenues earned.

The Statement of Revenues, Expenses and Changes in Net Position (Deficit) is focused on both gross and net cost of the various activities of the **SWA**. It presents information which shows the changes in the **SWA's** net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the statement of revenues, expenses and changes in net position based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the statement of revenues, expenses and changes in net position of the **SWA** for the year ended June 30, 2019 shows total expenses incurred to afford the cost of the **SWA's** operations amounted to **$3,319,423** (net of the effect of pension transactions). Upon examining the sources of revenues and other credits for the financing of the **SWA's** operations, the statement of revenues, expenses and changes in net position reflects that **$749,726** were derived from contract revenues and **$142,300** from other miscellaneous revenues. Also, there was a recapture of **$21,705,776** from deposits from Governmental Bank.

The Statement of Cash Flows presents the sources and uses of cash flows divided into four categories: operating activities, non-capital financial activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net operating income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE

Our analysis, as shown below, focuses on net position and change in net position for the **SWA's** activities during the fiscal year ended June 30, 2019 as compared to the prior year 2018.

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

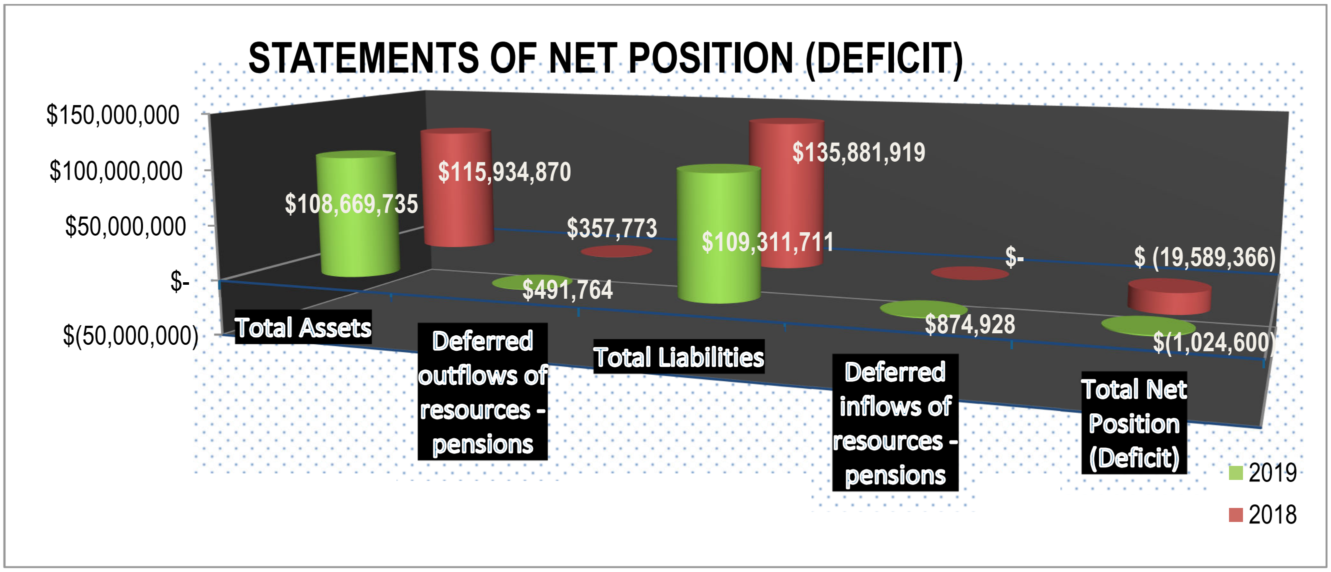
Net Position

The Statement of Net Position serves as an indicator of the **SWA's** financial position at the end of the fiscal year. In the case of the **SWA,** liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by **$1,024,600** at the end of the fiscal year 2019, an increase of **$18,564,764** compared to the balance at the end of the previous fiscal year 2018, as showed in the following Statements of Net Position (Deficit).

STATEMENTS OF NET POSITION (DEFICIT)

Assets and deferred outflows of resources	2019	2018 Adjusted	Variance
Current assets	$ 14,209,572	$ 16,220,811	$ (2,011,239)
Due from Commonwealth of Puerto Rico	404,621	404,621	-
Capital asset, net	94,055,542	99,176,566	(5,121,024)
Other assets	-	132,782	132,782
Total assets	108,669,735	115,934,780	(7,265,045)
Deferred outflows of resources - pensions	491,764	357,773	133,991
Total assets and deferred outflows of resources	$109,161,499	$116,292,553	$ (7,131,054)
Liabilities and deferred inflows of resources			
Current liabilities	39,265,696	34,897,876	4,367,820
Long-term debt	70,045,475	100,984,043	(30,938,568)
Total liabilities	109,311,171	135,881,919	(26,570,748)
Deferred inflows of resources - pensions	874,928	-	874,928
Net position (deficit)	(1,024,600)	(19,589,366)	18,564,766
Total liabilities, deferred inflows of resources and net position (deficit)	$109,161,499	$116,292,553	$ (7,131,054)

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)



Total net position (deficit) at June 30, 2019 decreased by **$18,564,766** compared to the prior fiscal year 2018. This net decrease was caused by the net effect of a decrease in current assets of **$2,011,239**, a reduction in capital assets and other assets of **$5,253,806,** the increase of deferred outflow resources of **$133,991** and the net decrease in total liabilities and deferred inflows of resources of **$25,695,820**.

The decrease in current assets amounting to **$2,011,239** is directly related to the decrease in cash and cash equivalents of **$582,056**, and the decrease in accounts receivable of **$1,429,183**. The reduction in capital assets mentioned above is the result of the recognition of the current year depreciation expense of **$5,141,155**.

The increase in current liabilities of **$4,367,820** is mainly due to an increase in accrued liabilities of **$4,554,990** and a decrease in other current liabilities of **$180,000**. Total long-term debt decreased by **$30,938,568**, mostly by the decrease on net pension liability of **$8,811,066** and the decrease in lines of credit balance of **$21,624,030.**

The balance of net position (deficit) experienced a decrease of **$18,564,766** when compared to the ending balance of the fiscal year 2018. This decrease in the net position (deficit) balance was mainly caused by the change in net position of **$18,564,766** experienced during the year ended June 30, 2019.

During fiscal year 2019, the **SWA's** received funds amounting to **$3,542,349** related to grants contributions from the Commonwealth of Puerto Rico, a decrease of **$452,195** when compared to the funds of **$3,994,544** received during the fiscal year 2018. Also, non-operating expenses included interest expense of **$4,538,540**.

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

In addition, during the month of September 2017 Puerto Rico suffered the passing of hurricanes Irma and Maria which caused a catastrophic impact through the Island. During fiscal year 2018 the **SWA** recognized a loss impairment of **$1,126,789** on construction in progress for uncompleted projects. However, the **SWA** has not evaluated the impact of the damages caused by these hurricanes on capital assets being depreciated. Accordingly, any possible impairment on its depreciable assets has not been identified and a provision for loss on impairment of assets has not been recognized for any damage occurred.

For the fiscal year ended June 30, 2019, the **SWA** recognized a provision for bad debts expense of **$1,586,734** related to accounts receivable which increase the reserve for accounts considered uncollectable as of that date.

In the following table, a comparative analysis of the Statement of Revenues, Expenses and Changes in Net Position (Deficit) is presented. With this analysis, the readers have comparative information of the changes in revenues and expenses from fiscal year 2018 to fiscal year 2019.

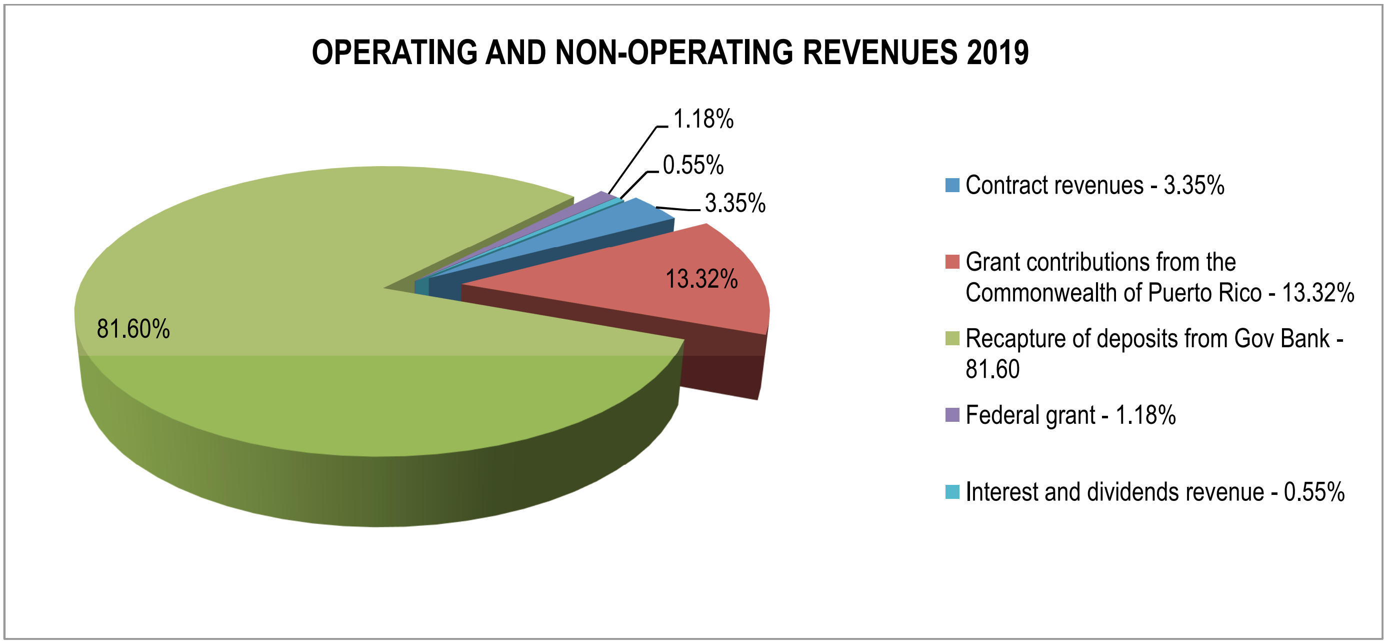
THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK

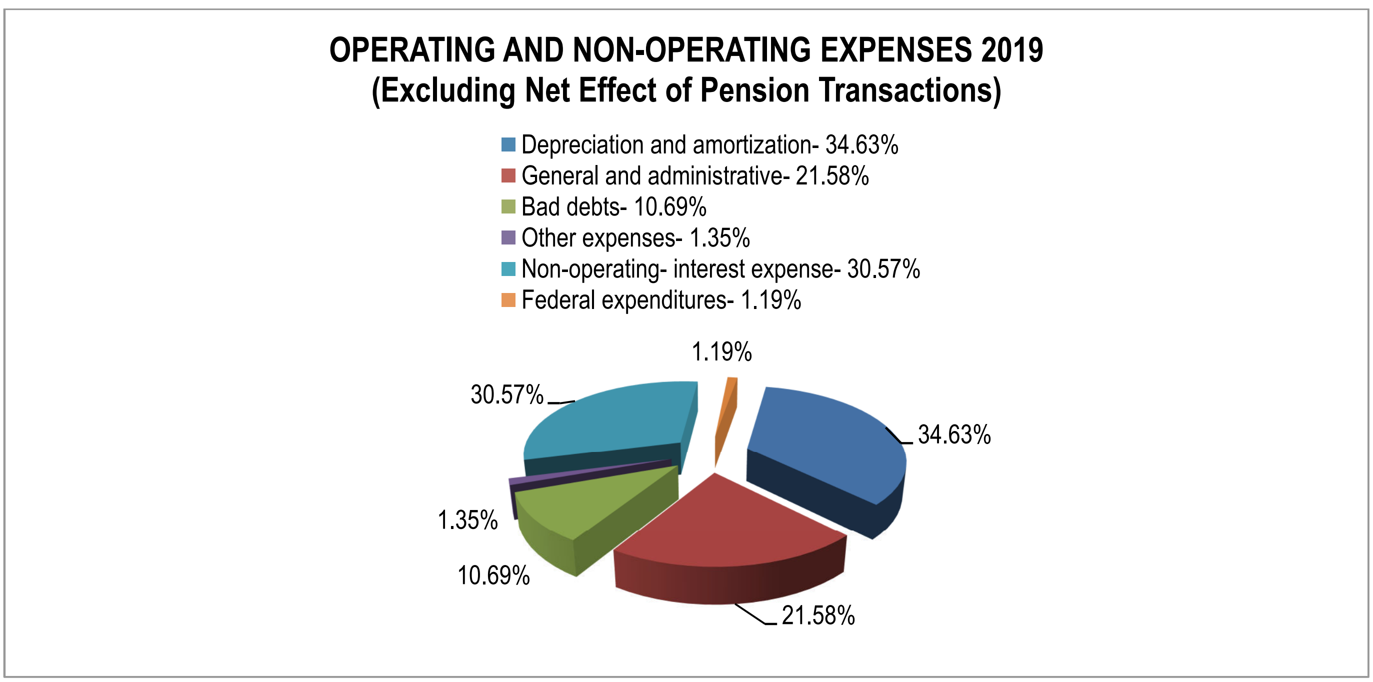
FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT)

	2019	2018	Variance
Operating revenues and other credits:			
Contract revenues	$ 892,026	$ 2,496,185	$ (1,604,159)
Recapture of deposits from Governmental Bank	21,705,776	-	21,705,776
	22,597,802	2,496,185	20,101,617
Operating expenses:			
Depreciation and amortization	5,141,155	5,136,496	4,659
General and administrative	3,203,517	4,224,681	(1,021,164)
Bad debts	1,586,734	1,412,840	173,894
Net effect of pension transactions	(6,812,453)	-	(6,812,453)
Other expenses	200,470	176,283	24,187
Total operating expenses	3,319,423	10,950,300	(7,630,877)
Operating income before non-operating revenues (expenses)	19,278,379	(8,454,115)	27,732,494
Non-operating revenues (expenses)			
Interest and dividends income	145,093	51,538	93,555
Loss on impairment of capital assets	-	(1,126,789)	1,126,789
Emergency grant from Federal Government	314,104	832,076	(517,972)
Federal expenditures	(176,619)	(809,304)	632,685
Interest expense	(4,538,540)	(5,441,266)	902,726
Grant contributions from the Commonwealth of Puerto Rico	3,542,349	3,994,544	(452,195)
Total non-operating revenues (expenses)	(713,613)	(2,499,201)	1,785,588
Change in net position	18,564,766	(10,953,316)	29,518,082
Net position (deficit), beginning of year, as restated	(19,589,366)	(8,636,050)	(10,953,316)
Net position (deficit), end of year	$ (1,024,600)	$ (19,589,366)	$ 18,564,766

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)



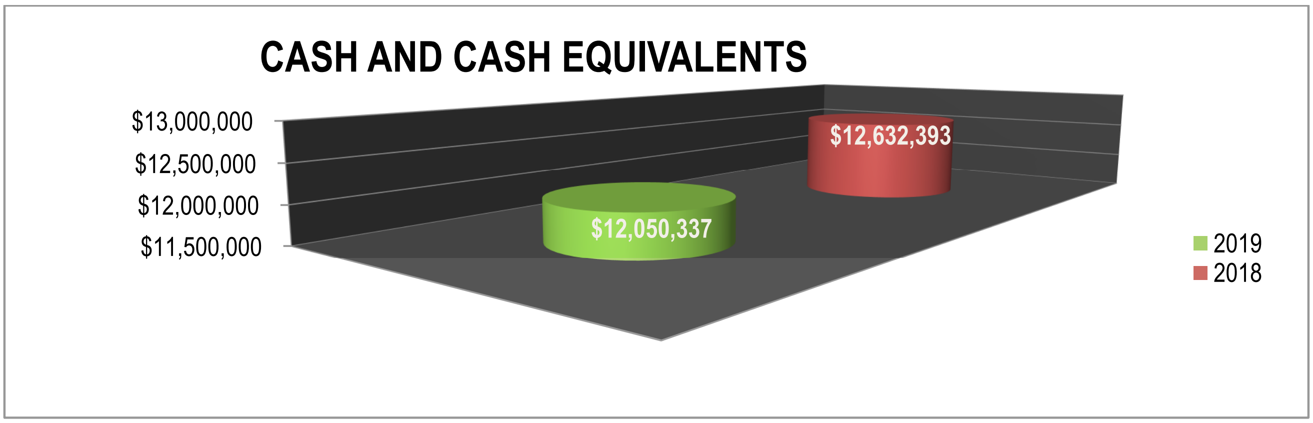


FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

Cash and Cash Equivalents

As of June 30, 2019, cash and cash equivalents consist of cash deposited in a commercial bank. At the end of fiscal year 2019, the **SWA** had a decrease of **$582,056** in cash and cash equivalents from **$12,632,393** in 2018 to **$12,050,337** in 2019 (see graphic below).

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets consist mostly of land and structures, the majority of which are acquired or constructed to provide alternatives for the collection and processing of solid waste. At the end of fiscal year 2019, the **SWA** had **$94,055,542** invested in a broad range of capital assets. This amount represents a net decrease, including additions and deductions, of **$5,121,024** over the prior year balance. The decrease in capital assets is mainly related to the current year depreciation expense of **$5,141,155.**

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2019	2018	Variance
Land	$ 12,966,607	$ 12,966,607	$ -
Building, Improvements, equipment and others, net	81,088,935	86,209,959	(5,121,024)
Total Capital Asset	$94,055,542	$99,176,566	$ (5,121,024)

FINANCIAL ANALYSIS OF THE SWA AS A WHOLE (CONTINUED)

Debt Administration

The **SWA** total long-term debt amounted to **$72,024,982** as of June 30, 2019. The following table shows a summary of outstanding long-term debts of the **SWA** as of June 30, 2019:

	Total Outstanding Balance	Current Portion
Non- revolving lines of credit	$ 50,237,237	$ -
Bond payable	7,786,109	1,013,481
Accrued compensated absences	314,437	160,363
Voluntary termination benefits	2,664,340	313,899
Due to other governmental entities	4,541,117	-
Net pension liability	6,312,258	468,613
Other post-employment benefits liability	169,484	23,151
Total noncurrent liabilities	$ 72,024,982	$ 1,979,507

As described on **Note 11, 12 and 21**, the **SWA** does not have currently have sufficient funds available to repay its various obligations as they come due or that are currently in default. Also, the **SWA** is a defendant in various lawsuits. It is the opinion of the **SWA** and its internal and external legal representatives that it is not possible to predict, as of the financial statements' date, the outcome of these lawsuits.

AUTHORITY'S BUDGET

For the fiscal year 2018-2019, the **SWA's** budget amounted to **$7,695,000** and consisted of a Commonwealth legislative resolution of **$3,483,000**, special state funds of **$266,000** and other income of **$3,946,000**.

ACCOUNTING FOR PENSION PLAN COSTS

As of July 1, 2016, the **SWA** adopted the provisions of the GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27"*, which was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The **SWA's** pension plan is administered by the Employees Retirement System Administration (ESR). The ESR issued its audited financial statements for the fiscal year ended June 30, 2016 (the plan's measurement date), and as a result, the **SWA** adopted the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the **SWA's** financial statements for the fiscal year ended June 30, 2016 were adjusted to recognize a net pension liability balance of **$14,383,309**, a deferred outflow balance of **$2,000,718** and a deferred inflow balance of **$1,767,395.** Accordingly, a prior period adjustment of **$14,149,986** was recorded restating the **SWA's** net position (deficit) balance as of July 1, 2016.

Subsequently, on July 1, 2017, the **SWA** and other participants of the ERS were converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. PayGo payments are recorded as expenditures\expenses in the financial statements. Accordingly, GASB Statement No. 68 provisions no longer applied to the ERS and at that date, the **SWA** shall implement the requirements set forth by GASB Statement No. 73 "Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within0 The Scope of GASB No. 68"

As of July 1 2018, the **SWA** adopted the provisions and requirements of the GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68", requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68.

The ESR issued its audited financial statements for the fiscal year ended June 30, 2018 (the plan's measurement date), and as a result, the **SWA** adopted the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the **SWA's** financial statements for the fiscal year ended June 30, 2019 were adjusted to recognize a net pension liability balance of **$6,312,258**, a deferred outflow balance of **$468,613** and a deferred inflow balance of **$874,928.**

In addition, As of July 1 2018, the **SWA** adopted the accounting and financial reporting requirements set forth in GASB Statement No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June Accordingly, the pension plan administrator has provided the **SWA** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (**SWA's** measurement date), necessary to comply with the requirements of GASB Statement No. 75. As a result, the financial statements o reported OPEB liability of **$169,484** and a deferred outflow of resources of **$23,151**.

ECONOMIC FACTORS

The **SWA** is financially dependent of the Commonwealth where more than eighty percent of its revenues comes from Commonwealth's appropriation. Management of the **SWA** has identified the financial condition of the Commonwealth of Puerto Rico, as an external matter that may affect the ability of the **SWA** to continue as a going concern.

As described on **Notes 15** and **19**, the Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession. These situations led to the closure of the Government Development Bank (GDB) that was the only external source of financing available to the **SWA**.

Also, the governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

  On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 *"The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)"* in order to empower the **SWA** to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the **SWA** the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the **SWA** shall be the legal successor of the President of the Government Development Bank for Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

ECONOMIC FACTORS (CONTINUED)

- ***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

  On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 *"Puerto Rico Financial Emergency and Fiscal Responsibility Act"* to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico***

  On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options.

  On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made. On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government's proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan.

ECONOMIC FACTORS (CONTINUED)

- ***Filing of Title III of PROMESA for the District of Puerto Rico***

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filling was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017, another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA") and, on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

In addition, on September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure $35 million of debt and other claims against the Commonwealth to $12 billion, the Public Building Authority, and the Employee Retirement System, and more than $50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statements were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

- ***Hurricanes Irma (DR-4336) and María (DR-4339)***

During the month of September 2017, Puerto Rico suffered the passing of Hurricane Irma and María, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. The Island was declared a major disaster area by the President of the United States on September 20, 2017 and approximately **$508** million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricanes, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

ECONOMIC FACTORS (CONTINUED)

- ***Hurricanes Irma (DR-4336) and María (DR-4339) (Continued)***

  The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA) on the recovery of the Island, but the recuperation efforts have taken several months in other to bring back a certain level of normalcy to the everyday life of Puerto Rico's citizens. The U.S. President and Congress have been working on the assignment of federal assistance of approximately **$94** million, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

- **Puerto Rico Covid-19 Pandemic (DR-4493)**

  On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic.

  On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity.

  On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020, and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19.

CONTACTING THE ADMINISTRATION FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the **SWA's** finances and to show the **SWA's** accountability for the funds it receives. If you have questions about this report or need additional information, contact the Management Affairs Director or Finance Director at (787) 765-7575.

Assets and deferred outflows of resources	
Current assets:	
Cash and cash equivalents	$ 12,050,337
Accounts receivable, net of allowance for doubtful accounts	2,159,235
Total current assets	14,209,572
Non current assets:	
Due from Commonwealth of Puerto Rico	404,621
Capital assets, net of accumulated depreciation	94,055,542
Total non-current assets	94,460,163
Total assets	108,669,735
Deferred outflows of resources	
Pension related	468,613
Other post-employment benefits related	23,151
Total assets and deferred outflows of resources	$ 109,161,499
Liabilities, deferred inflows of resources and net position (deficit)	
Current liabilities:	
Current portion of long-term obligations:	
Accrued compensated absences	$ 160,363
Voluntary termination benefits	313,899
Bond payable	1,013,481
Total pension liability	468,613
Other postemployment benefits liability	23,151
Accounts payable, trade	4,289,413
Accrued liabilities	24,768,464
Due to federal government	4,540,874
Due to governmental entities	3,687,438
Total current liabilities	39,265,696
Non-current liabilities:	
Non-revolving lines of credit	50,237,237
Bond payable	6,772,628
Due to other governmental entities	4,541,117
Accrued compensated absences	154,074
Voluntary termination benefits	2,350,441
Total pension liability	5,843,645
Other postemployment benefits liability	146,333
Total non-current liabilities	70,045,475
Total liabilities	109,311,171
Deferred inflows of resources	
Pension related	874,928
Net position (deficit):	
Net investment in capital assets	22,194,275
Unrestricted	(23,218,875)
Total net position (deficit)	(1,024,600)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 109,161,499

See accompanying note to the financial statements

Operating revenues and other credits	
Contract revenues	$ 749,726
Recapture of deposits from governmental bank	21,705,776
Miscellaneous	142,300
Total operating revenues and other credits	22,597,802
Operating expenses	
Depreciation and amortization	5,141,155
General and administrative	3,203,517
Educational campaign	5,870
Insurance	120,073
Repairs and maintenance	67,281
Bad debts	1,586,734
Rent	7,246
Net effect of pension transactions	(6,812,453)
Total operating expenses	3,319,423
Operating income before non-operating revenues (expenses)	19,278,379
Non-operating revenues (expenses)	
Interest and dividend income	145,093
Emergency Grants from Federal Government	314,104
Federal Expenditures	(176,619)
Interest expense	(4,538,540)
Contributions from the Commonwealth of Puerto Rico	3,542,349
Total non-operating revenues (expenses)	(713,613)
Change in net position (deficit)	18,564,766
Net position (deficit) at beginning of fiscal year, as restated	(19,589,366)
Net position (deficit) at end of fiscal year	$ (1,024,600)

See accompanying note to the financial statements

Cash flows from operating activities		
Cash received from contracts and others	$	734,478
Cash paid to suppliers and others		(3,523,206)
Cash paid for salaries and fringes		(1,517,087)
Net cash provided by operating activities		(4,305,815)
Cash flows provided by non-capital financing activities		
Contributions from the Commonwealth of Puerto Rico		3,542,349
Net cash provided by non-capital financing activities		3,542,349
Cash flows from capital and related financing activities		
Purchase of property and equipment		(20,131)
Net cash used in capital and related financing activities		(20,131)
Cash flows from investing activities		
Interest and dividends received		201,544
Net cash provided by investing activities		201,544
Net decrease in cash and cash equivalents		(582,053)
Cash and cash equivalents at beginning of fiscal year		12,632,393
Cash and cash equivalents at end of fiscal year	$	12,050,340
Reconciliation of operating loss to net cash used in operating activities		
Operating income before non-operating revenues and contributions	$	19,278,379
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization		5,141,155
Bad debts		1,586,734
Recapture of deposits from governmental bank		(21,705,776)
Net effect of pension transactions		(6,812,453)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		(157,548)
Other assets		132,782
Deferred outflows of resources		(133,991)
Increase (decrease) in liabilities:		
Accounts payable and due to governmental agencies		(655,561)
Accrued liabilities		(91,921)
Deferred inflows of resources		874,928
Net pension liability		(1,530,000)
other post-employment benefits liability		12,188
Voluntary benefits		(244,731)
Total adjustments		(23,584,194)
Net cash used in operating activities	$	(4,305,815)

See accompanying note to the financial statements

1. REPORTING ENTITY

The Solid Waste **SWA** (the **SWA**) is a public corporation and a governmental instrumentality of the Commonwealth of Puerto Rico, created by Law No. 70 of June 23, 1978, as amended. The main purpose of the **SWA** is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the **SWA** has the responsibility of educating the community in this respect as well as the implementation of the required programs needed for the reduction and reuse of solid waste.

Pursuant to the Reorganization Plan Number 1 of 1993, the **SWA** is under the oversight of the Department of Natural and Environmental Resources of Puerto Rico (the Department). The Secretary of the Department is the President of the Governing Board of the **SWA**.

For these purposes, it will put into effect programs for the use and conservation of the environment and natural resources of Puerto Rico in accordance with the provisions of Act 416-2004, as amended, known as the "Environmental Public Policy Act."

On August 2, 2018, Law No. 171 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), those faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the EQB"), the Solid Waste Authority (hereinafter "the **SWA**") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the PNP"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017. The Department shall be responsible for implementing the public policy of the Government of Puerto Rico contained in section 19 of Article VI of the Constitution.

As of the date of the financial statement, the Department has not finished the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the Department and the **SWA** are kept using different accounting systems and internal controls. Also, the Department uses the cash method basis of accounting, while **SWA** uses the accrual method of accounting for financial statement presentation.

On July 1st, 2019, the Puerto Rico Treasury Department created a set of accounts to recognize the transactions of the EQB as a part of the Department on the PRIFAS Accounting System in order to consolidate the accounting records as a part of the Reorganization Plan.

1. REPORTING ENTITY (CONTINUED)

Also, on September 6, 2019, the Secretary of the Department issued an Administrative Order No. 2019-04 to establish the process to finish the reorganization of the Department under the provisions of Law No. 171-2018.

The **SWA** financial statements are prepared using the accrual method of accounting, which is a different method of accounting from the method used by the Department (Cash Basis). Accordingly, the financial statements of the **SWA** cannot be consolidated and presented in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2019. Accordingly, the financial statements of the **SWA** presented herein, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only to that portion attributable to the transactions of the **SWA**.

They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users for the services provided by the operations. Proprietary funds distinguish operating revenues and expenses that generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

b) Basis of Presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments"* (GASB 34), as amended, which establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of 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 amount of revenues and expenses during the reported period. Actual results may differ from those estimates.

d) Statement of Cash Flows

The **SWA** prepares its Statement of Cash Flows using the direct method. For the purpose of this statement, the **SWA** includes as cash equivalents all unrestricted and restricted highly liquid debt instruments with original maturities of three months or less at time of purchase.

e) Fair Market Value

The carrying amounts reported in the Statement of Net Position for cash and cash equivalents and receivables approximate fair value due to their short-term duration.

f) Non-exchange Transactions

GASB Statement No. 33, *"Accounting and Financial Reporting for Non-exchange Transactions"* established accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this Statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

g) Contract Revenues

Contract revenues arise from the lease of heavy equipment to different municipalities of Puerto Rico for the collection of solid waste and the operations of landfills, and with other agencies, principally the Department of Natural and Environmental Resources, for the collection of debris and vegetative materials.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less, excluding resources held in restricted accounts. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledge as collateral, if any, are held by the Secretary of the Treasury of the Commonwealth.

i) Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

j) Investments

The **SWA** is permitted by law to invest on eligible corporations related to solid waste management. Investments in preferred stocks of such corporations, if any, are recorded at acquisition cost, as these are not held for investment purposes or to generate profit or gain on the investment, but rather as an incentive to assist organizations related to waste management.

k) Capital Assets

Capital assets, consisting mostly of land and structures, the majority of which are used to provide alternatives for the collection and processing of solid waste, are carried at cost. Donated capital assets are recorded at their acquisition value \ entry price (the price that would be paid to acquire an assets with equivalent service potential in a orderly market transaction at the acquisition date). Major renewals and betterments that materially extend the capacity or efficiency or extend the useful life of an asset are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are charged to expense in the period incurred. Upon retirement or other disposal of properties, the related cost and accumulated depreciation and amortization are removed from the accounts. Gains or losses on sales or retirement of properties are reflected in the statement of revenues, expenses, and changes in net position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Capital Assets (Continued)

The **SWA's** capital assets are depreciated or amortized over the estimated useful lives of the related assets or the term of the lease agreement, whichever is shorter, using the straight-line method. Construction in progress, if any, is carried at cost during the construction stage and is not depreciated until completion of the related project. Major classification and related estimated useful lives of the capital assets are summarized as follows:

	Estimated Useful Lives
Buildings	30 years
Building improvements	30 years
Mini transfer stations	30 years
Project equipment	5 to 10 years
Vehicles	5 years
Furniture and fixtures	2 to 5 years

Impairment of Capital Assets

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The **SWA** shall periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fiscal year 2018, management evaluated the costs incurred in construction in progress and determined various projects to be impaired. However, the **SWA** have not evaluated its capital assets being depreciated to determine a possible impairment that might have been caused by Hurricanes Irma and María. Accordingly, a possible impairment on capital assets value has not been identified, and a provision for impairment loss have not been recognized for any damage occurred during the emergency.

l) Accrued Compensated Absences

On February 4, 2017, the Government enacted Law No. 8 for the *"Administration and Transformation of the Human Resources of the Government of Puerto Rico"*. This Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Accrued Compensated Absences (Continued)

However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days. The vacations policy of the **SWA** generally provides for the annual accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacations days up to the maximum allowed of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days. A liability is reported for accrued but unused vacation and sick leave days.

m) Accounting for Pension Costs

The **SWA** adopted the Provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and amendments to Certain Provisions of GASB Statement No. 67 and 68*. With the enactment of Act No. 106 of 2017, and as a result of the insolvency and bankruptcy filing of the Puerto Rico Employee Retirement System (ERS), the pension liability is being settled under a PayGo system more fully disclosed in **Note 13.** Under the PayGo system, the **SWA** and other component units of the Commonwealth that participated in the ERS, assume their proportional share of the total pension liability and of benefits paid monthly. Deferred outflows and inflows of resources are recorded for the effect of changes in assumptions and contributions made subsequent to the measurement date, among other.

n) Accounting for other postemployment benefits (“OPEB”)

The **SWA** adopted the Provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* As required OPEB transactions should be accounted based on its proportional share of the total OPEB liability, and OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share which are recognized immediately during the measurement year.

For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The SWA’s contribution for OPEB is included as part of the “Paygo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). “Paygo” payments are recorded as expenditures\expenses in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Net Position

Net Position has been reported pursuant to the provisions of GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net position for which constraints are imposed by the constitutional provisions or enabling legislation. The classification of restricted net position identifies resources that have been received or earned by the **SWA** with an explicit understanding between the **SWA** and the resource providers that the resources would be used for specific purposes. Grants contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes. In the Statement of Net Position, The **SWA's** net position is segregated into two (2) categories:

a. **Net investment in capital assets:** Represents the component of the net position that consists of capital asset balances net of accumulated depreciation and amortization reduced by the outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds, if any).

b. **Unrestricted net position:** Represents the component of the net position that does not meet the definition of net investment in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the Statement of Net Position.

p) Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has an item that may qualify for reporting in this category:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Deferred outflows/inflows of resources (Continued)

- **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on the Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

- **Deferred outflows/inflows of resources related to pensions -** Amounts reported for changes in calculation of net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the **SWA's** contributions and proportionate share contributions; and e) **SWA's** contributions subsequent to the measurement date.

3. CASH AND CASH EQUIVALENTS

Deposits - The **SWA** is authorized to deposit only in bank institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the **SWA**. Under the Commonwealth's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The **SWA** maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the **SWA** are held by agents designated by the Puerto Rico Secretary of Treasury but not in the **SWA's** name. Total deposits in banks as of June 30, 2019, amounted to **$12,050,337**.

4. ACCOUNTS RECEIVABLE

As of June 30, 2019, accounts receivable consisted of the following:

Puerto Rico Department of Natural and Environmental Resources	**$ 5,149,781**
Puerto Rico Environmental Quality Board	**5,638,387**
Other governmental entities and municipalities	**5,225,577**
Others	**3,388,828**
Total accounts receivable	**19,402,573**
Allowance for doubtful accounts	**(17,243,338)**
Net accounts receivable balance	**$ 2,159,235**

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, were as follow:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 12,966,607	$ -	$ -	$ 12,966,607
Total capital assets, not being depreciated	12,966,607	-	-	12,966,607
Capital assets, being depreciated:				
Buildings	93,979,993	-	-	93,979,993
Mini transfer stations	49,826,500	-	-	49,826,500
Project equipment	12,528,422	-	-	12,528,422
Building improvements	15,009,137	-	-	15,009,137
Office furniture	7,308,365	20,131	-	7,328,496
Motor vehicles	476,007	-	-	476,007
Leasehold improvements	262,629	-	-	262,629
Total capital assets, being depreciated	179,391,053	20,131	-	179,411,184
Less accumulated depreciation for:				
Buildings	(42,623,665)	(3,132,666)	-	(45,756,331)
Mini transfer stations	(24,370,416)	(1,404,369)	-	(25,774,785)
Project equipment	(11,747,341)	(96,840)	-	(11,844,181)
Building improvements	(6,411,947)	(499,800)	-	(6,911,747)
Office furniture	(7,289,089)	(7,480)	-	(7,296,569)
Motor vehicles	(476,007)	-	-	(476,007)
Leasehold improvements	(262,629)	-	-	(262,629)
Total accumulated depreciation	(93,181,094)	(5,141,155)	-	(98,322,249)
Total capital assets, being depreciated, net	86,209,959	(5,121,024)	-	81,088,935
Capital assets, net	$ 99,176,566	$ (5,121,024)	$ -	$ 94,055,542

5. CAPITAL ASSETS (CONTINUED)

As discussed in **Note 17,** during the month of September 2017 Puerto Rico suffered the passing of hurricanes Irma and Maria which caused a catastrophic impact through the Island. As of June 30, 2019, the **SWA** has not evaluated the impact of the damages caused by these hurricanes on capital assets being depreciated. Accordingly, any possible impairment on its assets has not been identified and a provision for loss on impairment of assets has not been recognized for any damage occurred.

6. ACCRUED LIABILITIES

The balance accrued liabilities as of June 30, 2019, consists of the following:

Interest payable on lines of credit and bonds	$ 24,644,344
Other accrued liabilities	124,120
Total accrued liabilities at end of year	$ 24,768,464

7. DUE TO GOVERNMENTAL ENTITIES

The balance due to governmental entities as of June 30, 2019, was as follows:

Puerto Rico Electric Power Authority	$ 3,386,991
Puerto Rico Aqueduct and Sewer Authority	57,202
Puerto Rico Department of Natural Environmental Resources	217,164
Employees' Retirement System of the Commonwealth of Puerto Rico	7,987
Puerto Rico Commonwealth Employees Association	14,118
Other governmental entities	3,976
Due to governmental entities – current	**$ 3,687,438**
State Insurance Fund Corporation	$ 4,541,117
Due to other governmental entities	**$ 4,541,117**

8. LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance	Borrowings and/or additions	Payments and/or deductions	Ending Balance	Balance Due within One year
Non-revolving lines of credit	$ 71,861,267	$ 81,746	$ 21,705,776	$ 50,237,237	$ -
Bonds payable	7,793,027	-	6,918	7,786,109	1,013,481
Accrued compensated absences	402,051	-	87,614	314,437	160,363
Voluntary termination benefits	2,909,071	-	244,731	2,664,340	313,899
Total pension liability	15,894,906	-	9,582,648	6,312,258	468,613
Other post-employment benefits liability	-	169,484	-	169,484	23,151
Due to other governmental entities	4,541,117	-	-	4,541,117	-
Total	$ 103,401,439	$ 251,230	$ 31,627,687	$ 72,024,982	$ 1,979,507

9. NON-REVOLVING LINES OF CREDIT

On January 4, 2000, the **SWA** entered into a loan agreement with the Government Development Bank for Puerto Rico (GDB) for a non-revolving line of credit in an amount not to exceed **$112,000,000** for the development of infrastructure projects. Infrastructure project costs incurred are disbursed by the GDB to the **SWA**. The interest, based on the lender's cost of funding for tax exempt variable rate loan transactions or the cost of any similar obligations to fund the loan, is payable quarterly. The credit line was due originally and payable on June 30, 2006. On December 4, 2007, the availability of the credit line was extended to June 30, 2009. On November 23, 2009, it was extended to June 30, 2012. On June 27, 2012, it was extended to June 30, 2040. The outstanding balance at June 30, 2019 amounted to **$19,528,716**, net of the set-off transaction described below.

On May 5, 2003, the **SWA** entered into a loan agreement related to another non-revolving line of credit in an amount not to exceed **$75,000,000** with the GDB of Puerto Rico for the acquisition of building facilities (See **Note 6**). The credit line carries interest based on quarterly variable LIBOR rate plus **1.25%** with a minimum annual interest rate of five percent (5%). On June 26, 2008, the availability of the credit line was extended to June 30, 2011. To temper the terms and conditions of the line of credit to economic facts of the Commonwealth of Puerto Rico, on January 29, 2010 the availability was extended to June 30, 2012. On June 19, 2012, it was extended to June 30, 2040.The outstanding balance at June 30, 2019 amounted to **$30,708,521**, net of the setoff transaction described below.

9. NON-REVOLVING LINES OF CREDIT

On November 29, 2018, the Government Development Bank for Puerto Rico ("GDB") completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). Pursuant to the Qualifying Modification and Act No. 109-2017, as amended (the "GDB Restructuring Act"), claims on account accounts of deposits of **$21,624,030** held by **SWA** at GDB were applied to the payment of debts that **SWA** had at November 29, 2018 with GDB (the "Set-off Transaction). Following is the activity of the credit lines owned by **SWA** to GDB during the fiscal year ended June 30, 2019, including the effect of the Set-off transaction described before:

Non-revolving credit line of **$112,000,000**:	
Balance at beginning of year	**$ 27,934,622**
Set-off transaction	**(8,405,906)**
Balance at end of year	**$ 19,528,716**
Non-revolving credit line of **$75,000,000**:	
Balance, beginning of year	**$ 43,926,645**
Set-off transaction	**(13,218,124)**
Balance at end of year	**$ 30,708,521**
Total line of credit balances at end of year	**$ 50,237,237**

The remaining balance the credit lines, after the Set-off Transaction, were transferred to a newly formed statutory public trust created pursuant to the GDB Restructuring Act, known as the GDB Debt recovery Authority (the "DRA"). Also, as of June 30, 2019, the **SWA** has accrued interest payable in arrears of **$22,971,058** related to the lines of credits remaining outstanding balances.

10. BONDS PAYABLE

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately **$2.4** billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed **$225** million. This refunding was originally executed with Commonwealth appropriation bonds through several series issued by Puerto Rico Public Finance Corporation (PFC) during the period between December 2001 and June 2002. Subsequently, additional refunding's (current and advance) and/or redemptions of the Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

11. BONDS PAYABLE (CONTINUED)

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the "Tax Financing Corporation"). Act No. 91 was amended by Act No. 291 of December 26, 2006, and by Act No. 56 of July 6, 2007. The purpose of the Tax Financing Corporation is to finance the payment, retirement, or defeasance of certain debt obligations of the Commonwealth, outstanding as of June 30, 2006, which are payable to the GDB and PFC.

During the year ended June 30, 2008, the Tax Financing Corporation issued 2007 Series A, B and C and 2008 Series A Bonds, and with those proceeds refinanced certain obligations of the Commonwealth of Puerto Rico. The bond discount/premium in proportion with the portion of the bonds not refunded or not retired in connection with the above transactions, remained in the statement of net position and continued to be deferred throughout the remaining term of the non-refundable portion of the bonds.

The aggregate debt service requirements of the refunding and non-refundable bonds will be funded with annual appropriations from the Commonwealth.

During the year ended June 30, 2012, the PFC refinanced the debt of the **SWA** by the issuance of 2011 Series A, 2011 Series B and 2012 Series A. The outstanding balance of the bond at June 30, 2019 was **$7,786,109** (including the premium on bond refunding and the deferred losses arising from bond refunding) and matures on June 30, 2031. Interest on the unpaid principal amount of the bond is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds.

Applicable percentage is the percentage representing the proportion of the amount paid by the PFC of the PFC Bonds serviced by the bond to the aggregate amount paid by the PFC on all PFC Bonds issued by the PFC. The bonds will be paid from legislative appropriations.

In addition, during the year ended June 30, 2012, the Puerto Rico Sales Tax Financing Corporation contributed approximately **$3.9** million for the payment of principal and interests due on such bond payable. Such transactions have been reflected as a contribution from the Puerto Rico Sales Tax Financing Corporation during that year.

11. BONDS PAYABLE (CONTINUED)

Aggregate maturities and interest payments of the bonds for the next five (5) years and thereafter, are as follows:

Year ending June 30,	Principal	Interest	Totals
2020	$ 1,013,481	$ 2,072,058	$ 3,085,539
2021	215,897	389,512	605,409
2022	225,299	379,404	604,703
2023	235,552	368,372	603,924
2024	70,079	363,529	433,608
2025-2029	4,568,250	1,407,076	5,975,326
2030-2031	1,449,338	80,809	1,530,147
Total	7,777,896	5,060,760	12,838,656
Add: Premiums on bond refunding	8,213	-	8,213
Total	$ 7,786,109	$ 5,060,760	$ 12,846,869

As mentioned before, the Commonwealth of Puerto Rico and its instrumentalities are currently facing a severe fiscal and liquidity crisis. Continued operational deficits and lack of access to capital markets have resulted in delays in the repayment of loans outstanding by the Commonwealth and its instrumentalities. As a result of this fiscal and liquidity crisis, the Commonwealth of Puerto Rico defaulted on the principal and interest payments due on its general obligation bonds.

During the fiscal years ended June 30, 2019, 2018, 2017 and 2016, the **SWA** has defaulted on the payment of principal and interest of its bonds obligation by the amount of **$806,166** and **$1,673,286**, respectively.

12. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the **SWA**. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from **37.5%** to **50%** of each employee's salary, as defined. In this early retirement benefit program, the **SWA** will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service. Economic incentives were available to eligible employees who had less than 15 years of credited service or who had at least 30 years of credited services and the age for retirement; or for those who had the age for retirement.

Economic incentives consisted of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the **SWA**. The financial impact resulting for the benefits granted to participants on this program is the recognition within the **SWA's** financial statements of a liability of **$2,664,340** in the Statement of Net Position (Deficit) as of June 30, 2019. At that date, the unpaid long-term benefits granted on this program were discounted at **2.50%**.

13. PENSION PLAN

On August 23, 2017, Act No. 106 was enacted, which is known as the "Law to Guarantee Payment to our Pensioners". Under this Act, starting July 1, 2017, the General Fund, through the system of "pay-as-you-go" (PayGo), assumes the payments of the three Retirement Systems (Employees Retirement System [ERS] of the Government of the Commonwealth, the Teachers' Retirement System and Judiciary Retirement System), because the retirement plan have depleted the assets set aside to pay benefits.

The SWA will assume the proportionate share of the pension benefits of the **SWA's** retirees. Under Act No. 106, active employees will be required to contribute a minimum of **10%** of their compensation, into a defined contribution plan, with no employer matching. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution and hybrid plans, as discussed below.

13. PENSION PLAN (CONTINUED)

Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account.

Before Act No. 106, the **SWA's** employees participated in a cost-sharing, multi-employer defined-benefit pension plan administered by the Puerto Rico Government Employees (the ERS Administrator). The ERS, is a trust created by Act No. 447 of May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth, non-substantially depleted.

The ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer defined-benefit program, a defined-contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions where different depending on member's date of hire. Substantially, all full-time employees of the **SWA** were covered by the ERS. Membership was mandatory for all regular, appointed, and temporary employees of the **SWA** at the date of employment.

The ERS also provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer Christmas bonuses. Act No. 3-2013 and Act No. 160-2013 amended the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On June 30, 2016, the federal Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") was enacted. This US federal law established a Financial Oversight and Management Board (the Oversight Board), a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to combat the debt crisis in the Commonwealth.

On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed in the United States District Court for the District of Puerto Rico voluntary petition under Title III of PROMESA for the Puerto Rico Highway and Transportation Authority and the ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

13. PENSION PLAN (CONTINUED)

As of June 30, 2019, the **SWA** disclosed a liability of **$6,312,258** for its proportionate share of the total pension liability. This liability was determined as of June 30, 2018 (measurement date), based on the requirements of the GASB Statements No. 73. Accordingly, this total pension liability is recorded in the **SWA's** accounting records as of June 30, 2019. The amount was measured as of June 30, 2018 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018. The **SWA's** share of the total pension liability was based on a projection of the **SWA's** long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of June 30, 2018 and 2017, the **SWA's** proportionate share was **.02578%** and **.02780%**, respectively. Pension expense (benefit) amounted to **($2,160,108)** for the fiscal year ended June 30, 2019.

Also, as of June 30, 2019, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ -	$ 190,915
Changes of assumptions	-	206,992
Changes in proportion	-	477,021
Benefit payments subsequent to measurement date	468,613	-
Total	$ 468,613	$ 874,928

13. PENSION PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2018 will be recognized in pension expense (benefit) in future years as follows:

Year ending June 30,	Amount
2020	$ 174,985
2021	174,985
2022	174,985
2023	174,985
	$ 699,940

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	**3%** per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-20117, four-year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2018 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

13. PENSION PLAN (CONTINUED)

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **92%** of the rated from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement.

The 2010 base rates are **105%** of the rates from the UP-1994 Mortality Table for Males and **115%** of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 01, 2015 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, 2005 and 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

Discount Rate

The discount rate was **3.87%** on June 30, 2018. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

13. PENSION PLAN (CONTINUED)

Sensitivity of the SWA's total pension liability to changes in the discount rate

The following table presents the **SWA's** total pension liability calculated using the discount rate of **3.87%,** as well as what it would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 2.87%	At Current Discount Rate 3.87%	1% Increase 4.87%
Total pension liability	$ 7,182,861	$ 6,312,258	$ 5,605,758

Effective July 1, 2017, the Commonwealth of Puerto Rico, its component units and municipalities implemented a "pay-as-you-go" (PayGo) system for the payment of pensions pursuant to Circular Letter No. 1300-46-17 issued by the Department of Treasury of the Commonwealth of Puerto Rio (CL-1300-46-17). Act No. 106 of August 23, 2017 (Act No. 106-2017) provided the legal framework for the Commonwealth of Puerto Rico to implement the PayGo system. Pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers' contributions and the Additional Uniform Contribution were eliminated.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **SWA** is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to **$100** per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The **SWA's** contribution is financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of the SWA's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

Total OPEB Liability and Actuarial Information

The **SWA's** total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial assumptions

Discount rate

The discount rate for June 30, 2019 was **3.87%.** This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis.

For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of improvement. The 2010 base rates are equal to **92%** of the rates from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees-based experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **105%** of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the **SWA** at June 30, 2018, calculated using the discount rate of **3.87%,** as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower **(2.87%)** or 1-percentage point higher **(4.87%)** than the current rate:

	1% Decrease 2.87%	At Current Discount Rate 3.87%	1% Increase 4.87%
Total OPEB liability	$ 185,889	$ 169,484	$ 155,554

OPEB expense (benefit) for the year ended June 30, 2021 amounted to **($1,694)**.

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, the **SWA** recognized Deferred Outflows of Resources of **$23,151** as of June 30, 2019 due to OPEB benefits paid subsequent to the measurement date.

15. CONTINGENCIES

a) Litigations

The **SWA** is a defendant in lawsuits arising in the normal course of operations, principally from claims for contract cancellations. According to the laws of the Commonwealth of Puerto Rico, the **SWA** is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the **SWA**. Any claims with negative financial impact would be paid from the resources of the **SWA** and the Commonwealth of Puerto Rico.

b) Environmental Concern

The **SWA's** operations include activities which are subject to state and federal environmental regulations. As of June 30, 2019, management of the **SWA** believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements.

15. CONTINGENCIES (CONTINUED)

c) Closure and Post-closure Care Costs

The **SWA** administers a tract of land in the Municipality of Lajas, Puerto Rico, to deposit acceptable sludge. The Commonwealth of Puerto Rico and federal laws and regulations require certain procedures when the tract of land stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. Subsequent to June 30, 2007, the **SWA** commenced the closing of this tract of land. The **SWA's** management has estimated the obligation for closure and post-closure care costs at **$80,000**, based on the nature of the waste being deposited. However, as of June 30, 2019, management of the **SWA** believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements. Also, no studies have been performed by outside independent sources to evaluate the amount estimated and if changes are currently needed in the cost estimated by management for the closing of this tract of land facility.

d) Federal Grants

During the normal course of its operations, the **SWA** sometimes receives grants from the Environmental Quality Board and the Federal Emergency Management Agency. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

e) Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In general, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a Control Board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

To ensure fiscal and economic discipline, PROMESA creates a federally appointed Oversight Board that has plenary authority over Puerto Rico's finances. The Oversight Board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets. The Oversight Board also has oversight over legislative processes, because PROMESA requires the Oversight Board to review new Acts and deny their enforcement, if they are inconsistent with the approved fiscal plans and budgets. The Oversight Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

15. CONTINGENCIES (CONTINUED)

e) Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) (Continued)

The enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions. In addition, PROMESA contains two (2) mechanisms to adjust Puerto Rico's debts. The first mechanism is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. The second mechanism is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenue or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long term basis. Accordingly, there is no assurance that the federally appointed Oversight Board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

The Oversight Board, at its meeting on September 30, 2016, designated a list of entities as initial covered entities subject to the provisions of PROMESA. The list of entities corresponds to the entities included in the Commonwealth's 2014 Comprehensive Annual Financial Report, adjusted to reflect entities that have been merged, eliminated or created since its publication. The **SWA** is included on the list of covered entities. The Oversight Board must evaluate and approved certain transactions of the covered entities under the provisions of PROMESA.

f) GDB Qualifying Modification under Title VI of PROMESA

On March 23, 2018, The Governmental Development Bank for Puerto Rico (GDB) ceased its operations. Also, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash.

15. CONTINGENCIES (CONTINUED)

f) GDB Qualifying Modification under Title VI of PROMESA (Continued)

In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the **SWA** (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date.

As a result of the foregoing adjustment, all of the **SWA's** deposits at GDB were extinguished as a result of the Qualifying Modification. Due to the closing of the Qualifying Modification and the wind-down of GDB, the **SWA** will also no longer be able to rely on GDB for future liquidity.

16. COMMITMENTS

a) Strategic Plan for Recycling

The **SWA** initiated in years prior to the year ended June 30, 2014, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $**112** million (See **Note 11**). The first stage consists of the construction of thirty-nine (39) projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico. The credit lines under the agreement were paid by the Treasury Department through joint resolutions approved by the Legislature of Puerto Rico. Due to the lack of funding, the **SWA** has discontinued with the planning and construction of the projects.

During June 2015, the **SWA** updated the line of credit drawdown schedule and presented disbursements projection for infrastructure projects. Total remaining estimated costs amounting to **$29,519,343** were identified and assigned for the development and construction of projects related to the solid waste management.

As described on **Notes 15** and **19**, the Commonwealth of Puerto Rico and its instrumentalities are currently facing a severe fiscal and liquidity crisis. Accordingly, the completion of these projects is dependent upon the assignment of funds to the **SWA** by the Commonwealth of Puerto Rico.

16. COMMITMENTS (CONTINUED)

b) Dynamic Itinerary for Infrastructure Projects

During May, 2008, the **SWA** approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. The **SWA** proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico.

The projects proposed in the itinerary includes programs to develop facilities for the recovery of recyclable materials (MRP's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansions to sanitary stuffing systems (SRS). The development of those projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately **$1.9** billion. The **SWA** projects that financing for these projects will come from both the public and private sectors.

As described on **Notes 15** and **19**, the Commonwealth of Puerto Rico and its instrumentalities are currently facing a severe fiscal and liquidity crisis. Accordingly, the completion of these projects is dependent upon the assignment of funds to the **SWA** by the Commonwealth of Puerto Rico.

17. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost **$3.9** million dollars in public assistance grants have been obligated. Just two weeks after Hurricane Irma, on September 17, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately $**508** million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

17. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339) (CONTINUED)

In order to promote an adequate disposal of the debris caused by these catastrophic events, the **SWA** established various temporary debris gathering centers for the receiving, processing and disposition of vegetative matter collected from its dependencies and for those municipalities, which request this service to the authority. The Federal Emergency management Administration (FEMA) made an obligation of funds of **$7.5** million to provide funding for the operation of the temporary debris gathering centers established by the **SWA**.

During the fiscal year June 30, 2018, the **SWA** received funds amounting to **$5,549,569** from FEMA (**$220,764** from DR-4336 and **$5,328,805** from DR-4339). The **SWA** expended **$809,304** and **$176,619** during fiscal year 2018 and 2019 respectively, and recognized a due to federal government balance of **$4,540,874** at June 30, 2019, as follows:

	Due to Federal Government June 30, 2018	Amount of change	Due to Federal Government June 30, 2019
DR-4336	$ 58,008	$ -	$ 58,008
DR-4339	4,659,485	(176,619)	4,482,866
	$ 4,717,493	$ (176,619)	$ 4,540,874

As of the date of the financial statements, SWA's management is in the process of the close-out of this program. Accordingly, the available and unused funds as of June 30, 2019, will be returned to the federal agency.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standard Board has issued the following accounting standards that have effective dates after June 30, 2019 for the SWA:

- **GASB Statement No. 83, *"Certain Asset Retirement Obligations"*:** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

  This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 88, *"Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements"*:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

  This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

  This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

  For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 84, *"Fiduciary Activities"*:** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

  This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 87, *"Leases"*:** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

- **GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the End of a Construction Period"*:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the End of a Construction Period" (Continued)*:**

  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.

  Also, 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 are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 90, *"Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61"*:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 90, "Majority Equity Interest – An Amendment of GASB Statements No. 1*4 and 61 (Continued)***

  This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

  Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- **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 (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) 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 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. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 92, "*Omnibus 2020*" -** Effective Date: The requirements of this Statement are effective as follows:

  The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

  The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

  The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

  The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

  Earlier application is encouraged and is permitted by topic.

- **GASB Statement No. 93, *"Replacement of Interbank Offered Rates"* -** Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (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 objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 93, *"Replacement of Interbank Offered Rates" (Continued):***

    - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

    - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

    - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap

    - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap

    - Clarifying the definition of reference rate, as it is used in Statement 53, as amended

    - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

    The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements" -*** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, 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), which the Board defines in this Statement as a PPP in which (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.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements" (Continued):***

  This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

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

- **GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance"* -** The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

  That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

  - Statement No. 83, Certain Asset Retirement Obligations.
  - Statement No. 84, Fiduciary Activities.
  - Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
  - Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
  - Statement No. 90, Majority Equity Interests.
  - Statement No. 91, Conduit Debt Obligations.
  - Statement No. 92, Omnibus 2020.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance" (Continued):**

  - Statement No. 93, Replacement of Interbank Offered Rates.
  - Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
  - Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
  - Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
  - Implementation Guide No. 2019-2, Fiduciary Activities.

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

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

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

- **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. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

  A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements" (Continued):***

  Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable.

  A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

  This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

  Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

- **GASB Statement No. 97, "*Certain Component Unit 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.

18. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 97, "*Certain Component Unit 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" (Continued)***

  This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should 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.

  This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. 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*.

The impact of the implementation of these Statements on the **SWA's** financial statements, if any, has not yet been determined.

19. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN

The Commonwealth of Puerto Rico and its instrumentalities currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits. Also, this crisis has adversely affected the liquidity position of the GDB to comply with the repayment of its obligations. As a result this matter, the management of the Commonwealth and the GDB have determined that a substantial doubt exist as to GDB's ability to continue as a going concern. As described in **Notes 3** and **4**, on October 18, 2016, the Puerto Rico Department of Treasury issued the Circular Letter No. 1300-08-17, which provides guidance for the calculation of an impairment loss on the deposits held on the GDB and the reporting of such loss in the financial statements for the fiscal year ended June 30, 2016.

On March 23, 2018, the GDB ceased its operations. Also, on November 29, 2018, GDB completed a restructuring of certain of its indebtness pursuant to a Qualifying Modification under Title VI of PROMESA

.

This situation has severely affected the financial position of the **SWA**. Consequently, the **SWA** has been unable to either comply with its financing obligations or have financing available to complete all scheduled infrastructure projects. The continuance of the **SWA's** operations is dependent upon the assignment of funds from the Commonwealth for its operations, for the repayment of existing debt and to complete the infrastructure projects in schedule. The matters discussed before raised substantial doubts about the **SWA's** ability to continue as a going concern, the financial statements do not include any adjustment that might result from the outcome of this uncertainty.

The discussion in the following paragraphs regarding the **SWA's** financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the **SWA's** ability to continue as a going concern for 12 months beyond the date of these financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

19. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN (CONTINUED)

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption may relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. The following indicators are factors considered in this evaluation: (i) negative trends in operating losses and negative cash flows; (ii) possible financial difficulties such as nonpayment or default of debt and/or restructuring or noncompliance with capital or reserve requirements; and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due. The **SWA** faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the **SWA** together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the **SWA** to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the **SWA's** operations and does not include adjustments that might be required if the **SWA** is unable to continue as a going concern.

The **SWA** has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2019, the **SWA** incurred a loss before capital grants and contributions from the Commonwealth of Puerto Rico and other income and expenses of approximately **$9.2** million. As of June 30, 2019, the **SWA's** current liabilities exceeded its current assets by approximately **$1.0** million, and the **SWA** had an accumulated unrestricted net position (deficit) of approximately **$(23.2)** million.

As described on **Note 9**, the **SWA** borrowed **$187** million from the GDB in previous fiscal years to finance infrastructure projects and the acquisition of building facilities. These borrowings, in the form of lines of credit, had no source of repayment. The total aggregate outstanding balance of these lines of credit was **$50.2** million as of June 30, 2019. At that date, accrued interest payable related to these lines of credit amounted to **$22.9** million, approximately.

19. UNCERTAINTY ABOUT ABILITY TO CONTINUE AS A GOING CONCERN (CONTINUED)

Also, described on **Note 12**, the **SWA** has an outstanding debt on bonds payable of **$7.8** million for which had no source for repayment. Accordingly, during the fiscal years ended June 30, 2019, 2018, 2017 and 2016, the **SWA** has defaulted on the payment of principal and interest of its bonds obligation.

As mentioned before, the **SWA** does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default. In addition, significant support and funding for obligations of the **SWA** that have previously been provided by the Commonwealth or GDB are not likely to continue. The Commonwealth is experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the **SWA** as and when needed. As such, current defaults may not be cured and future defaults on the **SWA's** obligations may not be avoided.

20. RESTATEMENT OF FINANCIAL STATEMENTS

As of July 1, 2018, the balance of **SWA's** net position have been adjusted by **$4,342,660** in order to account for the following transaction:

Net position (deficit), at beginning of fiscal year, as previously reported	**$ (23,932,026)**
Prior period adjustment:	
Adjustment of lines of credit accrued interest balance	**4,342,660**
Net position (deficit), at beginning of fiscal year, as restated	**$ (19,589,366)**

21. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 8, 2021, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

Compensated Absences

On December 16, 2019, the Government enacted Law No. 176 to amend the provisions of Law No. 8. Accordingly, annual vacation days were increased to 30 days, which may be accumulated up to sixty (60) days. Also under the provisions of Law No. 176, annual sick leave days were increased to eighteen (18) days.

21. SUBSEQUENT EVENTS (CONTINUED)

Puerto Rico Covid-19 Pandemic (DR-4493)

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic. On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island.

Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity. Several Executives Orders have been issued since, being a February 8, 2021 the latest.

On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020 and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19**.**

CARES Act – Stimulus Package

The CARES Act has assigned funds to the Puerto Rico Government where part of such funds was allocated as transfers grant to the local governments and agencies, including the **SWA**, and other as participating funds transferred through approved proposals. This should help the **SWA** to cover costs arising from the said emergency, if any.

American Rescue Plan Act (ARPA) - Stimulus Package

On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **$350** billion for states, municipalities, counties, tribes, and territories, including **$130.2** billion for local governments split evenly between municipalities and counties.

	GASB 73	GASB 68			
As of June 30,	**2019**	**2018**	**2017**	**2016**	**2015**
Proportion (percentage) of the net collective total pension liability	**0.02578%**	**0.03696%**	**0.04216%**	**0.04314%**	**0.04763%**
Proportion (amount) of the net collective total pension liability	**$ 6,312,258**	**$ 12,647,366**	**$ 15,894,906**	**$ 14,383,309**	**$ 14,355,656**

Notes to required supplementary information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate itsassets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

2. The Administration's proportion of the total pension liability was actuarially determined based on the ratio of the Administration's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented were determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

5. There are no assets accumulated in a trust to pay related benefits.

SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL OPEB LIABILITY
For the Fiscal Year ended June 30, 2019

As of June 30,	2019	2018	2017
Proportion (percentage) of the total collective OPEB liability	0.02013%	0.01709%	0.01592%
Proportionate share (percentage) of the collective total OPEB liability	$ 169,484	$ 157,296	$ 188,614
Covered employee payroll	N/A	N/A	N/A
Proportionate share of the collective total OPEB liability as a percentage of the covered employee payroll	N/A	N/A	N/A

Notes to required supplementary information

1. The Administration's proportion of the total OPEB liability was actuarially determined based on the ratioof the Administration’s benefit payments to the total benefit payments made by all participating employers under the OPEB Plan for the year ending on the measurement date.
2. The schedule is intended to show information for 10 years. Additional years will be displayed asthe information becomes available.
3. The amounts presented were determined by an actuarial valuation as of July 1, 2017 that wasrolled forward to June 30, 2018, the measurement date.
4. There are no assets accumulated in a trust to pay related benefits.

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants and Consultants

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 Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the **Solid Waste Authority (Now the Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico) ("the SWA")** as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the **SWA's** financial statements and have issued our report thereon dated October 8, 2021. The report was qualified because, at the date of the financial statements, capital assets have not been evaluated in order to identify any possible impairment loss caused by the passing of hurricanes Irma and María.

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the **SWA** will continue as a going concern. As discussed in **Note 19** to the financial statements, the **SWA** has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern.
Internal Control over Financial Reporting

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **SWA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **SWA's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **SWA'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.

PO Box 25070
San Juan, PR 00928-5070
Tel. (787)283-2100 Fax (787)283-2115

Ave. San Claudio #369, Suite #2
Río Piedras, Puerto Rico 00926
www.irizarryrodriguezcpa.com

Internal Control over Financial Reporting (Continued)

A *material weakness* is a deficiency, or 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 importance enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as item **2019-001** that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **SWA's** financial statements are free of 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 determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2019-001**.

SWA's Response to Findings

The **SWA's** response to findings identified in our audit is described in the accompanying schedule of findings and questions costs. **SWA's** response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **SWA'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 **SWAs** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irizarry, Rodriguez & Co., PSC
IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
October 8, 2021

The Stamp Number **E417182** was affixed
In the original of this Report

Section II – Financial Statements Findings

Finding No. 2019-001

Requirement: Accounting System

Type of Finding: Material Weakness in Internal Control (MW)

This finding is similar to prior year finding 2018-001

Statement of Condition

Management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that *adversely* affected the **SWA** ability to produce reliable financial statements.

During the audit of the **SWA** financial statements for the fiscal year ended June 30, 2019, we noted the following deficiencies in the accounting records:

1. No adequate and timely recording procedures are performed in the general ledger accounts.
2. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.
3. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts receivable and accounts payable area.
4. During our substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period.
5. During the audit we identify and proposed various adjusting and reclassifications entries in order to correct certain account balances related to federal expenditures not recorded by client. The **SWA** have not implemented a systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place.
6. The **SWA** lacks written policies outlining the expectations for journal entry authorization, documentation and review on a daily basis.
7. Transactions related to accounts receivable, capital assets, accounts payable, accrued expenses, revenues and expenses accounts are not properly analyzed and reconciled with accounting records on a monthly bases. These transactions impact the accuracy of the accounting records and financial data.

Section II – Financial Statements Findings (Continued)

Finding No. 2019-001 (Continued)

Criteria

AU-C- AICPA *"Codifications of Statements on Auditing Standards for Auditing"* Section 940, "Entity's Internal Control over Financial Reporting" establish the following:

Responsibilities of Management:

i. Management is responsible for designing, implementing, and maintaining effective Internal Control over Financial Reporting (ICFR).

ii. Management is responsible for its assessment about the effectiveness of ICFR.

Internal control over financial reporting (ICFR):

A process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and

iii. provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. ICFR has inherent limitations. ICFR is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. ICFR also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented, or detected and corrected, on a timely basis by ICFR. (Ref: par .A6–.A7).

Section II – Financial Statements Findings (Continued)

Finding No. 2019-001 (Continued)

Recommendations

The **SWA** should evaluate the policies and procedures used by the Department of Finance in order to determine the changes needed to improve all the deficiencies mentioned in this report. Among the things to be considered in preparing a corrective action plan are the following:

1. Restructuring of the accounting recording process in order to obtain the information needed to prepare the financial statements in accordance with GAAP.

2. Shift toward an updated business software system to properly account for and summarized all accounting and financial data.

3. Provide and/or increase trainings to accounting personnel related to accounting functions and generally accepted accounting principles of governmental entities.

4. Increase supervision over the tasks performed by the accounting personnel.

5. Develop an accounting manual. Written procedures, instructions, and the assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.

6. Establish monthly analysis and reconciliation procedures in order to reduce the number of adjustments identified during the audit of the financial statements. Also, the **SWA** must assess if the personnel processing the transactions possess the appropriate training related to the tasks performed.

Questioned Costs

None

Auditee Response

See **SWA's** Corrective Action Plan

Finding No. 2018-001

Finding Type: **Accounting Records**

Statement of Condition:

Management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that *adversely* affected the **SWA** ability to produce reliable financial statements.

During the audit of the **SWA** financial statements for the fiscal year ended June 30, 2018, we noted the following deficiencies in the accounting records: 1. No adequate and timely recording procedures are performed in the general ledger accounts; 2. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management; 3. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts receivable and accounts payable area; 4. During our substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period; 5. During the audit we identify and proposed various adjusting and reclassifications entries in order to correct certain account balances related to federal expenditures not recorded by client. The **SWA** have not implemented a systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place; 6. The **SWA** lacks written policies outlining the expectations for journal entry authorization, documentation and review on a daily basis; 7. Transactions related to accounts receivable, capital assets, accounts payable, accrued expenses, revenues and expenses accounts are not properly analyzed and reconciled with accounting records on a monthly bases. These transactions impact the accuracy of the accounting records and financial data.

Status:

Condition still prevails. A similar situation was identified during the audit of the fiscal year ended June 30, 2019.

Finding No. 2018-002

Finding Type: **Financial Reporting**

Statement of Condition:

The **SWA's** pension plan administrator has not provided the financial and technical information necessary for the properly implement the requirements set forth in of the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2018.

Accordingly, **SWA's** Management has not been able to implement the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68". Also, **SWA's** Management has not been able to implement the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68".

Status:

Condition Corrected.

CORRECTIVE ACTION PLAN
Solid Waste Authority
Single Audit Report 2019
For the Fiscal Year ended June 30, 2019

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
Finding Reference 2019-001 Requirement: Accounting System Lack of adequate accounting procedures for reconciliation and analysis of the financial transactions recorded during the year, lack of supervision of the Department of Finance personnel, lack of GAAP Governmental accounting knowledge of the personnel in charge of the Department's accounting and lack of proper training to them.	The Central Government is implementing an integrated accounting system (new PRIFAS version) that Department of Natural and Environmental Resources (DNER) will used once it is fully operational and Treasury Department set the date for DNER to do so. DNER will assure that this version include the modifications necessary to accommodate the merger of the Environmental Quality Board, Solid Waste Authority and National Parks Program within the DNER and any associated changes to the new DNER organizational structure in accordance with the reorganization process mandates by Law No.171 of August 2, 2018. As part of the implementation	Waiting for Treasury Department (TD) instructions.	TBA	Rafael Machargo, Secretary Office of the Secretary Astrid Green/ Marjorie Araujo Auxiliary Secretariat of Administration and Finance Division

CORRECTIVE ACTION PLAN
Solid Waste Authority
Single Audit Report 2019
For the Fiscal Year ended June 30, 2019

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
	process of the integrated accounting system, all related polices and procedure will be evaluated to identify the changes needed to improve the deficiencies mentioned in this Single Audit (SA) Report.			

Prepared by: ____________________
Astrid Green Caceres
Auxiliary Secretary of Administration

Approved by: ____________________ NOV - 8 2021
Lcdo. Rafael Machargo Maldonado
Secretary