GOBIERNO DE PUERTO RICO
Departamento de Recursos Naturales y Ambientales

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PRESIDENCIA DEL SENADO

G-322

8 de febrero de 2021

Hon. José L. Dalmau Santiago
Presidente
Senado de Puerto Rico
P O Box 9023431
San Juan, Puerto Rico 00902-3431

Estimado señor Presidente:

ESTADOS FINANCIEROS AUDITADOS
PERIODO TERMINADO 30 DE JUNIO DE 2018

Conforme con lo dispuesto en la Carta Circular del Departamento de Hacienda - Núm. 1300-12-19, presentamos ante su consideración los Estados Financieros Auditados para el periodo terminado el 30 de junio de 2018 de la Autoridad de Desperdicios Sólidos.

Para información adicional, puede comunicarse con la Sra. Astrid J. Green Cáceres, Secretaria Auxiliar de Administración o con la Sra. Ana T. Ortiz Rivera, Directora de Asuntos Gerenciales, al 787-999-2200, extensión 2288 y 4115, respectivamente.

Cordialmente,

17FEB2021 PM3:39
SECRETARIA DEL SENADO

Rafael A. Machargo Maldonado
Secretario

Carr. 8838 Km 6.3 Sector El Cinco, Río Piedras, PR 00926
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

SOLID WASTE AUTHORITY

(A Component Unit of the
Commonwealth of Puerto Rico)

FINANCIAL STATEMENTS
(WITH THE ADDITIONAL REPORTS REQUIRED BY THE *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

AUTORIDAD DE
DESPERDICIOS SÓLIDOS
ESTADO LIBRE ASOCIADO DE PUERTO RICO

Sector El 5, Carr. 8838 Km. 6.3, Edificio
Agencias Ambientales, Piso 6, San Juan PR 00926

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
Solid Waste Authority
San Juan, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of **Solid Waste Authority** (the Authority), a component unit of Commonwealth of Puerto Rico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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 auditor's 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion

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

As discussed in **Notes 6** and **18,** 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 the year fiscal year the **Authority** recognized a loss impairment of $1,126,789 on construction in progress for uncompleted projects. However, the **Authority** 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.

Noncompliance with GASB Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No.68"* and GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2018. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require 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 amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Authority's** governmental activities has not been determined.

Also, the **Authority's** financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the **Authority's** pension plan administrator has not provided the **Authority** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2017 (**Authority's** measurement date), necessary to comply with the requirements of GASB No. 75 *"Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions"*, as of June 30, 2018. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

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 Authority, as of June 30, 2018 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of a Matter

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in **Note 22** to the financial statements, the Authority 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 Authority 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.

In addition, as described on **Note 23**, 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 Authority's faculties, functions, services and structures were consolidated with the Puerto Rico Department of Natural and Environmental Resources.

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 **5** through **17** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Authority's** basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Management, Cost Principles and Audit Requirement for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2020, on our consideration of the **Authority'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 **Authority's** internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
August 7, 2020
Stamp No. 2772617 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

This discussion and analysis of the Solid Waste Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended on June 30, 2018. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic 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, 2017. 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 Authority'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 Authority'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 2017-2018 deserve special mention:

1. Total assets amounted to $119,115,408, resulting in a decrease of $874,674 when compared to the prior fiscal year, as restated. The decrease in total assets was caused by the net effect of an increase in cash of $5,192,238, a decrease in accounts receivable of $121,013 and a decrease in capital assets of $5,945,899.
2. Total liabilities increased by $10,078,642 or 7.68%. This net increase was caused by an increase in current liabilities of $10,467,534 and a decrease in long-term liabilities of $388,892.
3. The Authority's total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by $23,932,026 as of June 30, 2018 and, during the year then ended, experienced a reduction in the balance of net position of $10,953,316 when compared to the fiscal year 2017, as restated.
4. During the fiscal year 2018, operating revenues amounted to $2,496,185, an increase of $883,818 when compared to the fiscal year 2017. Also, during the current fiscal year, total operating expenses amounted to $10,950,300, which exceeded operating revenues by $8,454,115.
5. Non-operating revenues (expenses) changed by $2,225,871, from $273,330 of net expenses in 2017 to $2,449,201 of net expenses in 2018. The change was mainly caused by the loss on impairments on capital assets of $1,126,789 that was recorded during the fiscal year 2018. Also, capital and grant contributions from the Commonwealth of Puerto Rico decreased by $941,266.
6. Interest expense related to long term-debt charged to operations during the fiscal year 2018 amounted to $5,441,266.

FINANCIAL HIGHLIGHTS (Continued)

7. Cash and cash equivalents increased by $5,192,238, from $7,440,155 in 2017 to $12,632,393 in 2018. This increase was mainly caused by the increase in deferred revenues of $4,717,493 related to the unexpended federal grant received during the year.

USING THE ANNUAL REPORT

This annual report consists of a series of basic 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 Authority that together present an image of the Authority'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

The Authority is a component unit of the Commonwealth of Puerto Rico and 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 Authority 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 Authority's basic financial statements are presented attached to this document and are accompanied by notes to the basic financial statements, which provide information essential to their full understanding.

FINANCIAL STATEMENTS COMPONENTS

The basic 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.

FINANCIAL STATEMENTS COMPONENTS (Continued)

The Statement of Net Position (Deficit) reflects information of the Authority 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. Evaluation of the overall financial health of the Authority would extend to external factors such as the quality of the portfolio of investments and related market conditions. The statement of revenues, expenses and changes in net position shows how the Authority'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 Authority'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 Authority. It presents information which shows the changes in the Authority'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 Authority for the year ended June 30, 2018 shows total expenses incurred to afford the cost of the Authority's operations amounted to $10,950,300. Upon examining the sources of revenues for the financing of the Authority's operations, the statement of revenues, expenses and changes in net position reflects that $2,004,790 were derived from contract revenues and $491,395 from other miscellaneous revenues.

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 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 AUTHORITY AS A WHOLE

The Authority 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 Authority is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the Authority 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. Our analysis, as shown below, focuses on net position (Table 1) and change in net position (Table 2) for the Authority's activities during the fiscal year ended June 30, 2018 as compared to the prior year 2017, as restated.

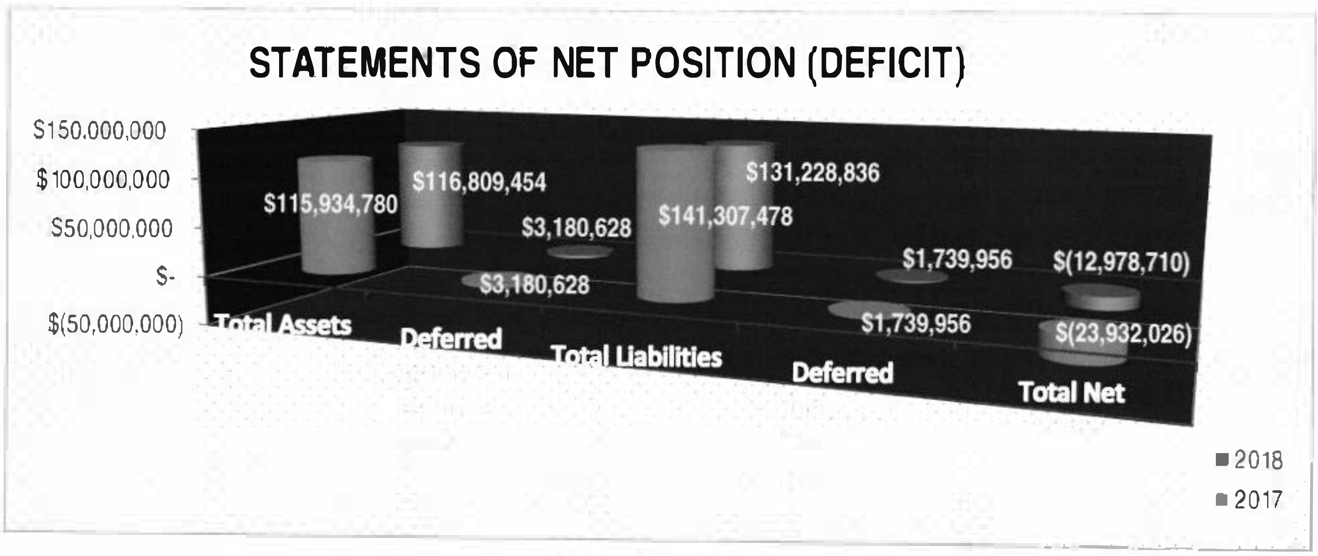
Net Position

The Statement of Net Position serves as an indicator of the Authority's financial position at the end of the fiscal year. In the case of the Authority, liabilities exceeded total assets by $23,932,026 at the end of the fiscal year 2018, as compared to $10,953,316 at the end of the previous fiscal year 2017 (as restated), as showed in the following Statements of Net Position (Deficit).

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE 1- STATEMENTS OF NET POSITION (DEFICIT)

Assets and deferred outflows of resourses	2018	2017, as restated	Variance
Current assets	$ 16,220,811	$ 11,149,586	$ 5,071,225
Due from Commonwealth of Puerto Rico	404,621	404,621	-
Capital asset, net	99,176,566	105,122,465	(5,945,899)
Other assets	132,782	132,782	-
Total assets	115,934,780	116,809,454	(874,674)
Deferred outflows of resources - pensions	3,180,628	3,180,628	-
Total assets and deferred outflows of resourses	$119,115,408	$119,990,082	$ (874,674)
Liabilities and deferred inflows of resources			
Current liabilities	39,240,536	28,773,002	10,467,534
Long-term debt	102,066,942	102,455,834	(388,892)
Total liabilities	141,307,478	131,228,836	10,078,642
Deferred inflows of resources - pensions	1,739,956	1,739,956	-
Net position (deficit)	(23,932,026)	(12,978,710)	(10,953,316)
Total liabilities, deferred inflows of resourses and net position (deficit)	$119,115,408	$119,990,082	$ (874,674)



FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Total net position (deficit) at June 30, 2018, when compared to the prior year 2017, as restated, increased by S(10,953.316). This net increase was caused by the net effect of an increase in current assets of $5,071.225, a reduction in capital assets of $5,945.899 and the increase in total liabilities of $10,078,642.

The increase in current assets amounting to $5,071,225 is directly related to the increase in cash and cash equivalents of $5,192,238, and the decrease in accounts receivable of $121,013. The reduction in capital assets mentioned above is the result of the recognition of the current year depreciation expense of $5,136,496.

The increase in current liabilities of $10,467,534 is mainly due to an increase in accrued liabilities of $5,436,212 and an increase in deferred revenues of $4,717,493. Total long-term debt decreased by $388.892.

The balance of net position (deficit) experienced an increase of $(10,953,316) when compared to the ending balance of the fiscal year 2017 (as restated). This increase in the net position (deficit) balance was mainly caused by the excess of operating expenses of $10,950,300 over the operating revenues of $2,496,185, resulting in an operating loss of $8,454,115.

During fiscal year 2018, the Authority's received funds amounting to $3,994,544 related to capital grants and other grants contributions from the Commonwealth of Puerto Rico, a decrease of $941,266 when compared to the funds received during the fiscal year 2017. Also, non-operating expenses included interest expense of $5,441,266.

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 the year fiscal year the Authority recognized a loss impairment of $1,126,789 on construction in progress for uncompleted projects. However, the Authority 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.

For the fiscal year ended June 30, 2018, the Authority recognized a provision for bad debts expense of $1,412,840 related to accounts receivable which are 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 2017 (as restated) to fiscal year 2018.

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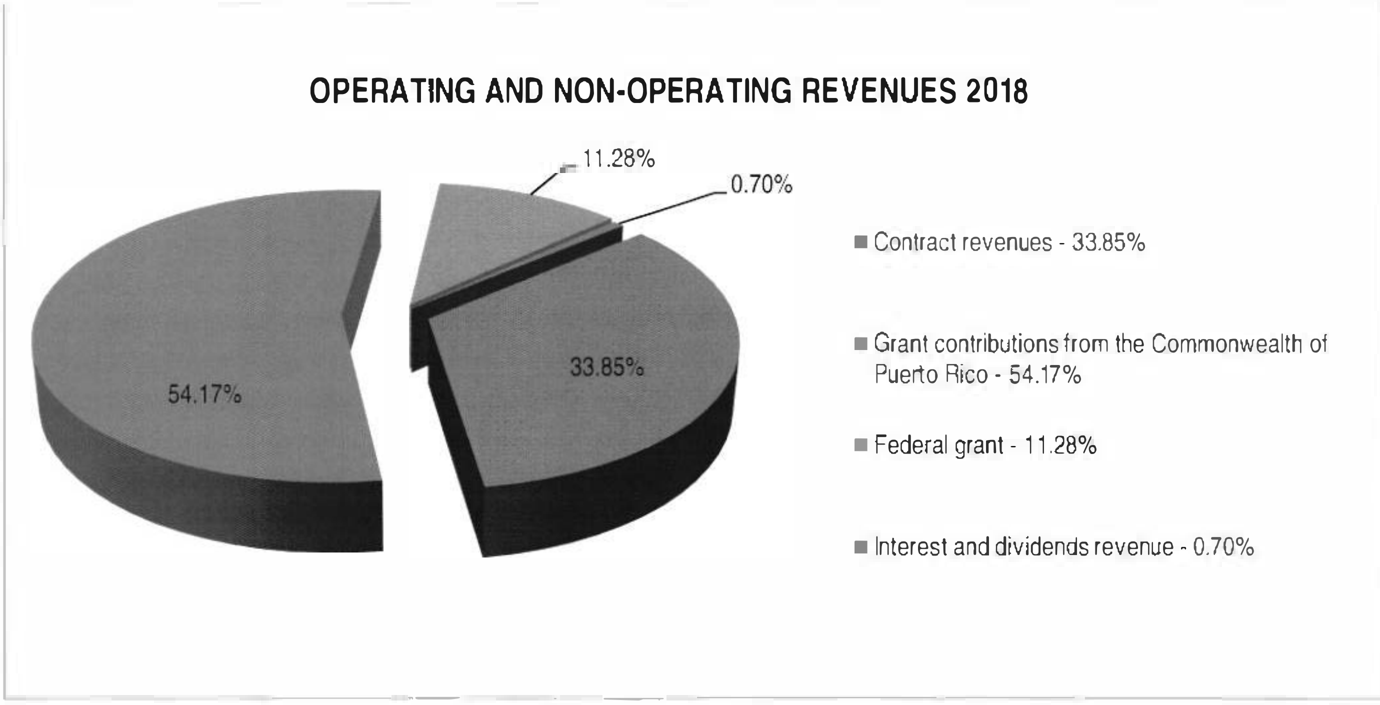
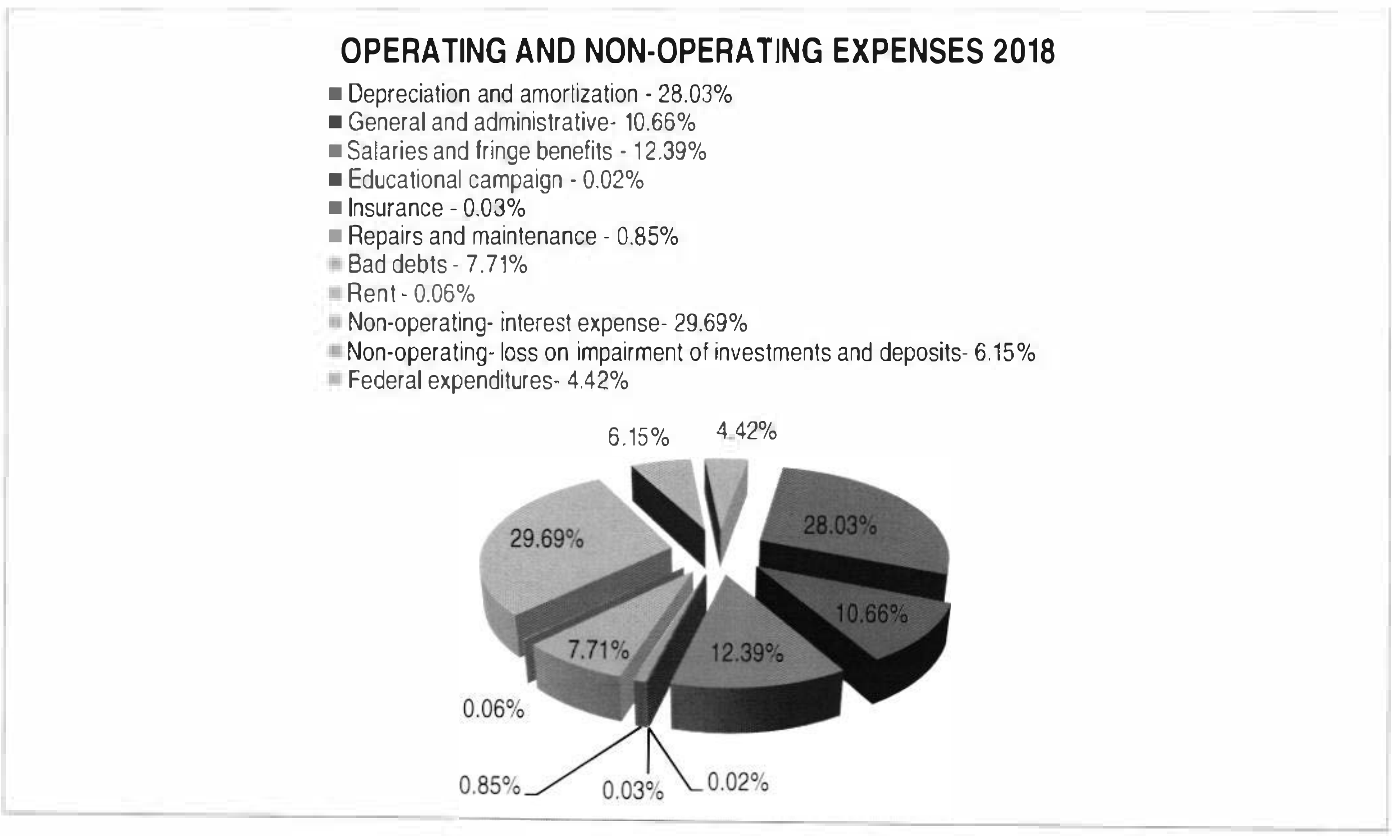
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE 2- STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT)

	2018	2017, as restated	Variance
Operating revenues:			
Contract revenues	$ 2,496,185	$ 1,612,367	$ 883,818
Operating expenses:			
Depreciation and amortization	5,136,496	5,120,325	16,171
General and administrative	1,954,551	2,367,279	(412,728)
Salaries and fringe benefits	2,270,130	3,072,632	(802,502)
Educational campaigns	2,900	36,999	(34,099)
Insurance	5,140	4,658	482
Repairs and maintenance	156,672	306,359	(149,687)
Bad debts	1,412,840	534,970	877,870
Rent	11,571	2,043	9,528
Total operating expenses	10,950,300	11,445,265	(494,965)
Operating loss before non-operating revenues (expenses)	(8,454,115)	(9,832,898)	1,378,783
Non-operating revenues (expenses)			
Interest and dividends income	51,538	404,037	(352,499)
Interest expense	(5,441,266)	(5,443,569)	2,303
Loss on impairment of investments and deposits	-	(394,363)	394,363
Loss on impairment of capital assets	(1,126,789)	-	(1,126,789)
Emergency grant from Federal Government	832,076	-	832,076
Federal expenditures	(809,304)	-	(809,304)
Other revenues	-	224,755	(224,755)
Capital and grant contributions from the Commonwealth of Puerto Rico	3,994,544	4,935,810	(941,266)
Total non-operating revenues (expenses)	(2,499,201)	(273,330)	(2,225,871)
Change in net position	(10,953,316)	(10,106,228)	(847,088)
Net position (deficit), beginning of year, as restated	(12,978,710)	(2,872,482)	(10,106,228)
Net position (deficit), end of year	$ (23,932,026)	$ (12,978,710)	$ (10,953,316)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

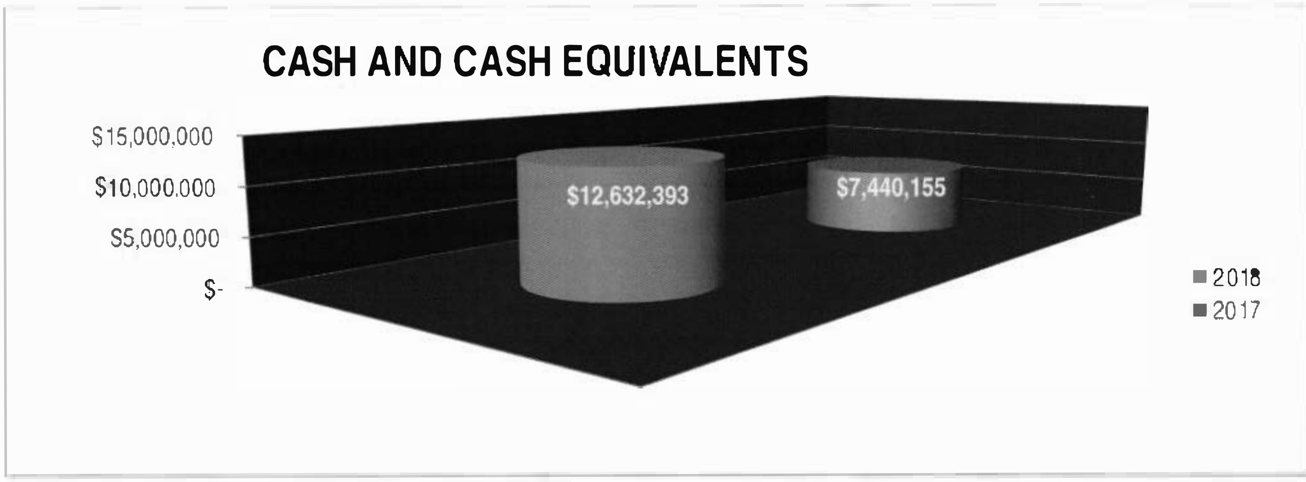




FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Cash and Cash Equivalents

As of June 30, 2018, cash and cash equivalents consist of cash deposited in a commercial bank. At the end of fiscal year 2018, the Authority had an increase of $5,192,238 in cash and cash equivalents (see graphic below).



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 2018, the Authority had $99,176,566 invested in a broad range of capital assets. This amount represents a net decrease, including additions and deductions, of $5,945,899 over the prior year. The decrease in capital assets is mainly related to the current year depreciation expense of $5,136,496.

TABLE-3 CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2018	2017	Variance
Land	$ 12,966,607	$ 12,966,607	$ -
Construction in progress	-	8,831,889	(8,831,889)
Building, Improvements, equipment and others, net	86,209,959	83,323,969	2,885,990
Total Capital Asset	$99,176,566	$105,122,465	$ (5,945,899)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Debt Administration

The Authority had total liabilities of $141,307,478 as of June 30, 2018. Compared to the prior fiscal year (2017, as restated), total liabilities increased by $10,078,642. The following table shows a summary of outstanding debts of the Authority as of June 30, 2018:

TABLE - 4 OUTSTANDING DEBT AT YEAR END

Current liabilities:	**2018**	**2017, as restated**	**Variance**
Accounts payable-trade, including due to governmental agencies	$ 8,632,412	$ 8,394,980	$ 237,432
Accrued compensated absences – current portion	205,046	194,952	10,094
Bonds payable – current portion	806,166	606,833	199,333
Accrued expenses	24,556,134	19,119,922	5,436,212
Deferred revenues	4,717,493	-	4,717,493
Voluntary termination benefits - current portion	323,285	456,315	(133,030)
Total current liabilities	39,240,536	28,773,002	10,467,534
Noncurrent liabilities:			
Non- revolving lines of credit	71,861,267	71,861,267	-
Bond payable	6,986,861	7,193,113	(206,252)
Accrued compensated absences	197,005	189,385	7,620
Voluntary termination benefits	2,585,786	2,776,046	(190,260)
Due to other governmental entities	4,541,117	4,541,117	-
Net pension liability	15,894,906	15,894,906	-
Total noncurrent liabilities	102,066,942	102,455,834	(388,892)
Total liabilities	$ 141,307,478	$ 131,228,836	$ 10,078,642

During the fiscal year ended June 30, 2012, an increase in funds to pay the outstanding balances on non-revolving credit lines with the Government Development Bank for Puerto Rico (GDB) had an impact on the Authority's budget. These credit lines were obtained for the acquisition of property, prior to June 30, 2008, to build the facilities that allowed the centralization of agencies related to the environment, such as the Solid Waste Authority, the Department of Natural and Environmental Resources, the Energy Office and the Environmental Quality Board. It also allowed the continuing of the development of infrastructure projects directly related with the disposition of solid waste in the Commonwealth of Puerto Rico. As described on **Note 22**, the Authority 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 Authority is a defendant in various lawsuits. It is the opinion of the Authority 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 2017-2018, the Authority's budget amounted to $6,236,000 and consisted of a Commonwealth legislative resolution of $1,814,000, special state funds of $277,000 and other income of $4,145,000.

ADOPTION OF GASB STATEMENT NO. 68

As of July 1, 2016, the Authority 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 Authority'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 Authority adopted the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Authority'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 Authority's net position (deficit) balance as of July 1, 2016.

Effective on July 1, 2017, the Authority 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 Authority shall implement the requirements set forth by GASB Statement No. 73 "Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"

ADOPTION OF GASB STATEMENTS NO. 73 AND 75

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. 73. The Authority's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not provided to the Authority the financial and technical information necessary for the proper recognition and reporting of its net pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the Authority could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the Authority's financial statements do not report or disclose the required information for its pension plan.

In addition, the Authority's pension plan administrator has not provided the Authority with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2017 (Authority's measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2018. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

ECONOMIC FACTORS

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.

As more fully explained in **Notes 16** and **23** to the financial statements, 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 Authority 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 Authority 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 Authority 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.

- ***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.

ECONOMIC FACTORS (CONTINUED)

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)***

  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.

- ***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").

- ***Law No. 122 – Law of the New Government of Puerto Rico***

  Law No. 122 of December 18, 2017 was enacted to create the "New Puerto Rico Government Law", in order to empower the Governor of Puerto Rico to maximize the resources and personnel of the Executive Branch through the transfer, consolidation, reorganization, outsourcing and creation of new and more efficient government structures and agencies through an agile process with Reorganization Plans which will be reviewed by the Legislative Assembly for approval or rejection; according to the procedures described in this Law; arrange the powers and faculties of the heads of the agencies; repeal Law 182-2009, known as the "Law of Reorganization and Modernization of the Executive Branch 2009"; repeal Law 5-1993; and for other related purposes.

- ***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.

- ***Law No. 171 – Reorganization Plan for the Department of Natural and Environmental Resources***

  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 ADS") 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.

- **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 Authority's finances and to show the Authority'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.

Statement of Net Position (Deficit)

June 30, 2018

Assets and deferred outflows of resources	
Current assets:	
Cash and cash equivalents	$ 12,632,393
Accounts receivable, net of allowance for doubtful accounts	3,588,418
Total current assets	16,220,811
Non current assets:	
Due from Commonwealth of Puerto Rico	404,621
Capital assets, net of accumulated depreciation	99,176,566
Other assets	132,782
Total non-current assets	99,713,969
Total assets	115,934,780
Deferred outflows of resources - pensions	3,180,628
Total assets and deferred outflows of resources	$ 119,115,408
Liabilities, deferred inflows of resources and net position (deficit)	
Current liabilities:	
Current portion of long-term obligations:	
Accrued compensated absences	$ 205,046
Voluntary termination benefits	323,285
Bond payable	806,166
Accounts payable, trade	4,395,921
Accrued liabilities	24,556,134
Deferred Revenues	4,717,493
Due to governmental entities	4,236,491
Total current liabilities	39,240,536
Non-current liabilities:	
Non-revolving lines of credit	71,861,267
Bond payable	6,986,861
Due to other governmental entities	4,541,117
Accrued compensated absences	197,005
Voluntary termination benefits	2,585,786
Net pension liability	15,894,906
Total non-current liabilities	102,066,942
Total liabilities	141,307,478
Deferred inflows of resources - pensions	1,739,956
Net position (deficit):	
Net investment in capital assets	27,315,299
Unrestricted	(51,247,325)
Total net position (deficit)	(23,932,026)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 119,115,408

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the Fiscal Year Ended June 30, 2018

Operating revenues	
Contract revenues	$ 2,004,790
Miscellaneous	491,395
Total operating revenues	2,496,185
Operating expenses	
Depreciation and amortization	5,136,496
General and administrative	1,954,551
Salaries and fringe benefits	2,270,130
Educational campaign	2,900
Insurance	5,140
Repairs and maintenance	156,672
Bad debts	1,412,840
Rent	11,571
Total operating expenses	10,950,300
Operating loss before non-operating revenues (expenses)	(8,454,115)
Non-operating revenues (expenses)	
Interest and dividend income	51,538
Loss on impairment of investments	-
Loss on impairment of capital assets	(1,126,789)
Emergency Grants from Federal Government	832,076
Federal Expenditures	(809,304)
Interest expense	(5,441,266)
Capital and grant contributions from the Commonwealth of Puerto Rico	3,994,544
Total non-operating revenues (expenses)	(2,499,201)
Change in net position (deficit)	(10,953,316)
Net position (deficit) at beginning of fiscal year, as restated	(12,978,710)
Net position (deficit) at end of fiscal year	$ (23,932,026)

The accompanying notes to the financial statements are an integral part of this statement.

SOLID WASTE AUTHORITY
(A Component Unit of the
Commonwealth of Puerto Rico)

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Cash flows from operating activities		
Cash received from contracts and others	$	5,921,850
Cash paid to suppliers		(2,756,668)
Cash paid for salaries and fringes		(1,726,717)
Net cash provided by operating activities		1,438,465
Cash flows provided by non-capital financing activities		
Contributions from the Commonwealth of Puerto Rico		3,994,544
Net cash provided by non-capital financing activities		3,994,544
Cash flows from capital and related financing activities		
Purchase of property and equipment, and construction of property		(317,886)
Net cash used in capital and related financing activities		(317,886)
Cash flows from investing activities		
Interest and dividends received		77,115
Net cash provided by investing activities		77,115
Net increase in cash and cash equivalents		5,192,238
Cash and cash equivalents at beginning of fiscal year		7,440,155
Cash and cash equivalents at end of fiscal year	$	12,632,393
Reconciliation of operating loss to net cash used in operating activities		
Operating loss before non-operating revenues and contributions	$	(8,454,115)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization		5,136,496
Bad debts		1,412,840
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		(1,291,828)
Increase (decrease) in liabilities:		
Accounts payable and due to governmental agencies		237,432
Accrued liabilities		(319,853)
Deferred revenues		4,717,493
Total adjustments		9,892,580
Net cash used in operating activities	$	1,438,465
Supplemental schedule of capital and related financing activities:		
Impairment loss on capital assets (construction in progress)	$	1,126,789

1. REPORTING ENTITY

The Solid Waste Authority (the Authority) 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 Authority is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the Law, the Authority 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 Authority 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 Authority.

As described on **Note 23**, the Authority will be consolidated into the Department of Natural and Environmental Resources as stated under the provision of Law No. 171 of August 2, 2018.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Statement of Cash Flows

The Authority prepares its Statement of Cash Flows using the direct method. For the purpose of this statement, the Authority 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Investments

The Authority is permitted by law to invest on eligible corporations related to solid waste management. Investments in preferred stocks of such corporations 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.

The Authority'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 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

a. Impairment of Capital Assets

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Authority has evaluated events or changes in circumstances that may have affected the Authority's assets and has determined that impairment of a capital asset did occur in various circumstances. The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management evaluated the costs incurred in construction in progress and determined various projects to be impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 Authority 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 Authority adopted the Provisions of GASB Statement No. 68, "*Accounting and Reporting for Pension an amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*", which amended GASB Statement No. 68. The Authority accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements shall be equal to the Authority's proportionate share of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan administrator as of the measurement date. In addition, if the Authority's annual contributions are less than the statutory required amounts, a liability is recorded for any special balances. For the purpose of applying the requirements of the GASB Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Authority participate. The Authority is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pension and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported to the ESR. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Accounting for Pension Costs (Continued)

Effective on July 1, 2017, the Authority and other participants of the ERS 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, at that date, the Authority shall implement the requirements set forth by GASB Statement No. 73 "Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"

n) Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Authority starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 basic financial statements, nor has it provided to the Authority with the required information to implement the referred accounting pronouncement. The Authority'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.

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 Authority with an explicit understanding between the Authority 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 Authority's net position is segregated into three 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Net Position (Continued)

b. **Restricted net position:** Represents the component of the net position that is subject to restrictions beyond the Authority's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

c. **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:

- **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 Authority's contributions and proportionate share contributions; and e) Authority's contributions subsequent to the measurement date.

3. CASH AND CASH EQUIVALENTS

Deposits

The Authority 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 Authority. 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.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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 Authority 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 Authority are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Authority's name. The total deposits, net of an impairment reserve, in commercial and governmental banks, at June 30, 2018, amounted to $12,632,393.

As of June 30, 2018, cash unrestricted and restricted balances, net of an impairment reserve, are as follows:

Unrestricted Cash:	
Cash with fiscal agent	$ 1,755,822
Cash with commercial bank	12,632,393
	14,388,215
Reserve for impairment	(1,755,822)
Total unrestricted cash	$ 12,632,393
Restricted Cash:	
Cash with fiscal agent:	
Development of infrastructure projects	$ 4,849,533
Financial assistance	1,987,111
Other Programs	964,231
Subtotal	7,800,875
Reserve for impairment	(7,800,875)
Total restricted cash	$ -

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3. CASH AND CASH EQUIVALENTS (CONTINUED)

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 with GDB. This in turn has severely affected the GDB's liquidity position and the ability to repay its obligations. GDB does not obtain adequate funding from the Commonwealth for fiscal year 2017 and is was not able to consummate a comprehensive debt restructuring, or obtain additional funding or other arrangements with its creditors.

Also, on October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter Number 1300-08-17, *Impairment Loss on Deposits Held in the Governmental Development Bank*. This letter provides guidance on the calculation of an impairment loss on the deposits maintained at the GDB and the reporting of such loss, if any, in the financial statements of the Commonwealth of Puerto Rico and its instrumentalities for the fiscal year ending on June 30, 2016 and/or June 30, 2015. The issuance of this letter is the result of the fiscal and liquidity crisis confronted by the Commonwealth and the GDB, leading the management of both entities to determine that a substantial doubt exits as to the GDB's ability to continue as a going concern.

As of June 30, 2018 the Authority has a cash balance deposited on the GDB amounting to $9,556,697 (which includes an unrestricted cash balance of $1,755,822 and a restricted cash balance of $7,800,875). Based on the aforementioned uncertainties, the Authority's existing cash balance deposited on GDB is exposed to an impairment loss. Accordingly, an adjustment has been made on the Authority's financial statements to recognize a reserve for impairment on GDB deposits at that date.

As described on **Note 23**, on March 23, 2018, GDB ceased its operations and 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).

4. INVESTMENTS

The following table shows the amount of investment, net of an impairment reserve, held by the Authority with the GDB as of June 30, 2018.

	Balance
Investment in certificate of deposit	$ 12,149,076
Impairment loss reserve	(12,149,076)
Net investment balance at year end	$ -

4. INVESTMENTS (CONTINUED)

The maturities of investments and their approximate market value as of June 30, 2018, were as follows:

	Balance
Within one (1) year or less	$ -
After one (1) year through five (5) years	12,149,076
Total	$ 12,149,076

a) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in possession of an outside party. As of June 30, 2018, the Authority maintains its investments with the GDB. These investments are unsecured and, as explained below, are exposed to an impairment loss at that date.

b) Impairment Loss on Investments

Management concluded that the information available prior to the issuance of the Authority's financial statements for the year ended June 30, 2018 indicates that it is probable that an impairment loss on the Authority investments exists as of June 30, 2018.

As described on **Note 3**, GDB faces significant risks and uncertainties ant it currently does not have sufficient liquid financial resources to meets obligations when they come due, as further described below. Pursuant to recently enacted legislation, the Governor of the Commonwealth of Puerto Rico has ordered the suspension of loans disbursements by GDB, and imposed moratorium on debt obligations of GDB, among other measures.

As result of the reductions in liquidity experienced subsequent to June 30, 2016, GDB took a number of liquidity enhanced and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent of the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations.

As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, the GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course of business. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium. The GDB has continued to pay interest on its debt obligations.

4. INVESTMENTS (CONTINUED)

b) Impairment Loss on Investments (Continued)

Due to the inability and events described above, Authority's management believes substantial doubt exists as the GDB's ability to continue as a going concern. As result, the Authority maintains a reserve amounting to $12,149,076 for impairment loss on investments in GDB as of June 30, 2018.

As described on **Note 23**, on March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA.

5. ACCOUNTS RECEIVABLE

As of June 30, 2018, accounts receivable consisted of the following:

Puerto Rico Department of Natural and Environmental Resources	$ 7,416,649
Puerto Rico Environmental Quality Board	6,092,379
Other governmental entities	1,640,713
Municipalities	998,317
Others	3,096,967
Subtotal	19,245,025
Allowance for doubtful accounts	(15,656,607)
Net accounts receivable balance	$ 3,588,418

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6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, were as follow:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 12,966,607	$ -	$ -	$ 12,966,607
Construction in progress	8,831,889	-	(8,831,889)	-
Total capital assets, not being depreciated	21,798,496	-	(8,831,889)	12,966,607
Capital assets, being depreciated:				
Buildings	93,979,993	-	-	93,979,993
Mini transfer stations	42,121,900	7,704,600	-	49,826,500
Project equipment	12,232,633	295,789	-	12,528,422
Building improvements	15,009,137	-	-	15,009,137
Office furniture	7,286,268	22,097	-	7,308,365
Motor vehicles	476,007	-	-	476,007
Leasehold improvements	262,629	-		262,629
Total capital assets, being depreciated	171,368,567	8,022,486	-	179,391,053
Less accumulated depreciation for:				
Buildings	(39,490,999)	(3,132,666)	-	(42,623,665)
Mini transfer stations	(22,966,047)	(1,404,369)	-	(24,370,416)
Project equipment	(11,650,501)	(96,840)	-	(11,747,341)
Building improvements	(5,912,147)	(499,800)	-	(6,411,947)
Office furniture	(7,286,268)	(2,821)	-	(7,289,089)
Motor vehicles	(476,007)	-	-	(476,007)
Leasehold improvements	(262,629)	-	-	(262,629)
Total accumulated depreciation	(88,044,598)	(5,136,496)	-	(93,181,094)
Total capital assets, being depreciated, net	83,323,969	2,885,990	-	86,209,959
Capital assets, net	$ 105,122,465	$ 2,885,990	$ -	$ 99,176,566

As discussed in **Note 18,** 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, 2018, the Authority 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. CAPITAL ASSETS (Continued)

a. Impairment Loss Construction in Progress

Management evaluated the costs incurred in construction in progress and determined that various projects in progress amounting to $7,704,600 had been completed and the cost were reclassified. Also, certain uncompleted projects were considered for impairment, and a loss on impairment of capital assets of $1,126,789 was recognized and presented in the statement of revenues, expenses and changes in net position for the year ended June 30, 2018.

7. INVESTMENTS IN PREFERRED STOCKS

The Authority is allowed by its laws and regulations to invest directly in eligible corporations that are related with the collection, disposition, construction or operations of solid waste facilities. The eligible corporation must be established or must be authorized to do business in Puerto Rico and must exercise a role in the management of the solid waste and/or recycling infrastructure. The operations of the corporation must be in accordance with the Regional Plan for Disposition and Recycling of the Solid Waste of Puerto Rico and/or the Plan for Reduction, Reuse and Recycling for Puerto Rico. The Authority has invested in four (4) eligible corporations dedicated to the recycling of plastic and battery waste and to the development and commercialization of anaerobic technology for the treatment of poultry wastes: 1) The Battery Recycling Co. Inc.; 2) Grupo Comunitario de Reciclaje Inc.; 3) Novo Recicladores Inc.; and 4) Biorganic Energy, Inc. The total investment made by the Authority on preferred stocks of those corporations amounted to $1,047,363. The shares of preferred stock have liquidation preferences, conversion, anti-dilutive clauses, pre-emptive rights, representation in the Board of Directors of the corporations and certain redemption provisions. As of June 30, 2017, management considers that substantial doubt exists on the recoverability of the value of the preferred stocks, as result, a reserve for impairment on the value of preferred stocks amounting to $1,047,363 have been established on books at that date. Accordingly, the investment value was reduced to zero.

8. ACCRUED LIABILITIES

The balance accrued liabilities as of June 30, 2018, was as follows:

Interest payable on lines of credit and bonds	$ 24,209,641
Other accrued liabilities	346,493
Total accrued liabilities at end of year	**$ 24,556,134**

9. DUE TO GOVERNMENTAL ENTITIES

The balance due to governmental entities as of June 30, 2018, was as follows:

Puerto Rico Electric Power Authority	$ 3,908,531
Puerto Rico Aqueduct and Sewer Authority	30,968
Puerto Rico Department of Natural Environmental Resources	217,165
Employees' Retirement System of the Commonwealth of Puerto Rico	59,044
Puerto Rico Commonwealth Employees Association	14,118
Other governmental entities	6,665
Due to governmental entities – current	**$ 4,236,491**
State Insurance Fund Corporation	$ 4,541,117
Due to other governmental entities – long-term	**$ 4,541,117**

10. LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance as restated	Borrowings and/or additions	Payments and/or deductions	Ending Balance	Balance Due within One year
Non-revolving lines of credit	$ 71,861,267	$ -	$ -	$ 71,861,267	$ -
Bonds payable	7,799,946	-	6,919	7,793,027	806,166
Accrued compensated absences	384,337	17,714	-	402,051	205,046
Voluntary termination benefits	3,232,361	-	323,290	2,909,071	323,285
Net pension liability	15,894,906	-	-	15,894,906	-
Capital assets, net	$ 99,172,817	$ 17,714	$ 330,209	$ 98,860,322	$ 1,334,497

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11. NON-REVOLVING LINES OF CREDIT

On January 4, 2000, the Authority 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 Authority. 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, 2018. On June 27, 2012, it was extended to June 30, 2040. Per the approved budget for fiscal year 2001-2002 of the Commonwealth of Puerto Rico, as submitted by the Office of Management and Budget, $25,000,000 have been used for amortizing this bank's credit line. The credit line was to be paid in four (4) annual installments of $25,000,000 and the remaining final balance during the next (6) years. The outstanding balance at June 30, 2018 amounted to $27,934,622.

On May 5, 2003, the Authority 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, 2018. On June 19, 2012, it was extended to June 30, 2040.The outstanding balance at June 30, 2018 amounted to $43,926,645.

The credit lines activity for the year ended June 30, 2018, was as follows:

Non-revolving credit line of $112,000,000:	
Balance at beginning of year	$ 27,934,622
Additions	-
Balance at end of year	$ 27,934,622
Non-revolving credit line of $75,000,000:	
Balance, beginning of year	$ 43,926,645
Additions	-
Balance at end of year	$ 43,926,645
Total line of credit balances at end of year	**$ 71,861,267**

12. 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.

12. 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 Authority by the issuance of 2011 Series A, 2011 Series B and 2012 Series A. The outstanding balance of the bond at June 30, 2017 was $7,799,946 (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.

As described on **Notes 3** and **4**, 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 with GDB. This in turn has severely affected the GDB's liquidity position and the ability to repay its obligations. As a result of this fiscal and liquidity crisis, on May 1, 2016, the GDB defaulted on the principal payments due of its own debt. Subsequently, on July 1, 2016, the Commonwealth defaulted on the principal and interest payments due on its general obligation bonds.

Accordingly, during the fiscal years ended June 30, 2018, 2017 and 2016, the Authority has defaulted on the payment of principal and interest of its bonds obligation by the amount of $606,833 and $1,266,015, respectively.

12. BONDS PAYABLE (CONTINUED)

Aggregate maturities and interest payments of the bond, are as follows:

Year ending June 30,	Principal	Interest	Totals
2019	$ 806,166	$ 1,673,286	$ 2,479,452
2020	207,315	398,772	606,087
2021	215,897	389,512	605,409
2022	225,299	379,404	604,703
2023	235,552	368,372	603,924
2024-2028	2,737,009	1,633,489	4,370,498
2029-2031	3,350,658	217,925	3,567,953
Total	7,777,896	5,060,760	12,838,0266
Add: Premiums on bond refunding	15,131	-	15,131
Total	**$ 7,793,027**	**$ 5,060,760**	**$ 12,853,157**

13. 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 Authority. 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 Authority 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 Authority. The financial impact resulting for the benefits granted to participants on this program is the recognition within the Authority's financial statements of a liability of $2,909,071 in the Statement of Net Position (Deficit) as of June 30, 2018. At that date, the unpaid long-term benefits granted on this program were discounted at 2.50%.

14. PENSION PLAN

a. Pension System – prior to July 1, 2017

The Authority is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,

- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

14. PENSION PLAN (CONTINUED)

b. Pension System – after to July 1, 2017

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance, effective on July 1, 2017. Those dispositions are summarized as follows:

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new "PayGo" model, effective on July 1, 2017. 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. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of "PayGo" funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the Authority) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the "PayGo" charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid "PayGo" charges. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2017-2018, the Authority was billed and recognized as "PayGo" charges expenditures for $340,959.

14. PENSION PLAN (CONTINUED)

b. Pension System – after to July 1, 2017 (Continued)

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2018, employees' contributions amounted to $115,546.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the "PayGo" system.

Reform of ERS's governance

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.

c. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73

As discussed above, pursuant to Act No. 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition benefit payments are made through a "PayGo" funding administered by the PRDT. As a result the plans operated by ERS, under various benefit structures prior to July 1, 2017, are administered through a trust that do not meet the requirements of GASB Statement No. 68.

14. PENSION PLAN (CONTINUED)

c. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73 (Continued)

Instead, since that date, the employers are subject to the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. However, the ERS have not provided to the Authority with the audited actuarial and financial information necessary to comply with the requirements of GASB Statement No. 73 as of June 30, 2018. As a result, amounts that shall be reported as deferred outflows \inflows of resources related to pensions and pension liability in the government-wide financial statements had not been adjusted and accounted for by the Authority based on the provisions of GASB Statement No. 73. In addition, applicable disclosures and required supplementary information under the provisions of GASB Statement No. 73 have been omitted.

At June 30, 2018 the Authority maintains a liability of $15,894,906 for its proportionate share of the net pension liability. This liability was determined based on the requirements of the GASB Statements No. 67 and 68. This net pension liability is recorded on the Authority's accounting records as of June 30, 2017 and was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportionate share was .04216% which was a decrease of .00098 from its proportionate shared measured at June 30, 2016 (.04314%).

Also, at June 30, 2018, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual earnings on pension plan investments	$ -	$ 86,005
Differences between expected and actual experience	12,995	218,212
Changes of assumptions	2,424,464	-
Changes in proportion	-	1,435,739
Contributions subsequent to measurement date	743,169	-
Total	$ 3,180,628	$ 1,739,956

15. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The Authority 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).

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 Authority'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.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the Authority with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2017 (Authority's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2018. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

16. CONTINGENCIES

a) Litigations

The Authority 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 Authority is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the Authority. Any claims with negative financial impact would be paid from the resources of the Authority and the Commonwealth of Puerto Rico.

b) Environmental Concern

The Authority's operations include activities which are subject to state and federal environmental regulations. The Authority is currently involved in the implementation and development of the Infrastructure Regional Plan for Recycling and Disposal of Solid Waste in Puerto Rico. As of June 30, 2018, management of the Authority 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. Nevertheless, preventive infrastructure has been constructed to minimize any possible impact or events that may occur. In addition, operational plans have been developed to incorporate good maintenance practice.

c) Closure and Post-closure Care Costs

The Authority 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 Authority commenced the closing of this tract of land. The Authority'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, 2018, management of the Authority 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 Authority 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.

16. CONTINGENCIES (CONTINUED)

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.

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 Authority 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.

16. CONTINGENCIES (CONTINUED)

f) Law No. 122 – Law of the New Government of Puerto Rico

Law No. 122 of December 18, 2017, was enacted to create the "New Puerto Rico Government Law", in order to empower the Governor of Puerto Rico to maximize the resources and personnel of the Executive Branch through the transfer, consolidation, reorganization, outsourcing and creation of new and more efficient government structures and agencies through an agile process with Reorganization Plans which will be reviewed by the Legislative Assembly for approval or rejection; according to the procedures described in this Law; arrange the powers and faculties of the heads of the agencies; repeal Law 182-2009, known as the "Law of Reorganization and Modernization of the Executive Branch 2009"; repeal Law 5-1993; and for other related purposes.

In the Plan for Puerto Rico, the Governor of Puerto Rico, Hon. Ricardo Rossello and the legislature's majority, is committed to create a new government that is fair, sensitive, efficient, effective, full, transparent and agile for the public administration.

To achieve the modernization of the governmental structure, the Government has begun to reformulate the current bureaucratic model and reduce spending on government structures by eliminating redundancy, consolidating functions, facilitating the transfer of employees, merging some dependencies, decentralizing services, using technology to simplify processes and interconnect all agencies and public corporations, among other measures.

This, with the clear objective of not allowing the dismissal of public employees. To this end, the Government has taken the following initiatives in the governmental sphere by enacting the following laws, among others:

a. Law 8-2017 that creates a Single Employer System in the Government of Puerto Rico.
b. Law 20-2017 that creates the Department of Public Security.
c. Law 26-2017 that creates the legal structure to comply with the Fiscal Plan certified in accordance with PROMESA.
d. Law 75-2017 that transforms the Public Service Commission to consolidate functions and avoid redundancies.
e. Law 81-2017 repealing the Office of the Commissioner of Municipal Affairs.
f. Law 106-2017 that guarantees pensions and restructures retirement systems.
g. Law 109-2017 authorizing the Restructuring of the Debt of the Government Development Bank.

Under the provisions of Law No. 122, the Governor is authorized to examine and evaluate the organization of all the agencies of the Executive Branch and its programs, in accordance with this Law and with the objectives of this Act.

The agencies created by this Legislative Assembly, with the exception of those listed in Article 2.01 of the Law, may be consolidated, outsourced and / or reorganized in accordance with the public policy established in this Law, through a Reorganization Plan. Said Reorganization Plans shall comply with the provisions of this Act.

16. CONTINGENCIES (CONTINUED)

a) Law No. 122 – Law of the New Government of Puerto Rico (Continued)

The Reorganization Plans will provide the pertinent recommendations for:

a) The transfer of all or any part of an agency or of all or any functions and programs thereof to another agency.
b) The consolidation of all or any part or function of an agency with another agency.
c) The review of functions or processes to streamline the provision of services;
d) The creation or consolidation of an agency.
e) The delegation or transfer of functions or powers of agencies to the municipalities of Puerto Rico or their consortiums, to the third sector or another entity.
f) The delegation of greater powers to the local and regional levels of the agencies to bring decision-making closer to citizens.
g) The establishment of parameters and operational guidelines to propitiate the efficient functioning of the agencies that are the object of the Reorganization Plan.

h) Change the name of any agency affected by any reorganization and the title of its head or its governing body, as well as designates the name of the new agency and the title of its head and the composition of the governing body.
i) Establish the compensation or salary of the head and / or officials of any agency; provided that it will never be superior to the one currently established by law for the same position or one of a similar nature. If appointed as head and / or officer in more than one agency, the remuneration or salary shall be the highest of those established by the laws creating said positions.
j) Detail the savings and / or projected efficiencies with the implementation of the Reorganization Plan.
k) Authorize the agencies to enact regulations, establish adjudicative processes, circular letters, administrative orders, regulations, as well as any other delegation that it deems necessary.
l) Any other function necessary for the achievement of the public policy of this Act and the powers delegated here.

As stated in this Law, the Governor will evaluate the functioning of all the agencies of the Executive Branch. Within this evaluation, the Governor will identify which agencies, offices, units, services or programs should be created, transferred, reorganized, grouped, consolidated or outsourced.

The Governor is authorized to use all the resources at his disposal to make the corresponding analysis. Once the Governor identifies which agencies, services or programs will be served, he will present one or several Reorganization Plans that will describe the new structure of the Government or part thereof with the functions and programs of the agencies as it is proposed to reorganize them. This Plan will establish any consolidation, outsourcing, creation, transfer, reorganization or grouping. It will also provide for the internal functioning and organization of the reorganized agency.

The Reorganization Plan will be presented by the Governor to the Legislative Assembly, who will have the power to approve or deny the proposed plan. The Plan will be attended to be approved or denied by the plenary of each Legislative Body.

17. COMMITMENTS

a) Strategic Plan for Recycling

The Authority 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. The Authority has continued with the planning and construction of the projects.

During June 2015, the Authority 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 3** and **4**, 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 Authority by the Commonwealth of Puerto Rico.

b) Dynamic Itinerary for Infrastructure Projects

During May, 2008, the Authority 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 Authority 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 Authority projects that financing for these projects will come from both the public and private sectors.

As described on **Notes 3** and **4**, 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 Authority by the Commonwealth of Puerto Rico.

18. 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.

In order to promote an adequate disposal of the debris caused by these catastrophic events, the Authority 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 Authority.

During the fiscal year June 30, 2018, the Authority received funds amounting to $5,549,569 from FEMA ($220,764 from DR-4336 and $5,328,805 from DR-4339). The Authority expended $832,076 during the fiscal year and recognized a deferred revenue balance of $4,717,493 at June 30, 2018, as follows:

	DR-4336	DR-4339	Total
Total funds received	$ 220,764	$ 5,328,805	$ 5,549,569
Total funds expended	(162,756)	(669,320)	(832,076)
Total deferred revenues	$ 58,008	$ 4,659,485	$ 4,717,493

19. ADOPTION OF NEW ACCCOUNTING PRONOUNCEMENTS

Effective July 1, 2017, the Authority adopted the provisions of the following GASB Statements:

- **GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB that is provided by other entities.

  This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multi-Employers Plans, for OPEB*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

- **GASB Statement No. 81**, ***"Irrevocable Split-Interest Agreements"*:** The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreements. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary.

  This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreements. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

  In addition, requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No. 85, *"OMNIBUS 2018"*:** The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

19. ADOPTION OF NEW ACCCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 85, *"OMNIBUS 2018" (Continued)*:**

  Specifically, this Statement addresses the following topics:

  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statements presentation.
  - Reporting amounts previously reported as goodwill and "negative" goodwill.
  - Classifying real estate held by insurance entities.
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurements focus.
  - Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
  - Presenting payroll-related measure in required supplementary information for purposes of reporting by OPEB plans and employers that provided OPEB.
  - Classifying employer-paid member contributions for OPEB.
  - Simplifying certain aspects of the alternative measurement method for OPEB.
  - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

- **GASB Statement No. 86, *"Certain Debt Extinguishment Issues"*:** The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2018 for the Authority:

- **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, 2018. Earlier application is encouraged.

- **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, 2018. 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, 2019. Earlier application is encouraged.

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **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, 2018. 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. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement.

  This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

  This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

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

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **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. 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, 2018. 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, 2020. Earlier application is encouraged.

20. 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.

  - 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.

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

    - 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.

    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.

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **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.

  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.

20. 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*" -** 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.

  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 Authority's financial statements, if any, has not yet been determined.

21. PRIOR PERIOD ADJUSTMENT

During December 22, 2017, the Authority received funds from GDB amounting to $6,118,992 related to an investment that was considered impaired and for which a loss of $6,091,017 was recognized during prior years. Also, the beginning balance of the voluntary termination benefits payable was adjusted by $1,355,226 to make a correction based on the analysis performed by the Puerto Rico Treasury Department. Accordingly, a prior period adjustment of $7,446,243 was recorded restating the Authority's net position (deficit) balance as of July 1, 2017. As a result of the adjustments described above, the Authority's beginning net position (deficit) was adjusted as follows:

Net position (deficit), at beginning of fiscal year, as previously reported	$	(20,424,953)
Prior period adjustment:		
Net proceeds from investments previously considered impaired		6,091,017
Correction of the balance of voluntary termination benefits		1,355,226
Total prior period adjustment		7,446,243
Net position (deficit), at beginning of fiscal year, as restated	$	(12,978,710)

22. 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.

As of June 30, 2018, the Authority maintains deposits on cash accounts and investments with the GDB for the amount of $9.6 million and $12.1 million, respectively. Based on the provisions of Circular Letter No. 1300-08-17, the Authority recognized an impairment reserve for deposits and investments held on the GDB at that date for the amount of $9.6 million and $12.1 million, respectively. Also, as presented on the statement of revenues, expenses and changes in net position (deficit), during the year the balance of net position (deficit) experienced an increase of $(10.7) million (from $(12.9) million in 2017, as restated, to $(23.7) million in 2018).

This situation has severely affected the financial position of the Authority. Consequently, the Authority has been unable to either comply with its financing obligations or have financing available to complete all scheduled infrastructure projects. The continuance of the Authority'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 Authority'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.

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

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

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

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

The Authority 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, 2018, the Authority incurred a loss before capital grants and contributions from the Commonwealth of Puerto Rico and other income and expenses of approximately $8.2 million. As of June 30, 2018, the Authority's current liabilities exceeded its current assets by approximately $22.8 million, and the Authority had an accumulated net position (deficit) of approximately $(23.7) million.

As described on **Note 11**, the Authority 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 $71.9 million as of June 30, 2018. At that date, accrued interest payable related to these lines of credit amounted to $22.9 million, approximately.

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

Also, described on **Note 12**, the Authority 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, 2018, 2017 and 2016, the Authority has defaulted on the payment of principal and interest of its bonds obligation.

As mentioned before, the Authority 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 Authority 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 Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided.

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 7, 2020, 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.

Law No. 171 – Reorganization Plan for the Department of Natural and Environmental Resources

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 ADS") 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.

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. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.9 billion owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

23. SUBSEQUENT EVENTS (CONTINUED)

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 Authority (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 Authority'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 Authority will also no longer be able to rely on GDB for future liquidity.

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.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Sub-recipients	Federal Expenditures
U.S. Department of Homeland Security:				
Pass-Through the Office of the Governor's Authorized Representative (COR3)				
Disaster Grant – Public Assistance (Presidentially Declared Disasters)	97.036	N/A	$ -	$ 809,304
Total Expenditures of Federal Awards			$ -	$ 809,304

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented using the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the modified basis of accounting. Expenditures are recognized when the related liability is incurred following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local govemment redistributions of federal awards to the Authority, known as "pass-through awards" should be treated by the Authority as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Statement of Revenues, Expenses and Changes in Net Position (Deficit) in the Authority's financial statements.

4. INDIRECT COST RATE

The Authority has elected not to use the ten percent of the minimis indirect cost rate allowed under the Uniform Guidance.

López-Vega, CPA, PSC

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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
Solid Waste Authority
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 governmental activities and each major fund of the **Solid Waste Authority (A component unit of the Commonwealth of Puerto Rico) ("the Authority")** as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the **Authority's** basic financial statements and have issued our report thereon dated August 7, 2020. The report was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, pension plan liability, pension expense, and related note disclosures required for the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosure required for the implementation of GASB Statement No. 75. In addition, as of June 30, 2018 capital assets have not been evaluated in order to identify any possible impairment 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 Authority will continue as a going concern. As discussed in **Note 22** to the financial statements, the Authority 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

In planning and performing our audit of the financial statements, we considered the **Authority'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 **Authority's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Authority's** internal control.

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 (CONTINUED)*

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questions costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questions costs as item **2018-001** to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questions costs as item **2018-002** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Authority'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 *Govemment Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2018-001** and **2018-002**

Authority's Response to Findings

The **Authority's** response to findings identified in our audit is described in the accompanying schedule of findings and questions costs. **Authority'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.

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 (CONTINUED)*

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 **Authority'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 **Authority's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
August 7, 2020
Stamp No. 2772618 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited **Solid Waste Authority (A component unit of the Commonwealth of Puerto Rico) ("the Authority")** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Authority's** major federal programs for the year ended June 30, 2018. The **Authority's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Uncertainty about ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concem. As discussed in **Note 22** to the financial statements, the Authority 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Authority's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Govemment Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Authority's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Authority's** compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Opinion on Each Major Federal Program

In our opinion, the **Authority** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questions costs as items **2018-003** and **2018-004**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the **Authority** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Authority's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Authority's** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questions costs as items **2018-003** and **2018-004** that we consider to be material weaknesses.

The **Authority's** response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questions costs. The **Authority's** response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
August 7, 2020
Stamp No. 2772619 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified	
Internal control over financial reporting:		
Material weakness identified?	X Yes	___No
Significant deficiencies identified not considered to be material weaknesses?	X Yes	___None reported
Noncompliance material to financial statements noted?	X Yes	___No

Federal awards

Internal Control over major programs:		
Material weakness identified?	X Yes	___No
Significant deficiencies identified not considered to be material weaknesses?	____Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	____Yes	X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
97.036	Disaster Grant – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs		$ 750,000
Auditee qualified as low-risk auditee?	____Yes	X No

Section II – Financial Statements Findings

Finding No. 2018-001

Requirement: Accounting System

Type of Finding: Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

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 authority ability to produce reliable financial statements.

During the audit of the Solid Waste Authority basic 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. For federal expenditures, the authority does not have a detail updated for all incurred expenditures during the fiscal year ended on June 30, 2018.
6. During our procedures of examination of federal files and project worksheets documentation, we noted that the authority does not maintain files properly identified by fiscal year files. The documents for the audit year 2017-2018 are mixed to fiscal year 2018-2019. Missing accounting records such as these, while typically indicative of general disorganization, can be a flag of a much more severe issue such as potential fraud or other such abuse. A significant effort should be undertaken to ensure that all supporting documents are located, and properly identified, filed and retained.
7. 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.

Section II – Financial Statements Findings (Continued)

Finding No. 2018-001 (Continued)

8. The authority lacks written policies outlining the expectations for journal entry authorization, documentation and review on a daily basis.

9. Personnel responsible for recording financial transactions did not fully understand the accounting transactions posted and how to recording of accounts receivable, accounts payable, depreciation and other expenses accounts. These transactions impact the accuracy of the accounting records.

10. During the audit process we noted over $513,378 of inaccurate accounts were identified in the general ledger.

11. During our analysis of accounts receivable, we noted that the SWA continues to have a problem with the collection on outstanding balances, specifically those related to receivables from the Puerto Rico Department of Natural Environmental Resources and the Puerto Rico Environmental Quality Board. As of June 30, 2018, net accounts receivables amounted to $4,508,567. The balance of the allowance for doubtful accounts amounted to $15,141,076. There are a large number of accounts that are past due or slow paying on a continuous and ongoing basis. We noted several accounts over 90 days due. The balance of total accounts receivable as of June 30, 2018 amounted to $19,649,643, of which $15,141,076 or 77% are included in the reserve for doubtful accounts. Our audit procedures disclosed a difference between the accounts receivable subsidiary balance and the general ledger balance as of June 30, 2018. We believe the main factor for contributing to this deficiency is the lack of reconciliation to the accounting records. This lack of reconciliation led to the inability to determine accurate accounts receivable balances and to assess account aging. During the audit we noted an un-reconciled difference of $38,630.

12. Depreciation and amortization expense was not analyzed and adjusted until year-end audit based upon the computation of the auditors. The audit adjustment proposed as of June 30, 2018 amounted to $403,179. Also, during our procedures, we noted that the authority does not maintain a property subsidiary ledger updated in order to maintain a proper record of the capital assets owned and additions during the fiscal year 2017-2018 to maintain depreciation record of those assets. There are no procedures for the reconciliation of the detailed fixed asset (Excel format) with the general ledger on a monthly basis.

13. Our procedures performed in the accounts payable disclosed that monthly reconciliations between the balance in the general ledger and the open invoices subsidiary are not being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in the reconciliation process.

Section II – Financial Statements Findings (Continued)

Finding No. 2018-001 (Continued)

14. Our procedures performed in the accrued expenses payable disclosed lack of analysis and reconciliation of balances. The balance of accrued compensated absences, Accrued voluntary benefits, interest payable and other liabilities were not analyzed and adjusted at year end.

Criteria

44 CFR, Part 13, Subpart C, Section 13.20 establish the following:

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to:

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and sub-grantees must meet the following standards:

(1) Financial reporting- Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.

(2) Accounting records- Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control- Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) Budget control- Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or sub-grant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Section II – Financial Statements Findings (Continued)

Finding No. 2018-001 (Continued)

(5) Allowable cost- Applicable OMB cost principles, agency program regulations, and the terms of grant and sub-grant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation- Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Cause of Condition

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.

Effect of Condition

Not preparing and submitting monthly reconciled financial statements to management does not allow management performing the following procedures:

1. Detection of any irregularities or instances of fraud on a timely basis,
2. Preparation of timely comparison between actual expenditures and budget,
3. Discussion of reports with the corresponding personnel and explanations of significant variations from budget,
4. Preparation of reports related to state and federal funding may be misleading for internal management decision making and for the reliability of external financial reporting, and
5. Compliance with corresponding financial reporting required by state and federal regulations.

Recommendations

The Authority 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:

Section II – Financial Statements Findings (Continued)

<u>Finding No. 2018-001 (Continued)</u>

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. We recommend that SWA review and 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.

7. We strongly recommend that procedures be established to ensure that accounts receivable balances are reconciled between the general ledger and the accounts receivable subsidiary system on a monthly basis. Any difference found should be investigated and resolved as soon as possible. This procedure will assist SWA in establishing reliable internal control for the billing and collections of accounts receivable.

8. We recommend that depreciation and amortization expense should be evaluated and adjusted on books on a monthly basis, in order to provide accurate monthly financial statements. We strongly recommend to the Authority, that the general ledger fixed asset accounts be reconciled to the detailed records on a monthly basis.

9. In order to maintain proper control over accounts payable, we recommend that the open invoice file be reconciled with the balances in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts payable supported by the subsidiary system.

10. In order to maintain proper control over accrued expenses and liabilities, we recommend that monthly reconciliation procedures shall be established in order to reconcile the balance of those accounts. If any difference is identified, it should be investigated and resolved immediately. These procedures will ensure that the balance in the general ledger reflects the accurate account balances supported by the related documentation.

Section II – Financial Statements Findings (Continued)

Finding No. 2018-001 (Continued)

Questioned Costs

None

Auditee Response

See Sub-Grantee's Corrective Action Plan

Finding No. 2018-002

Requirement: Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75

Type of Finding: Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)

Statement of Condition

Management has not implemented 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*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Authority's governmental activities has not been determined. In addition, the Authority's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 to comply with the requirements of GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Authority's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Criteria

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the Authority report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II – Financial Statements Findings

Finding No. 2018-002 (Continued)

Criteria (continued)

Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

Cause of Condition

The Authority'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.

Effect of Condition

The Authority's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Authority for the fiscal year ended June 30, 2018. Also, the required supplementary information has been omitted.

Recommendation

We recommend the Authority maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Costs

None

Auditee Response

See Sub-Grantee's Corrective Action Plan

Section III – Major Federal Award Program Findings and Questioned Costs

Finding No. 2018-003

Federal Agency:	United States Department of Homeland Security: Pass-through COR3
Federal Program Title and CFDA Number:	97.036 Disaster Grants – Public Assistance (Presidentially Declared)
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

Statement of Condition

As discussed in Finding **2018-001**, the Authority has several deficiencies regarding internal control structure over financial reporting. Due to such failure, the Authority might not have the ability to produce accurate federal reports on a timely basis and federal programs were not properly monitored as to compliance with applicable laws and regulations. Refer to that finding for more detail.

Criteria

Refer to finding **2018-001**

Cause of Condition

Refer to finding **2018-001**

Effect of Condition

Refer to finding **2018-001**

Recommendation

Refer to finding **2018-001**

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Finding No. 2018-004

Federal Agency:	United States Department of Homeland Security: Pass-through COR3
Federal Program Title and CFDA Number:	97.036 Disaster Grants – Public Assistance (Presidentially Declared)
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

Statement of Condition

The Authority had not submitted the Data Collection Form and Reporting Package for the year ended June 30, 2018. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30-day after the receipt of the auditor's reports or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Criteria

The Uniform Guidance 2 CFR Section 200.512(a) requires the audit to be completed and the reporting package and data collection form be submitted to the Federal Audit Clearinghouse ("FAC") nine months after the end of the audit period.

Cause of Condition

Inadequate procedures to follow up and ensure that reports are submitted according to reporting requirements.

Effect of Condition

The Authority is not complying with the reporting requirements set forth by federal regulations.

Recommendation

The Organization should adopt policies and procedures to ensure that the annual audit is performed and submitted in a timely manner.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

CORRECTIVE ACTION PLAN
Solid Waste Authorlty
Single Audit Report 2018
For the Fiscal Year ended June 30, 2018

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
Finding Reference 2018-001 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 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 process of the integrated accounting system, all related polices and procedure will be	Waiting for Treasury Department (DT) instructions.	TBA	Rafael Machargo, Secretary Office of the Secretary Ana T. Ortiz/ Marjorie Araujo Auxiliary Secretariat of Administration and Finance Division

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
	evaluated to identify the changes needed to improve the deficiencies mentioned in this Single Audit (SA) Report.			
Finding Reference 2018-002 Requirement: Implementation of Requirements set forth by GASB Statement No. 73 and GASB Statement No. 75 The Authority'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.	SWA will request the pension plan information (financial and technical) necessary to implement the GASB requirements to the Treasury Department and the Commonwealth's Employees Retirement System Administration in timely manner for submission to the auditors contracted. A follow-up will be given to make sure information is received on time.	In progress	March 31, 2021	Ana T. Ortiz Auxiliary Secretariat of Administration, Finance Division
Finding Reference 2018-003 Compliance Requirement: Reporting The Authority has several deficiencies regarding internal control structure over financial	See corrective action for Finding 2018-001.	Waiting for Treasury Department (DT) instructions.	TBA	Rafael Machargo, Secretary Office of the Secretary

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
reporting. Due to such failure, the Authority might not have the ability to produce accurate federal reports on a timely basis and federal programs were not properly monitored as to compliance with applicable laws and regulations. Refer to finding 2019-001 for more detail.				Ana T. Ortiz/ Marjorie Araujo Auxiliary Secretariat of Administration and Finance Division
Finding Reference 2018-004 Compliance Requirement: Reporting Inadequate procedures to follow up and ensure that reports are submitted according to reporting requirements.	Solid Waste Authority was merged to DNER as mandated by Law 171-2018. Therefore, DNER will contract an auditor firm to perform and submit the Single Audit in a timely manner.	Completed	Sept. 30, 2020	Ana T. Ortiz Secretariat of Administration and Finance Division

September 30, 2020

Prepared by:
Ana T. Ortiz Rivera
~~Acting~~ Auxiliary Secretary of Administration

Approved by:
Lcdo. Rafael Machargo Maldonado
Secretary