

**MUNICIPAL FINANCE CORPORATION**  
**(A Component Unit of The**  
**Commonwealth of Puerto Rico)**

**BASIC FINANCIAL STATEMENTS**  
**FISCAL YEARS ENDED**  
**JUNE 30, 2019 AND 2018**

**MUNICIPAL FINANCE CORPORATION**  
**(A Component Unit of The**  
**Commonwealth of Puerto Rico)**  
**BASIC FINANCIAL STATEMENTS**  
**FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

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## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

To the Board of Director of  
Municipal Finance Corporation  
San Juan, Puerto Rico

### Report on the Financial Statements

We have audited the accompanying statements of net position of the Municipal Finance Corporation (the "Corporation") as of June 30, 2019 and 2018, and the statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8 be presented to supplement the basic financial statements. Such information although is not a part of the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying Schedules of Close Year Liquidation, on pages 23 through 30, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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

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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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Juan, Puerto Rico  
September 23, 2020

*Ortiz, Rivera, Rivera & Co.*

The stamp E425964 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**MUNICIPAL FINANCE CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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This section represents the management's discussion and analysis of the Municipal Finance Corporation (the "Corporation") financial performance for the fiscal year ended June 30, 2019 and is presented as a narrative overview and analysis in conjunction with the basic financial statements. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

The Corporation was created for purposes of collecting and distributing the one percent (1%) of the municipal sales and use tax and to issue bonds and use other financing mechanism to pay or refinance debt of municipalities that is secured by the municipal sales and use tax.

### **1. Financial Highlights**

- As of June 30, 2019, the Corporation's total assets increased by approximately \$5.4 million or 10% when compared to 2018, as the net effect of the increase in cash, and the reduction of Due from Municipalities because the collections were in excess of transfers made to the municipalities.
- On May 17, 2018, the Board of Directors of the Corporation adopted Resolution 2018-06, which establishes that the Corporation has an outstanding debt of \$326,188,127 with the Government Development Bank for Puerto Rico (GDB) for advances made to municipalities. However, as of such date, the Corporation's deposits in GDB accounts amount to \$283,506,480, resulting in a net debt with GDB of \$42,681,647. On said date, GDB had a commitment to credit the Corporation's debt for \$22,608,952, coming from the restricted deposits held by GDB in the Municipal Administration Fund ("FAM", by its Spanish acronym) account, that was set-off in September 2018. Consequently, the Corporation paid to GDB the net amount of \$20,072,695 on June 2018, prior to the set-off.
- As of the end of fiscal year ended June 30, 2019, the Corporation change in net position was \$23.2 million due principally to Contribution from Commonwealth of approximately \$22.6 million.

### **2. Financial Statements Overview**

The discussion and analysis are required supplementary information to the basic financial statements of the Corporation. The basic financial statements comprise three components: (1) the independent auditors' report, (2) the management's discussion and analysis section, and (3) the basic financial statements of the Corporation. The notes to the basic financial statements explain in more detail some of the information in the financial statements.

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**3. Required Financial Statements**

The financial statements are designed to provide users of the financial statements with a broad overview of the Corporation's finances in a manner similar to private-sector companies. The Statement of Net Position presents information on all of the Corporation's assets and liabilities providing information about the nature and amount of its resources (assets) and the obligations to creditors (liabilities).

**4. Financial Analysis**

Net position may serve, overtime, to provide information on near-term assets and liabilities of spendable resources. Such information is useful in assessing the Corporation's financing requirements.

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Condensed financial information of the Corporation's assets, liabilities and net position is shown below:

	<b>2019</b>	<b>2018</b>
Current assets	\$ 59,402,399	\$ 54,009,273
Total assets	\$ 59,402,399	\$ 54,009,273
Current liabilities	\$ 25,921,622	\$ 43,723,717
Total liabilities	\$ 25,921,622	\$ 43,723,717
Net position	\$ 33,480,777	\$ 10,285,556
Total net position	\$ 33,480,777	\$ 10,285,556

As of June 30, 2019, the Corporation total assets exceeded total liabilities by \$33,480,777. Cash increased from \$33.0 million to \$41.4 million. The Due from Municipalities account decreased from \$20.7 million to \$17.9 million as a result of the collections in excess of transfers made to municipalities and related prior years settlements.

The liabilities decreased from \$43.7 million to \$25.9 million. This decrease is due to the set-off application as a final payment of an outstanding debt of \$22.6 million with GDB for advances made to municipalities until March 2016.

**5. Supplementary Information**

The statements are followed by the supplementary information that contains the Schedules of Close Year Liquidation.



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**6. Debt Administration**

In accordance with Act No. 19 of January 24, 2014, as amended, known as the "Municipal Finance Corporation Act" ("Act 19-2014"), the Corporation is authorized to issue bonds and to use other financing mechanisms to pay or refinance municipal debt secured by the municipal sales and use tax. As of June 30, 2019, the Corporation has not issued debt.

**7. Currently Known Facts**

Act 19-2014 created the Corporation as a public corporation and instrumentality of the Commonwealth of Puerto Rico ("Commonwealth") attached to GDB. Said Act establishes that GDB shall cover the operating expenses of the Corporation; provided, however, that if GDB cannot cover such expenses, the same shall be paid from the funds deposited in the Corporation's accounts, coming from the municipal sales and use tax collections.

The Corporation was created for the collection of the municipal sales and use tax for the benefit of the municipalities and the distribution of the collected funds to each municipality. As noted earlier, it was also created for purposes of issuing bonds or using other financing mechanisms to pay or refinance municipal debt secured by the municipal sales and use tax.

Act 19-2014, as originally enacted, authorized the GDB to make monthly advances to the municipalities in order to avoid that their cash flows be negatively affected each fiscal year until the municipalities' general fund start being nourished by the transfer of the collected funds. Furthermore, it establishes that the Corporation shall reimburse GDB for the advances made to the municipalities pursuant to said provision, before making any transfer of the collected funds to the municipalities' general fund.

In 2016, Act 19-2014 was amended to forbid advances to the municipalities starting from July 1st, 2016. Notwithstanding the foregoing, it provided that the Corporation shall continue making reimbursements to GDB for the advances made before July 1st, 2016.

On April 6, 2016, Act No. 21, as amended, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" ("Act 21-2016") was enacted to declare a moratorium on debt service payments and to delay related creditor remedies for a temporary period for the Commonwealth and certain of its instrumentalities, including GDB. Act 21-2016 allowed the Governor of Puerto Rico to take any and all actions that are reasonable and necessary to allow GDB to continue carrying out its operations.

Chapter VI of Act 21-2016 created the Puerto Rico Fiscal Agency and Financial Advisory Authority (the "Authority") which was established as an independent public corporation and governmental instrumentality with separate legal existence, fiscal and administrative autonomy and independence from the Commonwealth. The Authority

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was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, commissions, authorities, municipalities and political subdivisions, and to assist such entities in confronting the grave fiscal and economic emergency that the Commonwealth is currently experiencing. All fiscal agency, financial advisory and reporting functions of GDB were transferred to the Authority. Note that, on January 18, 2017, the Puerto Rico Legislative Assembly enacted Act No. 2 that repealed Chapter VI of Act 21-2016 and created a new Authority.

On April 8, 2016, the Governor of Puerto Rico signed Executive Order No. 2016-010 (EO 2016-010) declaring the GDB in state of emergency pursuant to Act 21-2016. EO 2016-010 implemented a regulatory framework governing GDB's operations and liquidity by prohibiting loan disbursements and establishing a procedure with respect to withdrawals, payments and transfer requests with respect to funds held on deposits at GDB by the Commonwealth, its instrumentalities, including the Corporation, and municipalities. The withdrawal, payment and transfer of funds held on deposit at GDB were restricted to those reasonable and necessary to ensure the provision of essential services and the GDB was authorized to establish weekly limits on the aggregate amount of such disbursements. Moreover, EO 2016-010 prohibited GDB depositors to write out checks creditable against their funds deposited at GDB, unless they obtain a temporary waiver from GDB. Pursuant to EO 2016-010, on April 12, 2016, the Puerto Rico Department of Treasury and the Puerto Rico Office of Management and Budget issued Circular Letter No. 1300-31-16 DH \ 130-16 OGP to establish specific procedures to be followed by the Commonwealth instrumentalities to request the disbursement of their funds deposited at GDB.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which creates the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") to provide Puerto Rico with fiscal and economic discipline. As determined by the Oversight Board, the Corporation is a covered entity subject to PROMESA and its requirements.

In that sense, even when the Corporation has not been required to prepare and submit a Fiscal Plan to the Oversight Board, it has the obligation of submitting its Budget for the Oversight Board's prior approval and certification. It should be noted that the Corporation had no Budget for fiscal year 2018, since GDB covered the operating expenses of the Corporation, as provided by Act 19-2014. On March 2019, COFIM requested to Oversight Board a bridging budget of \$442,200 from an approved budget of \$1,128,533, pursuant to Section 2029(f) of PROMESA, to cover its operational expenses during the remaining months of fiscal year 2019. On May 6, 2019, the Oversight Board issue the compliance certification that the revised fiscal year 2019 budget for COFIM in the amount of \$442,000 is a compliant budget.

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On June 30, 2016, the Governor of Puerto Rico signed an Executive Order, EO-2016-030 ("EO 30"), declaring the Commonwealth to be in state of emergency and declaring a moratorium on the Commonwealth's obligation to make payments on bonds, and notes issued or guaranteed by the Commonwealth. EO 30 suspends any obligation of the Office of Management and Budget of the Commonwealth to include an appropriation in the proposed budget submitted to the Legislative Assembly for the payments of bonds issued by the Public Finance Corporation.

The Governor of Puerto Rico signed Act No. 5 of January 29, 2017, known as the "Puerto Rico Fiscal Responsibility and Financial Emergency Act" ("Act 5-2017"), superseding and amending Act No. 21 of April 6, 2016, known as the "Emergency Moratorium and Financial Rehabilitation of Puerto Rico Act". Act 5-2017 declares the Commonwealth to be in state of emergency and declaring a moratorium on the Commonwealth's obligation to make payments on bonds, and notes issued or guaranteed by the Commonwealth.

In 2017, the Oversight Board approved and certified the fiscal plan of GDB providing for the wind-down of its operations. Likewise, with the fiscal challenges affecting GDB and given the reduced services it was providing since 2016, GDB's leadership decided that an orderly wind-down of its operations and consensual negotiations with its creditors will be the optimal path.

## **8. Contacting the Corporation's Financial Management**

This financial report is designed to provide all interested parties with a general overview of the Corporation's finances and to facilitate the Corporation's accountability for the resources it manages. Questions concerning any of the information provided in this report or requests for additional information should be addresses to Municipal Finance Corporation, PO Box 42001, San Juan, Puerto Rico 00940-2001.

**MUNICIPAL FINANCE CORPORATION**  
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**STATEMENTS OF NET POSITION**  
**JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash <b>(Note 3)</b>	\$ 41,410,730	\$ 33,031,804
Accounts receivable <b>(Note 4)</b>	5,250	230,190
Interest receivable	60,100	-
Due from Municipalities <b>(Note 6)</b>	17,926,319	20,747,279
Total assets	59,402,399	54,009,273
 <b>LIABILITIES</b>		
Accounts payable <b>(Note 5)</b>	10,412,993	13,699,596
Due to Municipalities <b>(Note 6)</b>	15,508,629	7,415,169
Due to Government Development Bank <b>(Note 7)</b>	-	22,608,952
Total liabilities	25,921,622	43,723,717
 <b>NET POSITION</b>		
Unrestricted	33,480,777	10,285,556
Total net position	\$ 33,480,777	\$ 10,285,556

The accompanying notes are an integral part of these financial statements.

**MUNICIPAL FINANCE CORPORATION**  
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**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES</b>		
Municipal sales and use taxes	\$ 136,161,306	\$ 122,039,083
Total operating revenues	136,161,306	122,039,083
<b>OPERATING EXPENSES</b>		
Distribution of municipal sales and use tax to municipalities	136,161,306	122,039,083
General and administrative	53,050	-
Total operating expenses	136,214,356	122,039,083
<b>OPERATING (EXPENSES) INCOME</b>	(53,050)	-
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contribution from Commonwealth and GDB	22,608,952	4,427,641
Recovery of impairment loss on deposits with governmental bank	-	242,897,351
Other income	24,625	29,575
Interest income	1,406,435	3,043,152
Bank charges	(791,741)	(785,282)
Total non-operating revenue (expenses)	23,248,271	249,612,437
<b>CHANGE IN NET POSITION</b>	23,195,221	249,612,437
<b>NET POSITION AT BEGINNING OF THE YEAR</b>	10,285,556	(239,326,881)
<b>NET POSITION AT THE END OF THE YEAR</b>	\$ 33,480,777	\$ 10,285,556

The accompanying notes are an integral part of these financial statements.

**MUNICIPAL FINANCE CORPORATION**  
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**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from municipal sales and use taxes	\$ 139,207,206	\$ 123,925,949
Cash paid to municipalities	<u>(131,407,499)</u>	<u>(104,800,669)</u>
Net cash provided by operating activities	<u>7,799,707</u>	<u>19,125,280</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from contributions	22,608,952	4,427,641
Repayment to advances and others	<u>(23,376,068)</u>	<u>(304,334,882)</u>
Net cash used in financing activities	<u>(767,116)</u>	<u>(299,907,241)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Recovery of impairment loss on deposits with governmental bank	-	242,897,351
Interest received on investment	<u>1,346,335</u>	<u>3,043,152</u>
Net cash provided by investing activities	<u>1,346,335</u>	<u>245,940,503</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	8,378,926	(34,841,458)
<b>CASH AT BEGINNING OF YEAR</b>	<u>33,031,804</u>	<u>67,873,262</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 41,410,730</u>	<u>\$ 33,031,804</u>
<b>RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Change in net position	\$ (53,050)	\$ -
Adjustment to reconcile change in net position to net cash provided by operating activities		
Changes in assets and liabilities:		
(Increase) decrease		
Accounts receivable	224,940	(29,015)
Due from municipalities	2,820,960	1,737,969
Increase (decrease)		
Account payable	(3,286,603)	13,699,596
Due to municipalities	<u>8,093,460</u>	<u>3,716,730</u>
Net cash provided by operating activities	<u>\$ 7,799,707</u>	<u>\$ 19,125,280</u>

The accompanying notes are an integral part of these financial statements.



**MUNICIPAL FINANCE CORPORATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**1. REPORTING ENTITY**

The Municipal Finance Corporation (the "Corporation") is a public corporation and an independent instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 19 of January 24, 2014, as amended ("Act 19-2014"), which is attached to the Government Development Bank for Puerto Rico ("GDB").

The Corporation was created for purposes of collecting and distributing the one percent (1%) of the municipal sales and use tax and to issue bonds or use other financing mechanisms to pay or refinance municipal debt secured by the municipal sales and use tax. Act 19-2014 also includes special provisions for municipalities that chose not to be covered by said Act.

The Corporation final settlement of the 1% municipal transfer is presented as supplementary information on the Schedule of Close Year Liquidation. The Schedule of Close Year Liquidation has been prepared on the cash basis of accounting. Sales and use tax revenues are recorded when collected and deducted when distributed to the municipalities.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as applicable to governmental entities.

The Corporation applies all Governmental Accounting Standards Board (GASB) pronouncements. GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental entities.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**a. Basis of Presentation, Measurement Focus, and Basis of Accounting**

The financial report of the Corporation consists of the Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statement and supplementary information. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus:

- Management's Discussion and Analysis - It consists of a narrative introduction and analytical overview of the Corporation's financial statements. It is similar to the analysis the private sector provides in their annual reports.
- Basic Financial Statements – The basic financial statements report uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues consist primarily of the collection of the 1% municipal sales and use tax. Operating expenses consist primarily of the distribution of the municipal sales and use tax.

- Notes to the Basic Financial Statements ("NBFS") – The NBFS provide additional information essential for a full understanding of the data provided in the Statement of Net Position. The NBFS can be found immediately following the basic financial statements.

Net position is classified in the following three components in the accompanying statement of net position:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* – This result when constraints on the net position use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

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*Unrestricted Net Position* – This consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified. When both restricted and unrestricted resources are available for use, generally, it is the Corporation’s policy to use restricted resources first, then the unrestricted resources as they are needed.

**b. Use of Estimates**

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

**c. Future Adoption of Accounting Pronouncements**

GASB has issued the following accounting pronouncements that may have a future impact on the accounting and financial reporting practices and policies of the Corporation:

<b>GASB Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
83	Certain Assets Retirement Obligation	2019-2020
84	Fiduciary Activities	2020-2021
87	Leases	2021-2022
88	Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements	2019-2020

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

<b>GASB Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
89	Accounting for Interest Cost Incurred before the End of a Construction Period	2021-2022
90	Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61	2020-2021
91	Conduit Debt Obligations	2022-2023
92	Omnibus 2020	2020 to 2022
93	Replacement of Interbank Offered Rates (IBOR)	2021 to 2022
94	Public Private and Public-Public Partnership and Availability Payment Arrangement	2022-2023
95	Postponement of the effective dates of Certain authoritative Guidance	May 2020
96	Subscription-Based Information Technology Arrangements	2022-2023
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 supersession of GASB Statement No. 32.	June 2020 to 2022

The impact of these statements on the Corporation's basic financial statements has not yet been determined.

### **3. CASH**

#### **a. Deposits**

The Corporation is authorized to deposit only in bank institutions approved by the Department of Treasury of the Commonwealth. Such deposits should be kept in separate accounts in the name of the Corporation. Under the Commonwealth's

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statutes, public funds, deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. It is the Corporation's policy to have all bank account openings approved by the Board.

**b. Custodial Credit Risk**

Custodial credit risk – deposits; is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Corporation maintains cash deposits in one commercial bank located in Puerto Rico. Under the Commonwealth's status, 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 Corporation are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Corporation's name. The total deposits in commercial bank amounted to \$41,410,730 and \$33,031,804 as of June 30, 2019 and 2018, respectively.

In 2018, the District Court for Puerto Rico approved the GDB RSA as it concluded that the Qualifying Modification provisions pursuant to Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) had been satisfied. This approved restructuring will require during fiscal year 2019, as it is executed, certain offsets between financial instruments assets and liabilities held by GDB.

**Deposits in commercial banks**

The Corporation has the following depository accounts in a commercial bank:

<b>Depository Account</b>	<b>Bank Balance at June 30, 2019</b>	<b>Bank Balance at June 30, 2018</b>
Deposits insured by the FDIC	\$ 250,000	\$ 250,000
Deposits subject to the collateral requirements	<u>41,160,730</u>	<u>32,781,804</u>
Total deposits	<u>\$ 41,410,730</u>	<u>\$ 33,031,804</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**4. ACCOUNTS RECEIVABLE**

These amounts are related to the municipal sales and use tax collections made by the Collectors' Municipalities and submitted to the Corporation after fiscal years ended June 30, 2019 and 2018, are the following:

<u>Municipality of</u>	<u>2019</u>	<u>2018</u>
Trujillo Alto	\$ -	\$ 181,521
Toa Baja	-	4
Vieques	-	570
Río Grande	2	3,413
Arroyo	84	-
Hormigueros	321	11
Las Piedras	-	61
Caguas	2,049	909
Vega Baja	10	17
Camuy	-	93
Barceloneta	-	18
Corozal	15	-
Naranjito	-	30
Yauco	-	4,399
Ponce	122	-
Rincón	269	-
Coamo	49	-
San Sebastián	19	9
Aguadilla	408	316
Guayanilla	4	-
Aibonito	26	10
Toa Alta	-	221
Añasco	-	91
Vega Alta	-	247
Aguada	5	1,124
Barranquitas	-	38
Comerío	-	81
Sabana Grande	-	242



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<u>Municipality of</u>	<u>2019</u>	<u>2018</u>
Arecibo	\$ -	\$ 5,039
Cayey	5	-
Dorado	264	-
Fajardo	-	14,344
Naguabo	398	-
Salinas	655	-
Gurabo	-	2,093
Humacao	392	-
Isabela	116	436
Jayuya	-	12
Juana Díaz	16	2,001
Lajas	21	-
Loíza	-	22
Manatí	-	11,222
Utuado	-	122
San Lorenzo	-	1,474
	<u>\$ 5,250</u>	<u>\$ 230,190</u>

**5. ACCOUNTS PAYABLE**

The amount of accounts payable includes the municipal sales taxes and use taxes distribution of the last month of the fiscal year ended and paid to the Municipalities after fiscal year ended, and other administrative expenses.

	<u>2019</u>	<u>2018</u>
Municipal sales and use taxes	\$ 10,359,943	\$ 13,699,596
Administrative services	16,000	-
Audit fees	37,050	-
Total assets	<u>\$ 10,412,993</u>	<u>\$ 13,699,596</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**6. DUE FROM / DUE TO MUNICIPALITIES**

The amount Due from Municipalities consists of the transfers made in excess of the collected funds. The amount Due to Municipalities represents the funds collected in excess to the transfers of money made to the municipalities during the fiscal year. The Corporation is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts transferred to the municipalities and amounts collected from taxpayers. The Corporation prepares a settlement not later than October 31, after the end of the fiscal year (see supplementary information). The amount Due from Municipalities will be recognized and amortized through or pro rata deductions from the next fiscal year collections. The amount Due to Municipalities is paid at settlement.

The total amounts Due from / Due to Municipality are the following (see supplementary information):

	<u>2019</u>	<u>2018</u>
Due from municipalities	<u>\$ 17,926,319</u>	<u>\$ 20,747,279</u>
Due to municipalities	<u>\$ 15,508,629</u>	<u>\$ 7,415,169</u>

**7. DUE TO GOVERNMENTAL DEVELOPMENT BANK (GDB)**

This amount is owed by the Corporation to GDB for the monthly advances made to the municipalities in relation to the municipal sales and use tax. As of June 30, 2019, and 2018, the outstanding principal amounts due to the GDB were \$0 and \$22,608,952, respectively.

On May 17, 2018, the Board of Directors of the Corporation adopted Resolution 2018-06, which establishes that the Corporation has an outstanding debt of \$326,188,127 with GDB for advances made to municipalities. However, as of such date, the Corporation's deposits in GDB accounts amount to \$283,506,480, resulting in a net debt with GDB of \$42,681,647. On said date, GDB had a commitment to credit the Corporation's debt for \$22,608,952, coming from the restricted deposits held by GDB in the Municipal Administration Fund ("FAM", by its Spanish acronym) account, that was set-off in September 2018. Consequently, the Corporation paid to GDB the net amount of \$20,072,695 on June 2018 prior to the set-off.

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**8. SUBSEQUENT EVENTS**

Subsequent events were evaluated through September 23, 2020, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the June 30, 2019 and 2018 basic financial statements.

**Recent Temporary Changes to the Sales and Use Tax**

***Seismic Activity***

During the last weeks of December 2019 and the first weeks of January 2020, Puerto Rico experienced a sequence of seismic events, the most significant of which was a 6.4 magnitude earthquake in the early morning hours of January 7, 2020. As a result, the Governor declared a state of emergency and, on January 9, 2020, the Secretary of the Puerto Rico Department of Treasury (the Secretary of Treasury) issued Administrative Determination 20-01 providing an exemption to natural persons on the payment of sales and use taxes imposed on prepared foods and certain other drink and confectioned food products. This exemption was in effect until January 31, 2020.

On January 31, 2020, the Secretary of Treasury issued Administrative Determination 20-02 extending the sales and use tax exemption on prepared foods. This exemption, however, was limited to certain municipalities in the south of Puerto Rico that were principally affected by the seismic activity. This exemption was in effect until February 29, 2020.

***Effect of Coronavirus AID (COVID-19)***

The outbreak of a new strain of coronavirus named SARS-CoV-2 and the disease caused thereby COVID-19, an upper respiratory tract illness first identified in Wuhan, China, has spread to numerous countries across the globe, including the U.S. and Puerto Rico. COVID-19 has been characterized as a pandemic by the World Health Organization and resulted in a declaration of a national emergency by the Federal Government on March 13, 2020.

On March 12, 2020, the Governor of Puerto Rico issued Executive Order 2020-20 to declare a state of emergency in view of the imminent impact of COVID-19 on the island.

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On March 15, 2020, the Governor of Puerto Rico issued Executive Order 2020-23 to implement the closure of governmental and private sector operations in order to prevent and control the spread of COVID-19 in Puerto Rico. This order has been modified and extended until September 11, 2020. As a result of the COVID-19 emergency, the Secretary of Treasury has issued several related administrative determinations.

On March 18, 2020, the Secretary of Treasury issued Administrative Determination 20-07 providing an exemption to natural persons on the payment of sales and use taxes ("SUT") imposed on basic needs articles necessary for the prevention of the spread of COVID-19. Articles covered by the exemption include hand sanitizer, isopropyl alcohol, vinyl gloves, and items used to disinfect, among other articles. This exemption is in effect from March 20, 2020 to April 30, 2020.

On March 18, 2020, the Secretary of the Treasury also issued Administrative Determination 20-08 providing an exemption to natural persons on the payment of SUT imposed on prepared foods and certain other drink and confectioned food products. This exemption was in effect from March 20, 2020 to April 19, 2020 and is designed to address the financial burdens currently faced by residents of Puerto Rico due to the ongoing quarantine imposed by the Government halt the spread of COVID-19. On April 20, 2020, Treasury Department Administrative Determination 20-11 extended the SUT exemption on prepared foods until May 3, 2020.

On March 24, 2020, the Secretary of the Treasury issued Administrative Determination 20-10 to provide certain cash flow relief to Puerto Rico resellers due to the closing of businesses decreed by the Governor as a result of the COVID-19 pandemic. Specifically, Puerto Rico resellers will be exempt temporarily from the payment of sales and use tax upon importation or purchase. This exemption is temporary and will be effective from April 6, 2020 through June 30, 2020.

On March 27, 2020, President Donald J. Trump signed a major disaster declaration for Puerto Rico and ordered federal assistance to supplement local recovery efforts in connection with the COVID-19 pandemic.

Then, on March 31, 2020, the Governor of Puerto Rico issued OE-2020-029 for the extension of the steps and additional strictish to lockdown governmental and private services to deter and control the risk of contagion of COVID-19. After various executive orders, on May 1, 2020, the Governor of Puerto Rico issued the OE-2020-038 to establish the necessary steps to reactivate the economy and for a gradual recuperation in various phases.

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**Act No. 107-2020**

On August 14, 2020, the Governor enacted Act No. 107-2020, establishing the Municipal Code of Puerto Rico. This Act revokes, among others, Act No. 19-2014, as amended, known as the “Municipal Financing Corporation Law”. This Code includes eight (8) books subdivided into chapters and articles. Book VII, entitled "Municipal Treasury", establishes the norms, rules and laws related to income and financing for the operation of municipalities. Chapter VII, titled “Municipal Financing Corporation”, describes the operation and responsibilities of the Corporation in its articles 7.302 to 7.306.

## **SUPPLEMENTARY INFORMATION**



**MUNICIPAL FINANCE CORPORATION**  
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**SCHEDULE OF CLOSE YEAR LIQUIDATION**  
**JUNE 30, 2019**

<b>Municipality of</b>	<b>Collections</b>	<b>Advances to Municipality</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Adjuntas	\$ 143,235	\$ 141,741	\$ -	\$ 1,494
Aguada	1,256,351	1,237,816	-	18,535
Aguadilla	3,823,902	3,765,931	-	57,971
Aguas Buenas	436,392	433,412	-	2,980
Aibonito	1,069,867	1,075,480	5,613	-
Añasco	819,621	798,884	-	20,737
Arecibo	3,237,297	3,185,067	-	52,230
Arroyo	342,461	345,820	3,359	-
Barceloneta	3,462,091	3,436,877	-	25,214
Barranquitas	709,262	704,476	-	4,786
Bayamón	459,193	459,193	-	-
Cabo Rojo	1,706,687	1,649,466	-	57,221
Caguas	18,762,332	18,345,933	-	416,399
Camuy	889,147	866,246	-	22,901
Canóvanas	50,307	50,307	-	-
Carolina	564,614	564,614	-	-
Cataño	5,153,555	5,142,260	-	11,295
Cayey	4,338,189	4,264,907	-	73,282
Ceiba	214,013	214,836	823	-
Ciales	298,179	295,559	-	2,620
Cidra	1,505,641	1,475,279	-	30,362
Coamo	806,930	786,014	-	20,916
Comerío	297,053	292,498	-	4,555
Corozal	770,085	743,116	-	26,969
Culebra	196,723	194,738	-	1,985
Dorado	3,513,947	3,403,984	-	109,963
Fajardo	3,557,398	3,510,806	-	46,592
Florida	148,055	148,582	527	-
Guánica	330,589	320,491	-	10,098
Guayama	2,442,487	2,418,211	-	24,276
Guayanilla	306,298	303,919	-	2,379
Guaynabo	898,832	898,832	-	-
Gurabo	1,830,955	1,808,987	-	21,968

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**SCHEDULE OF CLOSE YEAR LIQUIDATION (CONTINUED)**  
**JUNE 30, 2019**

<b>Municipality of</b>	<b>Collections</b>	<b>Advances to Municipality</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Hatillo	\$ 5,814,089	5,738,851	\$ -	\$ 75,238
Hormigueros	1,185,571	1,126,334	-	59,237
Humacao	4,148,316	4,044,720	-	103,596
Isabela	2,295,796	2,046,876	-	248,920
Jayuya	387,192	355,306	-	31,886
Juana Díaz	1,613,429	1,573,232	-	40,197
Juncos	1,159,343	1,142,168	-	17,175
Lajas	611,817	600,864	-	10,953
Lares	646,794	630,682	-	16,112
Las Marías	68,147	67,396	-	751
Las Piedras	1,090,068	1,075,346	-	14,722
Loíza	319,526	322,140	2,614	-
Luquillo	638,756	618,751	-	20,005
Manatí	3,674,768	3,555,234	-	119,534
Maricao	25,931	25,148	-	783
Maunabo	101,632	98,288	-	3,344
Mayagüez	51,054	51,054	-	-
Moca	806,431	793,511	-	12,920
Morovis	615,428	601,774	-	13,654
Naguabo	434,171	428,660	-	5,511
Naranjito	920,903	888,790	-	32,113
Orocovis	476,398	466,990	-	9,408
Patillas	342,394	353,257	10,863	-
Peñuelas	456,361	448,085	-	8,276
Ponce	14,938,423	14,673,648	-	264,775
Quebradillas	619,598	612,937	-	6,661
Rincón	620,465	617,735	-	2,730
Río Grande	1,812,979	1,743,283	-	69,696
Sabana Grande	566,867	571,046	4,179	-
Salinas	845,955	824,665	-	21,290
San Germán	1,358,976	1,322,256	-	36,720
San Juan	1,245,777	-	-	1,245,777
San Lorenzo	1,218,692	1,203,240	-	15,452
San Sebastián	1,484,958	1,463,133	-	21,825

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**JUNE 30, 2019**

<b>Municipality of</b>	<b>Collections</b>	<b>Advances to Municipality</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Santa Isabel	\$ 1,694,982	1,660,949	\$ -	\$ 34,033
Toa Alta	1,326,612	1,297,337	-	29,275
Toa Baja	6,197,295	6,059,307	-	137,988
Trujillo Alto	2,476,516	2,388,199	-	88,317
Utua	647,451	636,774	-	10,677
Vega Alta	1,597,696	1,590,511	-	7,185
Vega Baja	2,090,327	2,027,191	-	63,136
Vieques	404,678	394,472	-	10,206
Villalba	297,626	290,578	-	7,048
Yabucoa	686,247	669,919	-	16,328
Yauco	1,803,183	1,777,368	-	25,815
	<u>\$ 136,161,306</u>	<u>\$ 132,162,287</u>	<u>\$ 27,978</u>	<u>\$ 4,026,997</u>

Due from Municipality as of June 30, 2019 related to prior year settlement.

<b>Municipality of</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Bayamón	\$ 6,544,840	\$ -
Mayagüez	5,119,331	
Carolina	3,227,930	
Guaynabo	2,267,450	
Canóvanas	738,790	
Unassigned		11,481,632
Subtotal	<u>17,898,341</u>	<u>11,481,632</u>
Total	<u>\$ 17,926,319</u>	<u>\$ 15,508,629</u>

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**JUNE 30, 2018**

<b>Municipality of</b>	<b>Collections</b>	<b>Advances to Municipality</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Adjuntas	\$ 91,879	\$ 91,894	\$ 15	\$ -
Aguada	1,080,444	1,081,449	1,005	-
Aguadilla	3,396,339	3,394,688	-	1,651
Aguas Buenas	402,591	405,195	2,604	-
Aibonito	984,851	981,323	-	3,528
Añasco	725,346	726,622	1,276	-
Arecibo	2,779,371	2,793,650	14,279	-
Arroyo	328,351	331,761	3,410	-
Barceloneta	3,137,898	3,125,036	-	12,862
Barranquitas	574,925	573,650	-	1,275
Bayamón	363,610	363,610	-	-
Cabo Rojo	1,512,034	1,513,818	1,784	-
Caguas	16,878,771	16,878,771	-	-
Camuy	782,216	786,477	4,261	-
Canóvanas	29,517	29,517	-	-
Carolina	215,753	215,753	-	-
Cataño	4,738,149	4,585,864	-	152,285
Cayey	4,421,144	4,418,804	-	2,340
Ceiba	190,448	189,332	-	1,116
Ciales	241,768	241,874	106	-
Cidra	1,307,912	1,314,108	6,196	-
Coamo	718,765	718,765	-	-
Comerío	253,197	253,464	267	-
Corozal	706,818	698,122	-	8,696
Culebra	145,429	145,286	-	143
Dorado	2,871,003	2,822,759	-	48,244
Fajardo	3,450,956	3,416,600	-	34,356
Florida	141,436	142,209	773	-
Guánica	265,620	265,762	142	-
Guayama	2,213,197	2,230,821	17,624	-
Guayanilla	274,360	276,217	1,857	-
Guaynabo	431,032	431,032	-	-
Gurabo	1,559,926	1,540,489	-	19,437

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**JUNE 30, 2018**

<b>Municipality of</b>	<b>Collections</b>	<b>Advances to Municipality</b>	<b>Due from Municipality</b>	<b>Due to Municipality</b>
Hatillo	\$ 5,363,558	\$ 5,370,065	\$ 6,507	\$ -
Hormigueros	1,057,500	1,057,500	-	-
Humacao	3,543,935	3,573,107	29,172	-
Isabela	2,029,902	1,952,061	-	77,841
Jayuya	337,773	337,087	-	686
Juana Díaz	1,520,004	1,520,004	-	-
Juncos	1,072,532	1,081,832	9,300	-
Lajas	554,888	559,112	4,224	-
Lares	616,202	617,009	807	-
Las Marías	59,523	59,554	31	-
Las Piedras	942,696	938,766	-	3,930
Loíza	243,069	250,282	7,213	-
Luquillo	529,517	525,082	-	4,435
Manatí	3,191,646	3,154,332	-	37,314
Maricao	19,407	19,407	-	-
Maunabo	81,026	83,066	2,040	-
Mayagüez	31,083	31,083	-	-
Moca	712,836	716,052	3,216	-
Morovis	548,335	548,335	-	-
Naguabo	412,305	406,912	-	5,393
Naranjito	724,279	724,903	624	-
Orocovis	388,203	392,819	4,616	-
Patillas	270,686	262,592	-	8,094
Peñuelas	379,801	381,050	1,249	-
Ponce	14,187,419	14,153,318	-	34,101
Quebradillas	485,505	489,086	3,581	-
Rincón	497,257	501,608	4,351	-
Río Grande	1,551,345	1,552,358	1,013	-
Sabana Grande	517,402	511,685	-	5,717
Salinas	741,063	741,063	-	-
San Germán	1,245,063	1,245,063	-	-
San Juan	1,083,075	290,972	-	792,103
San Lorenzo	1,050,488	1,046,872	-	3,616
San Sebastián	1,353,335	1,341,731	-	11,604

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**JUNE 30, 2018**

<u>Municipality of</u>	<u>Collections</u>	<u>Advances to Municipality</u>	<u>Due from Municipality</u>	<u>Due to Municipality</u>
Santa Isabel	\$ 1,479,044	\$ 1,479,044	\$ -	\$ -
Toa Alta	1,194,833	1,187,576	-	7,257
Toa Baja	5,595,744	5,548,932	-	46,812
Trujillo Alto	2,429,544	2,429,544	-	-
Utuado	614,713	600,604	-	14,109
Vega Alta	1,405,558	1,389,883	-	34,211
Vega Baja	1,918,161	1,923,489	23,864	-
Vieques	320,740	319,294	-	1,446
Villalba	239,650	241,181	1,531	-
Yabucoa	641,553	643,077	1,524	-
Yauco	1,641,829	1,641,829	-	-
	<u>\$ 122,039,083</u>	<u>\$ 120,824,943</u>	<u>\$ 160,462</u>	<u>\$ 1,374,602</u>

Due from Municipality as of June 30, 2018 related to prior year settlement.

<u>Municipality of</u>	<u>Due from Municipality</u>	<u>Due to Municipality</u>
Bayamón	\$ 7,004,033	\$ -
Mayagüez	5,170,386	-
Carolina	3,792,544	-
Guaynabo	3,166,282	-
Canóvanas	789,097	-
Caguas	219,570	-
Vega Baja	113,176	-
Yauco	53,592	-
Coamo	57,987	-
Santa Isabel	44,522	-
Cabo Rojo	30,111	-
Río Grande	23,862	-
Morovis	25,923	-
San Germán	16,540	-
Juana Diaz	23,728	-

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**JUNE 30, 2018**

<u>Municipality of</u>	<u>Due from Municipality</u>	<u>Due to Municipality</u>
Maricao	\$ 730	\$ -
Trujillo Alto	17,688	-
Adjuntas	17,245	-
Hormigueros	9,877	-
Vega Alta	4,099	-
Las Marías	2,929	-
Salinas	2,896	-
Unassigned	-	6,040,567
Subtotal	<u>20,586,817</u>	<u>6,040,567</u>
Total	<u>\$ 20,747,279</u>	<u>\$ 7,415,169</u>