



# GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial  
Advisory Authority

## Municipal Secondary Market Disclosure Information Cover Sheet Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

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**THIS FILING RELATES TO A SINGLE BOND ISSUE:**

Name of bond issue exactly as it appears on the cover of the Official Statement:

\_\_\_\_\_

Nine-digit CUSIP\* numbers if available, to which the information relates:

\_\_\_\_\_

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**THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:**

Issuer's Name: Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym)

Other Obligated Person's Name (if any): \_\_\_\_\_

Nine-digit CUSIP number(s): Restructured Sales Tax Bonds, Series 2019A-1: 74529JPU3, 74529JPV1, 74529JPW9, 74529JPX7, 74529JQB4, 74529JQC2, 74529JQD0, 74529JQE8, 74529JQF5, 74529JQG3, 74529JQH1; Series 2019A-2: 74529JQY4, 74529JRJ6, 74529JPY5, 74529JRH0, 74529JPZ2, 74529JRK3, 74529JQA6, 74529JRL1, 7452JQ0; Series 2019B-1: 74529JQJ7, 74529JQK4, 74529JQL2, 74529JQM0, 74529JQR9, 74529JQS7, 74529JQT5, 74529JQU2, 74529JQV0, 74529JQW8, 74529JQX6; Series 2019B-2: 74529JRM9, 74529JRN7, 74529JRP2.

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**TYPE OF INFORMATION PROVIDED:**

- A.  Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: \_\_\_\_\_

- B.  Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: 2018-19

- C.  Notice of Failure to Provide Annual Financial Information as Required

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I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Manuel González del Toro

Manuel González del Toro  
Puerto Rico Fiscal Agency and Financial Advisory Authority,  
as Fiscal Agent for COFINA

Dated: May 1, 2020



**PUERTO RICO SALES TAX FINANCING CORPORATION**  
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and  
Required Supplementary Information

June 30, 2019

(With Independent Auditors' Report Thereon)

**PUERTO RICO SALES TAX FINANCING CORPORATION**  
(A Component Unit of the Commonwealth of Puerto Rico)

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## Independent Auditors' Report

The Board of Directors  
Puerto Rico Sales Tax Financing Corporation:

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the Puerto Rico Sales Tax Financing Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the 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 financial statements in accordance with U.S. generally accepted accounting principles; 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 financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Puerto Rico Sales Tax Financing Corporation, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

### Emphasis of Matter

#### *Emphasis of Matter Regarding Exit of Title III of PROMESA*

As discussed in notes 1, 3 and 4 to the basic financial statements, on May 5, 2017, the Oversight Board created by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) filed a petition for



relief under Title III of PROMESA similar to bankruptcy. On February 5, 2019, the Title III Court entered an order confirming the Corporation's Third Amended Plan of Adjustment (the Plan). The Plan became effective in accordance with its terms on February 12, 2019, and the Corporation emerged from Title III of PROMESA. Our opinions are not modified with respect to this matter.

**Other Matter**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG LLP*

San Juan, Puerto Rico  
May 1, 2020

Stamp No. E403550 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**PUERTO RICO SALES TAX FINANCING CORPORATION**  
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2019

As management of the Puerto Rico Sales Tax Financing Corporation (the Corporation or COFINA), we offer readers of the Corporation's financial statements this narrative overview and analysis of its financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the Corporation's basic financial statements, including the notes thereto, which follow this section.

**Financial Highlights**

- The Corporation has gone through a judicially supervised restructuring proceeding under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). On February 5, 2019, the Title III Court issued the Confirmation Order, which confirmed the Corporation's Title III Plan of Adjustment (the COFINA Plan of Adjustment, as defined in Note 4 to the basic financial statements) and thereby quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Confirmation Order is full, final, complete, conclusive, and binding regarding the Corporation's ownership of the COFINA Revenues and shall not be subject to collateral attack or other challenge in any court or other forum, except as permitted under applicable law. The Confirmation Order is the subject of various appeals before the United States Court of Appeals for the First Circuit that the Corporation believes are non-meritorious. Management's position is that ownership of the COFINA Revenues is a purely legal question, and nothing in the accounting and reporting policies is intended to modify, displace, amend or alter any finding of fact or conclusion of law as to any issue determined in any of the Operative Documents (as defined below).
- The Corporation's net deficit in the statement of net deficit decreased to \$4,367.9 million at June 30, 2019 from \$9,432.9 million at June 30, 2018. The decrease in net deficit is principally due to an extraordinary gain of approximately \$6,260.6 million resulting from transactions related to the COFINA Plan of Adjustment (as defined below and discussed in Note 4 to the basic financial statements). This amount was offset by interest expense on Sales Tax Revenue Bonds of approximately \$1,161.9 million and approximately \$49.4 million in funds distributable to the Commonwealth in accordance with the provisions of the COFINA Plan of Adjustment.
- Sales and use tax (SUT) collections decreased to \$420.2 million in fiscal year 2019 from \$753.1 million in fiscal year 2018, a decrease of approximately \$333 million. This decrease was due to the agreement reached between the agents representing the Financial Oversight and Management Board as representative of COFINA and the Commonwealth of Puerto Rico (the Commonwealth) to resolve the Commonwealth-COFINA Dispute (as discussed in Note 4 to the basic financial statements). The agreement, among other things, allocated 53.65% of the original Pledged Sales Tax Base Amount (as defined in the COFINA Plan of Adjustment) to COFINA (the COFINA Revenues) and 46.35% to the Commonwealth, reducing the portion allocated to a segregated fund or funds owned by the Corporation into which the COFINA Revenues are deposited (the COFINA Revenues Fund).
- While the Corporation continued to make transfers to the trustee under the old COFINA bond regime, payments to holders of the old COFINA bonds were not disbursed from June 2017 to February 12, 2019, pursuant to an order by the United States District Court for the District of Puerto Rico (the Title III Court) requiring the trustee to interplead the June 1, 2017 payment and any future payments of principal and interest on senior and subordinated Corporation sales tax revenue bonds until entry of a final order directing the timing and manner of disbursement of such funds. On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which provided for the allocation of the disputed funds. The governmental funds statements of revenues, expenditures and changes in fund balance and the statement of activities for

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June 30, 2019

the fiscal year ended June 30, 2019, include the transactions before and after the Corporation emerged from its Title III case on February 12, 2019.

- On February 12, 2019, the Corporation emerged from its case under Title III of PROMESA. On that date, the Corporation consummated the COFINA Plan of Adjustment. Consummation of the COFINA Plan of Adjustment together with the enactment of Act No. 241 of 2018 (Act 241-2018) provided for the restructuring of COFINA's bonds, quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them, and established a board of directors with financial and operating independence from the Commonwealth and corporate governance consistent with such independence.
- In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds with a face value of approximately \$12 billion on account of their approximately \$18 billion in claims, which are secured by a statutory lien on the COFINA Revenues. The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019.

**Overview of the Financial Statements**

These basic financial statements include the management's discussion and analysis section, the independent auditor's report, and the basic financial statements of the Corporation. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

These basic financial statements and notes thereto should be read in conjunction with certain public documents concerning the Corporation. These basic financial statements provide a description for the readers' convenience and are qualified in their entirety by reference to the provisions of Act 241-2018 (discussed in Note 1 to the basic financial statements), and the COFINA Plan of Adjustment, the Findings and Conclusions, and the Confirmation Order (each as defined and discussed in Note 4 to the basic financial statements and below under the heading "COFINA Emergence from Title III of PROMESA" in this section; the COFINA Plan of Adjustment, the Findings and Conclusions, and the Confirmation Order are available without charge at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>). To the extent there is any discrepancy between the description contained herein and the terms set forth in each of these documents (the Operative Documents), the terms set forth in the Operative Documents control.

**Required Financial Statements**

- The statement of net deficit provides information about the nature and amounts of resources (assets) and the Corporation's obligations (liabilities).
- Current year revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Corporation's operations over the past year.
- Governmental funds' financial statements present the financial position and results of operations of the Corporation's two governmental fund types using a current financial resources measurement focus. The statement of revenues, expenditures, and changes in fund balance can be used to determine, for example, whether and how the Corporation met its debt service requirements for the year.

**Financial Analysis**

In evaluating the Corporation's finances, in addition to the Corporation's assets and liabilities, various non-financial factors, such as changes in economic conditions, and new or changed legislation should be considered. Due to the nature of the Corporation's activities, the Corporation's financial strength and ability to repay its

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obligations is solely dependent on the portion of the SUT collected and used to fund the debt service fund. The confirmed COFINA Plan of Adjustment signified the end of the Corporation's restructuring under the PROMESA Title III process and included sweeping changes to its financial situation, as discussed throughout the notes to the basic financial statements. It should be noted that the Corporation's PROMESA Title III process has not yet been completed and that certain issues and disputes related to that process remain ongoing (as discussed in Notes 14 and 15 to the basic financial statements).

For additional information about the portion of the Pledged Sales Tax Base Amount owned by the Corporation and used to fund the debt service fund, refer to Note 4 to the basic financial statements.

**Government-Wide Financial Analysis**

The following is a condensed summary of net deficit for the Corporation at June 30, 2019 and 2018 (in thousands) presented from an accounting perspective:

	<u>June 30</u>		<u>Change</u>	
	<u>2019</u>	<u>2018</u>	<u>Amount</u>	<u>Percent</u>
Assets:				
Future sales and use tax				
Receivable	\$ 7,738,396	\$ 8,158,581	\$ (420,185)	(5.2)%
Other assets	<u>224,417</u>	<u>1,269,016</u>	<u>(1,044,599)</u>	(82.3)
Total assets	<u>7,962,813</u>	<u>9,427,597</u>	<u>(1,464,784)</u>	(15.5)
Total deferred outflow of sources	<u>-</u>	<u>100,102</u>	<u>(100,102)</u>	(100.0)
Liabilities:				
Accounts payable and other	173,736	998,791	(825,055)	(82.6)
Liabilities payable from				
restricted assets	<u>12,157,012</u>	<u>17,868,731</u>	<u>(5,711,719)</u>	(32.0)
Total liabilities	<u>12,330,748</u>	<u>18,867,522</u>	<u>(6,536,774)</u>	(34.6)
Total deferred inflow of sources	<u>-</u>	<u>93,091</u>	<u>(93,091)</u>	(100.0)
Net deficit –				
unrestricted	<u>\$ (4,367,935)</u>	<u>\$ (9,432,914)</u>	<u>\$ 5,064,979</u>	(53.7)%

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, the material components of which were the quieting of title to certain sales and use tax revenues and resolution as a legal matter of the Corporation's sole and exclusive ownership of those revenues pursuant to the final settlement between COFINA and the Commonwealth and the restructuring of all claims against COFINA and the Commonwealth relating to pre-existing indebtedness of the Corporation through, among other things, the issuance of restructured bonds.

As noted above, the Corporation's net deficit at June 30, 2019 was \$4,367.9 million, a decrease of \$5,065 million (or 53.7%) from its net deficit of \$9,432.9 million at June 30, 2018. The decrease in net deficit is mainly due to the extraordinary gain of \$6,260.6 million resulting from transactions related to the COFINA Plan of Adjustment. This amount was reduced by interest expense on Sales Tax Revenue Bonds of approximately \$1,161.9 million and approximately \$49.4 million in payments to the Commonwealth in accordance with the provisions of the COFINA Plan of Adjustment.



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At June 30, 2019, the Corporation had \$12,157 million of bonds payable issued and outstanding, a decrease of approximately \$5,711.7 million (or 32%) from \$17,868.7 million at June 30, 2018. In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds issued by COFINA in accordance with the COFINA Plan of Adjustment with a face value of approximately \$12 billion on account of their approximately \$18 billion in pre-Title III claims. The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019. Upon confirmation of the COFINA Plan of Adjustment by the Title III Court, the pre-petition liabilities that were subject to the plan were discharged and the Corporation was bound to the new and lower debt repayment terms set forth in the COFINA Plan of Adjustment. Deferred charges related to discharged debt obligations were eliminated from the fiscal year 2019 financial statements.

Future sales and use tax (SUT) collections are recognized as revenue in the fund financial statements upon the Corporation's receipt of such collections. In the government-wide financial statements, these payments reduce the amounts identified as the future sales and use tax receivable. The Corporation's receipt of COFINA Revenues for fiscal year 2019 of approximately \$420.2 million reduced the balance of the future sales and use tax receivable as of June 30, 2019.

As of June 30, 2019, the Corporation recorded approximately \$4.2 million to cover any unfavorable outcome related to an administrative claim dispute with the Internal Revenue Service which seeks the return of post-petition direct subsidy payments with respect of certain pre-petition bonds (discussed in Note 15 to the basic financial statements).

Condensed revenues, expenses, and change in net deficit for the year ended June 30, 2019 and 2018, are presented below (in thousands):

	June 30		Change	
	2019	2018	Amount	Percent
Expenses:				
Payments to the Commonwealth of Puerto Rico	\$ (49,455)	\$ —	\$ (49,455)	100.0%
Interest on long-term debt	(1,161,892)	(1,013,876)	(148,016)	14.6%
Other	(6,274)	(4,320)	(1,954)	45.2%
Total expenditures	<u>(1,217,621)</u>	<u>(1,018,196)</u>	<u>(199,425)</u>	19.6%
Program revenues:				
Investment earnings	21,233	9,933	11,300	113.8%
Other	775	—	775	100.0%
Total revenues	<u>22,008</u>	<u>9,933</u>	<u>12,075</u>	121.6%
Extraordinary item:				
Gain on PROMESA Title III	6,260,592	—	6,260,592	100.0%
Total extraordinary item	<u>6,260,592</u>	<u>—</u>	<u>6,260,592</u>	100.0%
Change in net deficit	<u>\$ 5,064,979</u>	<u>\$ (1,008,263)</u>	<u>\$ 6,073,242</u>	(602.3)%

Total interest expense on long-term debt for the fiscal year ended June 30, 2019 was approximately \$1,161.9 million, an increase of \$148 million (or 14.6%) when compared to 2018. The increase in the interest expense on

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long-term debt is mainly related to the impact of the discount on capital appreciation bonds of old and restructured new bonds.

The completion of the Corporation's restructuring under the PROMESA Title III process, the settlement of the Commonwealth-COFINA Dispute, other settlements and the discharge of claims under the COFINA Plan of Adjustment resulted in an aggregated extraordinary gain of approximately \$6.3 billion for fiscal year 2019.

All expenses incurred in connection with the development, negotiation, confirmation and consummation of the COFINA Plan of Adjustment and the compromise and settlement of the Commonwealth-COFINA Dispute were paid from the funds distributable to the Commonwealth in accordance with the provisions of the COFINA Plan of Adjustment and otherwise by the Commonwealth. On February 12, 2019, COFINA made distribution payments aggregating to \$49.4 million to the Commonwealth as part of the COFINA Plan of Adjustment.

Interest income on investments increased in fiscal year 2019 when compared to the previous fiscal year due to the accumulation of funds transferred by the Corporation to the trustee for debt service which were invested until the Title III Court determined the timing and manner in which interpleaded funds were distributed.

#### **Governmental Fund Financial Analysis**

The Corporation's governmental funds reported a total fund balance as of June 30, 2019 and 2018, of \$201.9 million and \$533.5 million, respectively. The debt service fund is funded with the receipts of sales and use tax and interest thereon. For the years ended June 30, 2019 and 2018, the receipts of sales and use tax amounted to \$420.2 million and \$753.1 million, respectively.

#### **Debt Administration**

As of June 30, 2019, the Corporation's outstanding bonds balance was \$12,157 million, after taking into account an unaccreted discount of \$135.7 million. In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds worth approximately \$12 billion on account of their approximately \$18 billion in claims, which are secured by a statutory lien on the COFINA Pledged Taxes (as defined in the COFINA Plan of Adjustment). The New COFINA Bonds (as used herein, the term "New COFINA Bonds" will have the same meaning as the term "COFINA Bonds" in the COFINA Plan of Adjustment) include: (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019. On July 1, 2019, the Corporation made its scheduled payments of principal and interest of \$18.9 million and \$168.8 million, respectively, on its New COFINA Bonds from the \$420.2 million of COFINA Revenues for fiscal year 2019 held in the COFINA Revenues Fund.

The newly issued bonds are payable on various dates through fiscal year 2058. The New COFINA Bonds do not have a debt service reserve fund nor rights of acceleration.

As of June 30, 2018, the Corporation's outstanding bonds balance was \$17,868.7 million, after taking into account an unamortized bond premium of \$70.4 million, and an unaccreted discount of \$101.4 million. During the year ended June 30, 2018, while the Corporation continued to make transfers to the trustee under the old COFINA bond regime, payments to holders of the old COFINA bonds were not disbursed from June 2017 to February 12, 2019, pursuant to the Title III Court's May 30, 2017 order requiring the trustee to interplead the June 1, 2017 payment and any future payments of principal and interest on senior and subordinated Corporation sales tax revenue bonds until entry of a final order directing the timing and manner of disbursement of such funds (as discussed in Note 14 to the basic financial statements in regard to *Bank of New York Mellon v. COFINA, et al.* Adv. Proc. No. 17-00133

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(D.P.R.)). Under the Title III Court's May 30, 2017 order and its related June 1, 2017 Memorandum Opinion, the Corporation was deemed to have made all required payments of principal and interest, and no payment default was deemed to have occurred due to the Corporation's payments being interpleaded. On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which provided for the allocation of the interpleaded funds.

**COFINA's Credit Ratings**

During the fiscal years 2019 and 2018, COFINA was subject to certain credit downgrades by the major credit rating agencies and currently, the outstanding bonds of the Corporation are not rated. The following table summarizes the Corporation's credit ratings as of June 30, 2019 and 2018:

Agency	Date	Sales Tax Revenue Bonds	
		Senior Lien Series	First Subordinate Series
Moody's	06/30/19	NR	NR
	06/30/18	Ca	Ca
S&P	06/30/19	NR	NR
	06/30/18	NR	NR
Fitch	06/30/19	NR	NR
	06/30/18	D	D

**Puerto Rico Oversight, Management and Economic Stability Act**

On June 30, 2016, the then-President of the United States signed PROMESA into law. In general terms, PROMESA seeks to provide the Commonwealth and its component units, including the Corporation, with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities, including the Corporation; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the United States Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

**Oversight Board Commencement of Title III Case**

On May 1, 2017, the stay under Title IV of PROMESA expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities, including the Corporation, to resume. On May 3, 2017, the Oversight Board, at the request of the Governor of Puerto Rico (the Governor), commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Corporation by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

The Bank of New York Mellon (BNYM), in its capacity as trustee for the sales tax revenue bonds issued by the Corporation (in such capacity, the Trustee), filed the Interpleader Action (as defined in Note 14 of the basic financial statements) in the Corporation's Title III case to preserve the funds held by the Trustee in trust pending resolution by the Title III Court of all disputes with respect to ownership of the funds. The Title III Court entered an order requiring the Trustee to interplead and hold all disputed funds (commencing with the \$16.3 million bond payment due on June 1, 2017) in the accounts into which they had been deposited for the benefit of the party or parties ultimately determined by the Title III Court to be entitled to such funds. The Title III Court's order also

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allowed creditors to litigate competing claims to the funds held by the Trustee. For further information on the Interpleader Action, refer to Note 14 of the basic financial statements.

Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code sections 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). After commencement of the Title III cases, certain stakeholders (bondholders, creditors, guarantors, investors and others) commenced various adversary proceedings in the Title III cases challenging the constitutionality of the law that created COFINA and the ownership of future SUT revenues.

As further discussed below, on February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which became effective on February 12, 2019. By the Confirmation Order, the Title III Court quieted the Corporation's title to the COFINA Revenues, and definitively resolved as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

**Settlement of Commonwealth-COFINA Dispute**

As further discussed in Note 14 of the basic financial statements, certain stakeholders (bondholders, creditors, guarantors, investors and others) commenced various adversary proceedings in COFINA's Title III case challenging the constitutionality of the law that created COFINA and ownership of the future SUT revenues.

Questions regarding the Commonwealth and COFINA's respective ownership interests in the SUT revenues pledged as collateral for the then-existing COFINA bonds were at the center of COFINA's Title III case (the Commonwealth-COFINA Dispute). To expedite resolution of the Commonwealth-COFINA Dispute, the Oversight Board proposed the appointment of representatives for the Commonwealth and COFINA. Under a stipulation and order entered by the Title III Court, the Commonwealth Agent and COFINA Agent were appointed on August 10, 2017.

On June 7, 2018, the Commonwealth Agent and COFINA Agent publicly announced the terms of an agreement in principle [Case No. 17-257, Docket No. 486] (the Agreement in Principle) to resolve the Commonwealth-COFINA Dispute. The Agreement in Principle was premised on splitting the Pledged Sales Tax Base Amount (also called the PSTBA) between the Commonwealth and COFINA. The PSTBA is the amount established under Act 91, as amended (as defined and discussed in Note 1 to the basic financial statements), and the Sales Tax Revenue Bond Resolution, as amended and restated (the Bond Resolution), that must be received by COFINA from 5.5% of the SUT before the Commonwealth can receive any of the other 5.5% SUT. Under the Agreement in Principle, COFINA would receive (a) 53.65% of the yearly scheduled PSTBA and (b) all of the cash held in trust at BNYM, as trustee under the Bond Resolution. The Commonwealth would receive the remaining 46.35% of the PSTBA.

After extensive legal proceedings, on August 29, 2018, COFINA, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), the Oversight Board, and various holders and insurers of COFINA's bonds (collectively, the Settlement Parties) entered into that certain Plan Support Agreement dated August 29, 2018 (the Original PSA), that contemplates, among other things, (i) the compromise and settlement of the Commonwealth-COFINA Dispute, consistent with the Agreement in Principle, providing COFINA with an ownership interest in an amount up to 53.65% of the PSTBA; (ii) the Commonwealth's assumption of all expenses incurred by the Commonwealth or the COFINA in connection with the development, negotiation, confirmation and consummation of the COFINA Plan of Adjustment and the compromise and settlement of the Commonwealth-COFINA Dispute; and (iii) the Title III Court's approval of the compromise and settlement concurrently through a plan of adjustment in COFINA's Title III case and a settlement motion in the Commonwealth's Title III case. The Plan Support Agreement of August 29, 2018 was amended and restated on September 20, 2018 (the Amended PSA).

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**COFINA Emergence from Title III of PROMESA**

On November 8, 2018, new legislation to amend and restate Act 91 to establish the legal framework for the restructuring of COFINA's then-outstanding bonds was passed by the Legislative Assembly of the Commonwealth (the Legislative Assembly). On November 15, 2018, the Governor signed into law the new legislation as Act No. 241 of 2018 (Act 241-2018). Act 241-2018 established the legal framework for the restructuring of COFINA's then-outstanding bonds by, among other things, authorizing the issuance of New COFINA Bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment.

On February 12, 2019, the Corporation emerged from its Title III case. On that date, the Corporation consummated the COFINA Plan of Adjustment. The COFINA Plan of Adjustment together with Act 241-2018 adjusted COFINA's debts, which resulted in COFINA issuing new bonds. By the Confirmation Order, the Title III Court quieted the Corporation's title to the COFINA Revenues, thereby definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Confirmation Order and the Findings and Conclusions provide:

- “This Order is full, final, complete, conclusive, and binding and shall not be subject to collateral attack or other challenge in any court or other forum, except as permitted under applicable law. Confirmation of the Plan constitutes a judicial determination, pursuant to section 4 of PROMESA, that the terms of this Order shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent therewith.” Confirmation Order ¶ 1(B)(ii).
- “Subject to the occurrence of and upon the Effective Date, ownership of the COFINA Revenues shall have been legally and validly transferred to Reorganized COFINA, and such transfer of ownership shall have been an absolute transfer of all legal and equitable right, title, and interest in the COFINA Revenues, free and clear of all liens, claims, encumbrances, and other interests of any party (except for the statutory lien that arises automatically, pursuant to the terms of the New Bond Legislation, to secure the COFINA Bonds).” Confirmation Order ¶ 1(B)(v).
- “The Plan . . . provides for an agreed upon allocation of the Pledged Sales Taxes premised upon this Court's approval of the Settlement and confirmation of the Plan, and, upon such approval, the COFINA Revenues shall be the sole and exclusive property of COFINA, and shall not be property of the Commonwealth or available to the Commonwealth.” Findings and Conclusions ¶ 175.
- “Reorganized COFINA's sole and exclusive ownership of the COFINA Revenues shall not be affected in any way by the manner of or control over collection, any person who collects or holds the COFINA Revenues shall do so on behalf of Reorganized COFINA, and no person or entity that collects or holds the COFINA Revenues shall have any legal or equitable right, title, or interest to the COFINA Revenues other than Reorganized COFINA, for the benefit of holders of the COFINA Bonds.” Confirmation Order ¶ 1(B)(viii).
- Under the Settlement Agreement between the Commonwealth and COFINA, the Commonwealth agreed, on behalf of itself and its governmental entities, “not to take any action that would, among other things, (a) impair COFINA's right to receive the COFINA Revenues, (b) limit or alter the rights vested in COFINA in accordance with the Plan to fulfill the terms of the COFINA Bonds, (c) materially adversely impair the collection of the COFINA Pledged Taxes in any fiscal year, or (d) impair the rights and remedies of the holders of the COFINA Bonds or the statutory lien established under Article 3.2 of the New Bond Legislation[.]” Confirmation Order ¶ 1(B)(xi).

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The COFINA Plan of Adjustment also established an independent board of directors with robust corporate governance and financial and operating independence from the Commonwealth.

**Request for Information**

This financial report is designed to provide those interested with a general overview of the Corporation's finances and to enhance the Corporation's accountability for the funds it receives. Questions about this report or requests for additional information should be addressed to Puerto Rico Sales Tax Financing Corporation, PO Box 42001, San Juan, Puerto Rico, 00940-2001. Additional information can also be found at: [www.cofina.pr.gov](http://www.cofina.pr.gov).

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Governmental Funds Balance Sheets and Statement of Net Deficit

June 30, 2019

	<b>Governmental Funds Balance Sheets</b>			<b>Adjustments</b>	<b>Statement of Net Position (Deficit)</b>
	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>		
<b>Assets:</b>					
Deposit placed with commercial bank	\$ 21,991,028	\$ -	\$ 21,991,028	\$ -	\$ 21,991,028
Cash held by trustee	-	189,349,766	189,349,766	-	189,349,766
Future sales and use tax receivable	-	7,738,396,018	7,738,396,018	-	7,738,396,018
Prepaid expenses and other assets	243,617	-	243,617	-	243,617
Investments	-	12,832,869	12,832,869	-	12,832,869
Total assets	<u>22,234,645</u>	<u>7,940,578,653</u>	<u>7,962,813,298</u>	<u>-</u>	<u>7,962,813,298</u>
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	808,921	-	808,921	4,201,956	5,010,877
Accrued interest payable	-	-	-	168,724,840	168,724,840
Unearned revenue - sales and use tax	-	7,738,396,018	7,738,396,018	(7,738,396,018)	-
Bonds payable, net					
Due within one year	-	-	-	19,606,660	19,606,660
Due in more than one year	-	-	-	12,137,405,766	12,137,405,766
Total liabilities	<u>808,921</u>	<u>7,738,396,018</u>	<u>7,739,204,939</u>	<u>4,591,543,204</u>	<u>12,330,748,143</u>
<b>Fund balance/net position (deficit):</b>					
Fund balance:					
Restricted	-	202,182,635	202,182,635	(202,182,635)	-
Unassigned	21,425,724	-	21,425,724	(21,425,724)	-
Total fund balance	<u>21,425,724</u>	<u>202,182,635</u>	<u>223,608,359</u>	<u>(223,608,359)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 22,234,645</u>	<u>\$ 7,940,578,653</u>	<u>\$ 7,962,813,298</u>		
<b>Net deficit:</b>					
Unrestricted				(4,367,934,845)	(4,367,934,845)
Net deficit				<u>\$ (4,367,934,845)</u>	<u>\$ (4,367,934,845)</u>

See accompanying notes to basic financial statements.

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Reconciliation of Governmental Funds Balance Sheets to the  
Statement of Net Deficit

June 30, 2019

Total fund balances - governmental funds:	\$	223,608,359
Amounts reported for governmental activities in the statement of net deficit are different because:		
Accrued interest payable is not due and payable in the current period, and, therefore, is not reported in the fund financial statements		(168,724,840)
Contingent liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(4,201,956)
Bonds and notes payable are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(12,157,012,426)
Future sales and use tax receivable does not constitute current financial resources, and, therefore, is unearned in the fund financial statements		<u>7,738,396,018</u>
Net deficit of governmental activities	\$	<u>(4,367,934,845)</u>

See accompanying notes to basic financial statements.



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Governmental Funds Statements of Revenues,  
Expenditures, and Changes in Fund Balance and Statement of Activities

June 30, 2019

	Statements of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances			Adjustments	Statement of Activities
	General Fund	Debt Service Fund	Total		
Expenditures/expenses:					
General government:					
Payments to the Commonwealth of Puerto Rico	\$ 49,455,397	\$ -	\$ 49,455,397	\$ -	\$ 49,455,397
Other	853,037	1,218,536	2,071,573	4,201,956	6,273,529
Debt service:					
Principal	-	47,950,000	47,950,000	(47,950,000)	-
Interest	-	851,833,318	851,833,318	310,058,803	1,161,892,121
Total expenditures/expenses	<u>50,308,434</u>	<u>901,001,854</u>	<u>951,310,288</u>	<u>266,310,759</u>	<u>1,217,621,047</u>
Program revenues:					
Collections of sales and use tax	-	420,185,325	420,185,325	(420,185,325)	-
Investment earnings	112,630	21,120,074	21,232,704	-	21,232,704
Other income	775,431	-	775,431	-	775,431
Total revenues	<u>888,061</u>	<u>441,305,399</u>	<u>442,193,460</u>	<u>(420,185,325)</u>	<u>22,008,135</u>
Net program revenue (expenses)	<u>(49,420,373)</u>	<u>(459,696,455)</u>	<u>(509,116,828)</u>	<u>(686,496,084)</u>	<u>(1,195,612,912)</u>
Other financing sources (uses):					
Transfers (out) in	64,768,322	(64,768,322)	-	-	-
Total other financing sources (uses)	<u>64,768,322</u>	<u>(64,768,322)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Extraordinary item:					
Gain (loss) on PROMESA Title III transaction	(100,000)	193,115,090	193,015,090	6,067,577,065	6,260,592,155
Total extraordinary item	<u>(100,000)</u>	<u>193,115,090</u>	<u>193,015,090</u>	<u>6,067,577,065</u>	<u>6,260,592,155</u>
Total other financing sources (uses) and extraordinary item	<u>64,668,322</u>	<u>63,578,446</u>	<u>193,015,090</u>	<u>6,067,577,065</u>	<u>6,260,592,155</u>
(Deficiency) excess of revenues and other financing sources over expenditures and other financing uses	15,247,949	(331,349,687)	(316,101,738)	316,101,738	-
Change in net deficit	-	-	-	5,064,979,243	5,064,979,243
Fund balance/net deficit:					
At beginning of year	6,177,775	533,532,322	539,710,097	(9,972,624,185)	(9,432,914,088)
At end of year	<u>\$ 21,425,724</u>	<u>\$ 202,182,635</u>	<u>\$ 223,608,359</u>	<u>\$ (4,591,543,204)</u>	<u>\$ (4,367,934,845)</u>

See accompanying notes to basic financial statements.

**PUERTO RICO SALES TAX FINANCING CORPORATION**  
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Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in  
Fund Balance and Statement of Activities

June 30, 2019

Net changes in fund balances - total governmental funds:	\$	(316,101,738)
Amounts reported for governmental activities in the statement of activities are different because:		
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(4,201,956)
Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net deficit		47,950,000
Net change in interest payable reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds		31,145,456
Accretion on capital appreciation bonds does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds		(341,870,178)
Full accrual adjustments related to PROMESA Title III		
Other PROMESA Title III related transactions		81,335,211
Extraordinary item - discharge of bonds payable		18,007,563,671
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position		(12,021,321,817)
Collections of sales and use tax provide current financial resources to governmental funds; however, represent repayments of the Future sales and use tax receivable in the statement of activities		(420,185,325)
The amortization of bond discount/premium, and gain/loss on bond defeasance do not require the use of current financial resources and, therefore, are not reported as revenues/expenditures in governmental funds:		
Amortization of bond discount/premium		652,247
Amortization of gain/loss on bonds defeased		13,672
Change in net deficit of governmental activities	\$	<u>5,064,979,243</u>

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Notes to Basic Financial Statements

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**(1) Reporting Entity**

The Puerto Rico Sales Tax Financing Corporation (the Corporation or COFINA) is a public corporation and instrumentality of the Commonwealth of Puerto Rico (Commonwealth), constituting a corporate and political entity independent and separate from the Commonwealth. The Corporation was created by the Legislative Assembly under Act No. 91 of May 13, 2006; as amended by Act No. 291, approved on December 26, 2006; Act No. 56, approved on July 6, 2007; Act No. 1, approved on January 14, 2009; Act No. 7, approved on March 9, 2009; Act No. 18, approved on May 22, 2009; Act No.133, approved July 12, 2012; Act No. 116, approved October 10, 2013; Act No. 101, approved July 1, 2015; Act No. 84, approved July 22, 2016; and Act No. 241, approved November 15, 2018. Act No. 241 of 2018, which amended and restated Act No. 91 of 2006, established the legal framework for the restructuring of COFINA's issued and outstanding bonds by, among other things, authorizing the issuance of New COFINA Bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment (collectively, Act No. 91).

The Corporation is and will be recognized for all purposes as an independent and separate legal entity from the Government of Puerto Rico and any other government entity of the Commonwealth. The Corporation will be operated independently, and its business and affairs will be governed by or under the direction of its board of directors. The Corporation was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding as of June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Legislative Assembly expanded the purposes of the Corporation to assist in funding operational expenses and other uses of the Commonwealth from 2009 through 2012 to the extent included in the annual budget of the Commonwealth in addition to the 2006 Appropriation Debt.

The Commonwealth imposes a sales and use tax (SUT) on a broad range of goods and services. As of June 30, 2019, the total SUT imposed was 11.5% and was allocated as follows: 5.5% for the benefit of the Commonwealth (the 5.5% Sales Tax), 0.5% for the benefit of the Municipal Administration Fund, 4.5% as a sales and use tax surcharge for the benefit of the Commonwealth and 1.0% for the municipalities of the Commonwealth.

On February 12, 2019, the Plan of Adjustment of the Corporation (the COFINA Plan of Adjustment) was consummated, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. From that date, the Corporation's purpose was and will be to: (a) issue the New COFINA Bonds (as defined in the COFINA Plan of Adjustment), (b) own and administer the COFINA Revenues, and (c) issue any bonds, notes or evidence of indebtedness of the Corporation as may be permitted by the COFINA Plan of Adjustment and the ancillary agreements and which will be payable from such sources as may be provided by the Legislative Assembly.

Act No. 91, as amended, established the COFINA Revenues Fund, which is held in the name of the indenture trustee for the benefit of the holders of the New COFINA Bonds and may not be owned or controlled in any way by the Commonwealth or any government entity other than the Corporation. The COFINA Revenues Fund is maintained in one or more mainland U.S. banks.

Any and all ownership interests and rights to the COFINA Revenues were or have been transferred to the Corporation. The transfer described is an absolute transfer of all legal and equitable right, title and interest, and not a pledge or other financing. By the Confirmation Order, the Title III Court has quieted the

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Corporation's title to the COFINA Revenues and definitively resolved as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Corporation is and will be sole and exclusive owner of the COFINA Revenues until such time as the New COFINA Bonds, together with any interest thereon, and all amounts and obligations under all ancillary agreements, have been completely paid in cash in full or have otherwise been discharged in accordance with their terms.

Persons designated as withholding agents for purposes of the imposition and collection of the sales tax pursuant Act No. 1 of 2011, as amended, also known as the *Internal Revenue Code for a New Puerto Rico*, shall be deemed to collect any portion of the sales taxes in which the Corporation has an ownership interest on behalf of the Corporation. Any such withholding agent will continue to be subject to any and all obligations and responsibilities imposed by the Internal Revenue Code for a New Puerto Rico on withholding agents in relation to the imposition and collection of sales tax. In the Confirmation Order, the Title III Court determined that "subject to the occurrence of and upon the Effective Date, the COFINA Revenues shall not constitute, and shall not be deemed to be, 'available resources' or 'available revenues' of the Commonwealth, as that term is used in the Puerto Rico Constitution (whether construed pursuant to the Spanish or English version of the Puerto Rico Constitution)." Confirmation Order ¶ 1(B)(vi).

As of June 30, 2019, in each fiscal year, the first collections of the 5.5% SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. The Fixed Income Amount for the fiscal year ended June 30, 2019, was \$783,197,251. Under Act No.91, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year and all legal and equitable rights, title and interest thereto. Regardless of the level of 5.5% SUT collections, Act No.91 requires that in each fiscal year all collections of the 5.5% SUT be deposited in the COFINA Revenues Fund until an amount equal to the Pledged Sales Tax Base Amount is deposited before any collections of the 5.5% SUT are deposited in the Commonwealth's General Fund. The COFINA Pledged Taxes are the present and future revenues and collections generated by the portion of sales tax that corresponds to a tax rate of five and one-half (5.5) percent and the substituted collateral, if any. The substituted collateral is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the New COFINA Bonds.

On February 12, 2019, COFINA and the Bank of New York Mellon (BNYM) entered into a supplemental agreement of trust (Master Trust Indenture) in order to clarify and amend certain provisions in the trust agreement including, among other things, allowing the issuance of the New COFINA Bonds.

**(2) Summary of Significant Accounting Policies**

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

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Corporation follows Governmental Accounting Standards Board (GASB) under the hierarchy established by Statement No. 55,

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*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

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

**(a) Basis of Presentation**

The financial activities of the Corporation consist only of governmental activities. For its reporting purposes, the Corporation has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

Government-Wide Financial Statements – The statement of net deficit and the statement of activities report information on all activities of the Corporation. The effect of interfund balances has been removed from the statement of net deficit. Governmental activities are financed through revenue of the SUT deposited in the COFINA Revenues Fund and other financing sources.

The statement of net deficit presents the Corporation's assets and liabilities, with the difference reported as net deficit. Net deficit is reported in two categories:

- Restricted Net Position – Results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – Consist of net position that does not meet the definition in the preceding category. Unrestricted net position often is designated in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues consist of investment earnings (including the change in fair value of ineffective investment derivative). Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Funds Financial Statements – The accounts of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Corporation are major funds.

Fund Accounting – The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Corporation that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- General Fund – The general fund of the Corporation is used to account for all financial resources, except those required to be accounted for in another fund.

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- Debt Service Fund – The debt service fund is used to account for the SUT deposited in the COFINA Revenues Fund for the payment of interest and principal on long-term obligations.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Corporation did not have any non-spendable resources as of June 30, 2019.
- Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource provider or by constitutional provisions or enabling legislation.
- Committed – amounts that can be spent only for specific purposes determined by a formal action of the Corporation’s highest level of decision-making authority. The Corporation’s highest decision-making level of authority rests with the board of directors. The Corporation did not have any committed resources as of June 30, 2019.
- Assigned – amounts the Corporation intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Corporation’s Executive Director).
- Unassigned – amounts that are available for any purpose.

**(b) *Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-Wide Financial Statements – Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Funds Financial Statements – The governmental fund’s financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 30 days of the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred as under accrual accounting, except that interest on general long-term obligations is generally recognized when paid, and debt service principal expenditures and claims and judgments are recorded only when payment is due. Revenue arising from pledged sales and use tax is recognized on an annual basis, upon collection or when the Commonwealth is obligated to make the payments.

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**(c) Budgetary Accounting**

The Corporation is not required to submit a budget for approval by the Legislative Assembly; consequently, no formal budgetary accounting procedures are followed.

**(d) Investments**

Investments are reported at fair value. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels.

Level 1 - inputs whose values are based are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly.

Level 3 - inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

**(e) Future Sales and Use Tax Receivable**

Collections of SUT are recognized as revenue in the fund financial statements upon collection or when the withholding agents are obligated to make the payments. In the government-wide financial statements, these payments reduce the future sales and use tax receivable. Refer to Note 7 to the basic financial statements for further information regarding the future sales and use tax receivable.

**(f) Bond Issue Costs and Premium/Discount on Bonds**

Premium (discounts) on bonds are amortized in a systematic manner over the life of the debt in the government-wide financial statements. Premium (discounts) are recognized in the period when the related long-term debt is issued in the governmental funds' financial statements, and therefore are not accounted for in subsequent periods. Bond issue costs are expensed as incurred in both government-wide and governmental fund financial statements.

**(g) Interfund Transactions**

Transfers represent flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers.

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**(h) Refundings**

Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded on the statement of net deficit as either a deferred inflow or deferred outflow of resources. See Note 12 for discussion of Advance Refunding and Defeased Debt.

**(i) Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of net deficit includes a separate section for deferred outflows / inflows of resources. These separate financial statement elements, deferred outflows / inflows of resources, represent a depletion (expense/expenditure) or accretion (income) of net deficit that applies to future periods and so will not be recognized as an outflow / inflow of resources until then.

Deferred charges related to discharged debt obligations were eliminated from the 2019 financial statements. As further discussed in Note 11 to the basic financial statements, the deferred asset from the derivative instrument was settled and terminated as part of the COFINA Plan of Adjustment.

**(j) New Accounting Standard Adopted and Accounting Pronouncements Issued but Not Yet Effective**

**Accounting Standard Adopted**

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* – This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirm or approves a new plan. For accounts payable, notes, debentures and bonds, and related interest payable, this Statement requires governments to base re-measurement on the new payment plan. Reductions in future interest payments would result in lower interest costs reported in future periods. If a liability is rejected in bankruptcy and becomes general unsecured debt, this Statement requires the existing liability to be removed and a new payment plan to be recognized as judgment, with gain or loss recognized for the difference. This Statement classifies gains or losses resulting from re-measurement of liabilities and assets as an extraordinary item.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves the 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. There was no material impact on COFINA’s financial statements as a result of the implementation of the applicable parts of this Statement.

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



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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. All applicable material aspects as a result of the implementation of GASB Statement No.88 were disclosed in the notes to the COFINA financial statements.

**Accounting Pronouncements Issued but not yet Effective**

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

This Statement also addresses arrangements-often characterized as leases- that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- GASB Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the Corporation's basic financial statements.

**(3) Puerto Rico Oversight, Management, and Economic Stability Act**

On June 30, 2016, the then-President of the United States signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). In general terms, PROMESA seeks to provide the Commonwealth, its instrumentalities, and public corporations with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board (as defined above), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

*Title I – Establishment of Oversight Board and Administrative Matters*

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the then-President of the United States

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announced the appointment of the Oversight Board members. Each Oversight Board member is required to have “knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government.” The Oversight Board was “created as an entity within the territorial government for which it was established” and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may (i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board.

*Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. “Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets.” According to the legislative history, a fiscal plan should “provide for a sustainable level of debt, improve governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-à-vis one another under Puerto Rico law.”

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature. In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board’s powers related to fiscal plan and budgetary compliance.

In connection with negotiations surrounding the Original PSA (as described above) and in anticipation of the transactions contemplated by the Original PSA, on August 22, 2018, the Oversight Board requested a standalone fiscal plan for the Corporation for fiscal years 2019 to 2023. On August 27, 2018, the Corporation submitted its fiscal plan to the Oversight Board. On August 30, 2018, the Oversight Board delivered to the Corporation a notice of violation pursuant to PROMESA section 201(c)(3)(B) requiring certain changes and/or explanations in a revised COFINA fiscal plan. On September 7, 2018, the Corporation submitted a revised fiscal plan to the Oversight Board. On October 18, 2018, the Oversight Board certified the Corporation’s fiscal plan, as amended.

*Title III – In-Court Restructuring Process*

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA.

In a Title III case, the Oversight Board acts as the debtor’s representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

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On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Corporation by filing a petition for relief under Title III of PROMESA in the Title III Court. On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. For additional information on the COFINA Plan of Adjustment, refer to Notes 4 and 14.

*Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions*

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUB Zone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017 regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017 a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017 and its first updated report on June 28, 2019.

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*Title V – Infrastructure Revitalization*

Title V of PROMESA established the position of the Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for “critical projects” as identified by the Revitalization Coordinator.

*Title VI – Consensual, Out-of-Court Debt Modification Process*

Title VI of PROMESA established an out-of-court process for modifying Puerto Rico’s debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish “pools” of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer’s bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

As of the date hereof, the Government Development Bank for Puerto Rico (GDB) has completed a restructuring under Title VI of PROMESA. As discussed in Note 6 below, pursuant to the terms of the GDB’s Title VI Qualifying Modification, any deposit claims of the Corporation at GDB were extinguished in exchange for interests in the Public Entity Trust (PET). As such, the recovery to the Corporation on account of its deposit claim will depend upon the recovery ultimately received by the PET on account of the PET Assets.

*Title VII – Sense of Congress*

Title VII of PROMESA sets forth the sense of Congress that “any durable solution for Puerto Rico’s fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between possessions of the United States and the rest of the United States.”

**(4) COFINA Title III Case and Confirmation of the COFINA Plan of Adjustment**

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title II of PROMESA in the Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, followed with a similar filing for the Corporation in the Title III Court.

Questions regarding the Commonwealth and COFINA’s respective ownership interests in the SUT revenue pledged as collateral for the then-existing COFINA bonds were at the center of the Title III cases since their commencement in May 2017. Resolution of this Commonwealth-COFINA Dispute was essential in order for Puerto Rico’s debt restructuring to move forward.

On January 9, 2019, the Oversight Board filed its *Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment). The COFINA Plan of Adjustment proposed, among other things, to release the Commonwealth from all liability from claims and causes of action held by any creditor of COFINA (solely in its capacity as a creditor of COFINA) arising from or relating to the relationship of the Commonwealth and COFINA. The COFINA Plan of Adjustment can be found at: [www.cofina.pr.gov](http://www.cofina.pr.gov)

On January 16 and 17, 2019, the Title III Court held a hearing to confirm the COFINA Plan of Adjustment and to approve *Motion Pursuant to Bankruptcy Rule 9019 for Order Approving Settlement Between*

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*Commonwealth of Puerto Rico and Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 4067] (the Settlement Motion), which proposed a settlement of the Commonwealth-COFINA Dispute pursuant to a settlement agreement (the Settlement Agreement), attached to the Settlement Motion as Exhibit A Proposed Order, Schedule I. The Settlement Agreement was consistent with the Agreement in Principle (as defined above). On February 4, 2019, the Title III Court entered an order granting the Settlement Motion and approving the Settlement Agreement.

On February 5, 2019, the Title III Court entered (i) the *Amended Memorandum of Findings of Fact and Conclusions of Law in Connection with Confirmation of the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 13-3283, Docket No. 5053] (the Findings and Conclusions) and (ii) the *Amended Order and Judgment Confirming the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 5055] (the Confirmation Order). Pursuant to the Findings and Conclusions and the Confirmation Order, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019 (the Effective Date), the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

Pursuant to the Settlement Motion approved in the Commonwealth's Title III case by the Settlement Order and through the COFINA Plan of Adjustment confirmed in the Title III Case, the Title III Court found the split of the Pledged Sales Tax Base Amount into a 53.65% portion (i.e., the COFINA Revenues), which the Corporation receives, and a 46.35% portion, which the Commonwealth receives, to be consistent with the Agreement in Principle. Moreover, pursuant to articles 1.4 and 2.1(c) of the COFINA Plan of Adjustment, several litigation actions and claims and causes of action asserted therein have been dismissed with prejudice on the Effective Date of the COFINA Plan of Adjustment (February 12, 2019) pursuant to the Settlement Order and the Confirmation Order.

The Confirmation Order and Findings and Conclusions confirmed the COFINA Plan of Adjustment, which authorized the issuance of approximately \$12 billion in principal amount of the New COFINA Bonds, cancelled the Corporation's then-outstanding bonds, and discharged the related liability. The Confirmation Order and Findings and Conclusions also provided the following enumerated protections for the New COFINA Bonds. Specifically, the Confirmation Order provisions include: (i) the New COFINA Bonds "constitute valid, binding, legal and enforceable obligations of" COFINA; (ii) the COFINA Revenues are property of the new issuer "free and clear of all liens, claims, encumbrances, and any other interests of creditors of the old issuer, the new issuer, the Commonwealth, or any instrumentality of the Commonwealth, other than the liens granted" hereunder; (iii) the COFINA Revenues shall not be "available resources" or "available revenues" of the Commonwealth; and (iv) retention of Title III Court jurisdiction to ensure protection and enforcement of legal framework and security pledges.

Consummation of the COFINA Plan of Adjustment together with the enactment of Act No. 241-2018 (as described in Note 1) quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

The COFINA Plan of Adjustment and Act No. 241-2018 provide for the reduction of the principal amount of the Corporation's bonds and clarify the Corporation's ownership of the COFINA Revenues. They further provide for the Corporation's financial and operating independence from the Commonwealth by establishing independent standing for the Corporation's operations.

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Certain parties whose objections were overruled in confirming the COFINA Plan of Adjustment filed Notices of Appeal in the Title III Court. Two of the appeals were docketed with the United States Court of Appeals for the First Circuit (the First Circuit) under case numbers 19-1181 and 19-1182 (the Initial Appeals), which were filed by certain of COFINA's junior bondholders, including Mark Elliott, Peter Hein, Lawrence Dvoves, and a group comprised of René Pinto Lugo, Rep. Manuel Natal Albelo, Movimiento de Concertación Ciudadana Inc. (VAMOS), Unión de Empleados de Oficina y Profesionales de la Autoridad de Edificios Públicos, Unión Insular de Trabajadores Industriales y Construcciones Eléctricas Inc., Unión Independiente de Empleados de la Autoridad de Acueductos y Alcantarillados, Unión de Empleados de Oficina Comercio y Ramas Anexas, Puertos, Unión de Empleados Profesionales Independientes, Unión Nacional de Educadores y Trabajadores de la Educación, Asociación de Inspectores de la Educación, and Asociación de Inspectores de Juegos de Azar (collectively, the Appellants). On April 12, 2019, Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Oversight Board filed a motion to dismiss the Initial Appeals as equitably moot, arguing that because the appellants failed to seek a stay of the COFINA Plan of Adjustment pending appeal and the COFINA Plan of Adjustment was substantially consummated on February 12, 2019, it would be unfair to innocent third parties to unwind the hundreds of transactions completed to adjust approximately \$17.64 billion of COFINA debt. On August 7, 2019, the First Circuit denied the motion to dismiss the Initial Appeals without prejudice to reconsideration by the panel that will decide the appeal on the merits. The Appellants filed their opening briefs on November 7, 2019. The Oversight Board and FAFAA filed an opening brief on February 14, 2020. The First Circuit granted the appellants' request to file their reply brief by April 30, 2020.

In addition, seven state-chartered Puerto Rico credit unions, known as cooperativas (the Cooperativas), filed a separate Notice of Appeal in the Title III Court and amended an adversary complaint previously filed in the Title III Court, in response to the confirmation of the COFINA Plan of Adjustment and after their motion to reconsider the confirmation of the COFINA Plan of Adjustment was denied by the Title III Court. This appeal is docketed with the First Circuit under case number 19-1391. On June 28, 2019, FAFAA and the Oversight Board filed a motion to dismiss the Cooperativas appeal as equitably moot on a similar basis as argued in the motion to dismiss the Initial Appeals. On October 4, 2019, the First Circuit denied the motion to dismiss the Cooperativas appeal without prejudice to reconsideration by the First Circuit panel that will decide the appeal on the merits. On December 4, 2019, the Cooperativas filed its opening brief, which was refiled on December 23, 2019 in compliance with a First Circuit order to file a conforming brief. The Oversight Board and FAFAA filed an opening brief on February 21, 2020. The First Circuit granted the appellants' request to file their reply brief by April 30, 2020.

Accordingly, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity of the amendments made by Act No.241-2018 and the validity or enforceability of the Indenture and the New COFINA Bonds.

The completion of the Corporation's restructuring under the PROMESA Title III process, the settlement of the Commonwealth-COFINA Dispute, other settlements and the discharge of claims under the COFINA Plan of Adjustment resulted in an aggregated extraordinary gain of approximately \$6.3 billion for fiscal year 2019. Detailed in the table below is a summary of eliminated and restructured obligations, cash and assets used and new other obligations incurred and the effect in net position as of June 30, 2019.

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Description	Assets & Obligations		Cash & Assets Used & New Obligations			Total
	Eliminated	Applied or Assigned	Cash & Assets	New Debt Obligation	Other	
<b>ASSETS</b>						
Accrued interest receivable	\$ (7,336)	\$ -	\$ -	\$ -	\$ -	\$ (7,336)
Other receivables	(2,673,305)	-	-	-	-	(2,673,305)
<b>Total</b>	<u>(2,680,641)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,680,641)</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Fair value of hedging derivative	(65,954,336)	-	-	-	-	(65,954,336)
Deferred loss on bonds refunding	(32,706,932)	-	-	-	-	(32,706,932)
<b>Total</b>	<u>(98,661,268)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(98,661,268)</u>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	28,892,356	-	-	-	(100,000)	28,792,356
Accrued interest payable	-	1,326,169,426	(1,142,600,541)	-	-	183,568,885
Interest rate swap liability	65,954,336	(49,954,707)	(11,000,000)	-	-	4,999,629
Unearned revenue - sales and use tax	-	-	-	-	-	-
Bonds Payable	18,074,258,670	-	-	(12,021,321,816)	-	6,052,936,854
<b>Total</b>	<u>18,169,105,362</u>	<u>1,276,214,719</u>	<u>(1,153,600,541)</u>	<u>(12,021,321,816)</u>	<u>(100,000)</u>	<u>6,270,297,724</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred gain on bond refundings	91,636,340	-	-	-	-	91,636,340
<b>Total</b>	<u>91,636,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,636,340</u>
<b>Total Net Position</b>	<u>\$ 18,159,399,793</u>	<u>\$ 1,276,214,719</u>	<u>\$ (1,153,600,541)</u>	<u>\$ (12,021,321,816)</u>	<u>\$ (100,000)</u>	<u>\$ 6,260,592,155</u>

In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds issued by COFINA in accordance with the COFINA Plan of Adjustment with a face value of approximately \$12 billion on account of their approximately \$18 billion in pre-Title III claims.

Also, several insurance companies (mono-lines) provided funds to cover acceleration and commutation payments to holders of COFINA's existing bonds that were insured by such insurance companies. Such holders chose to accept such payments rather than receive an interest in new COFINA bonds. The amount of such payments was approximately \$339 million, and the effect of deposits and disbursements was zero.

The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019. Upon confirmation of the COFINA Plan of Adjustment by the Title III Court, the pre-petition liabilities that were subject to the plan were discharged and the Corporation was bound to the new and lower debt repayment terms set forth in the COFINA Plan of Adjustment. Deferred charges related to discharged debt obligations were eliminated from the fiscal year 2019 financial statements.

Also, the amount of approximately \$1,142.6 million was paid to bondholders from the funds held by trustee under the interplead order as part of the Commonwealth-COFINA dispute. Also, the amount of \$61 million was applied or paid to settle a swap agreement; from which approximately \$50 million came from a restricted account held by COFINA in which collateral was deposited for the benefit of the swap counterparty and \$11 million cash payment from the funds held by the trustee under the Interpleader Order (as defined in Note 14). Also, the Court assigned a maximum amount of \$100,000 to distribute among unsecured creditors. This amount was recorded as a liability in the governmental funds balance sheet and the statement of net deficit as of June 30, 2019.

All expenses incurred in connection with the development, negotiation, confirmation and consummation of the COFINA Plan of Adjustment and the compromise and settlement of the Commonwealth-COFINA Dispute were paid from the funds distributable to the Commonwealth in accordance with the provisions of the COFINA Plan of Adjustment and otherwise by the Commonwealth. On February 12, 2019, COFINA made distribution



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payments aggregating to \$49.4 million to the Commonwealth as part of the settlement of the Commonwealth-COFINA Dispute and consummation of the COFINA Plan of Adjustment. This amount, which was also paid from the interpleaded funds, is presented as payments to the Commonwealth of Puerto Rico in the statement of revenues, expenditures and changes in fund balance and statement of activities in the general fund. Also, interpleaded funds of \$15 million were distributed to deposit in the COFINA operating reserve fund in the general fund.

Also, as a result the COFINA Plan of Adjustment, the Commonwealth became legally obligated to pay, the expenses associated with COFINA's restructuring and the compromise and settlement of the Commonwealth-COFINA Dispute, including the Commonwealth-COFINA adversary proceeding, during the pendency of the COFINA Title III case. On February 12, 2019, the Commonwealth paid approximately \$61.4 million to cover COFINA's plan support agreement fees (PSA Fees) and plan disclosure statement costs.

**(5) Extraordinary Gain**

As result of the COFINA's PROMESA Title III Court proceedings during the year ended June 30, 2019, an extraordinary gain was recorded in the general and debt service funds and in the conversion to full accrual of the statement of net deficit as of June 30, 2019. A summary of the extraordinary gain is detail as follows:

Description	Source	General Fund	Debt Service Fund	Accrual Basis	Total Extraordinary Gain
Accrued interest receivable	Remeasured	\$ -	\$ (7,336)	\$ -	\$ (7,336)
Other receivables	Remeasured	-	(2,673,305)	-	(2,673,305)
Fair value of hedging derivative	Settled	-	-	(65,954,336)	(65,954,336)
Deferred loss on bonds refunding	Related to eliminated obligations	-	-	(32,706,932)	(32,706,932)
Account payable and accrued liabilities	Discharged	-	25,492,358	3,400,000	28,892,358
Accrued interest payable	Discharged	-	164,563,080	19,005,804	183,568,884
Interest rate swap liability	Settled	-	(60,954,707)	65,954,336	4,999,629
Deferred gain on bond refundings	Related to eliminated obligations	-	-	91,636,340	91,636,340
Bonds payable retired	Discharged	-	66,695,000	18,007,563,670	18,074,258,670
Bonds payable issued	New obligation	-	-	(12,021,321,817)	(12,021,321,817)
General unsecured claims	New obligation	(100,000)	-	-	(100,000)
<b>Total</b>		<u>\$ (100,000)</u>	<u>\$ 193,115,090</u>	<u>\$ 6,067,577,065</u>	<u>\$ 6,260,592,155</u>

**(6) Deposits**

Custodial credit risk is the risk that, in the event of a bank failure of a depository financial institution, the Corporation will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

The table presented below discloses the level of custodial credit risk assumed by the Corporation at June 30, 2019. As of June 30, 2019, \$236,959,049 of the depository bank balance of \$237,459,049 was uninsured as follows:

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	<b>Carrying amount</b>	<b>Depository bank balance</b>	<b>Amount uninsured and uncollateralized</b>
Deposit claim PET	\$ -	\$ 26,118,255	\$ 26,118,255
Deposits placed with banks	21,991,028	21,991,028	21,741,028
Cash held by trustee	189,349,766	189,349,766	189,099,766
Total	\$ 211,340,794	\$ 237,459,049	\$ 236,959,049

On August 10, 2018, GDB commenced an action to restructure certain of its indebtedness pursuant to a Qualifying Modification (the Qualifying Modification) under Title VI of PROMESA. The United States District Court for the District of Puerto Rico approved GDB’s proposed restructuring on November 6, 2018 and the Qualifying Modification went effective on November 29, 2018.

Pursuant to Act No. 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including COFINA, were exchanged for beneficial units in the “Public Entity Trust” created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (the Closing Date), *i.e.*, November 29, 2018, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including COFINA (each a Non-Municipal Government Entity) and GDB was 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. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included COFINA, received their pro rata share of interests in the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$580 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth’s Title III case.

As of February 28, 2018 (the last reporting period that GDB has available financial information prior to its business discontinuance effective March 23, 2018), the Corporation held deposits at GDB of approximately \$26.1 million (unaudited). As a result of the Qualifying Modification, the Corporation’s recovery on account of this deposit claim will depend upon the recovery ultimately received by the Public Entity Trust on account of the PET Assets. As of June 30, 2019 the carrying amount of this deposits claims is as follows:

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<b>Governmental Funds</b>	<b>Deposit Balance</b>	<b>Custodial Credit Loss Allowance</b>	<b>Net Carrying Amount</b>
General Fund:			
Deposit Claim PET	\$ 19,693,391	\$ (19,693,391)	\$ -
Debt Service Fund:			
Deposit Claim PET	<u>6,424,864</u>	<u>(6,424,864)</u>	<u>-</u>
Total	<u>\$ 26,118,255</u>	<u>\$ (26,118,255)</u>	<u>\$ -</u>

**(7) Future Sales and Use Tax Receivable**

The Corporation's previous financial statements included an asset referred to as "Receivable from the Commonwealth of Puerto Rico," which was created pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. This asset was created because the Corporation transferred funds to the Commonwealth in exchange of future collections of SUT, and the Commonwealth used those funds to pay certain of its past obligations. The asset did not represent an existing legal obligation from the Commonwealth to the Corporation. To reflect the compromise and settlement between the Commonwealth and the Corporation and the Corporation's ownership interest in future SUT collections, the \$8.158 billion receivable from the Commonwealth of Puerto Rico (fiscal year 2018 ending balance) is denoted in the Corporation's fiscal year 2019 basic financial statements as the "future sales and use tax receivable" (fiscal year 2019 opening balance).

Over the course of fiscal year 2019, the future sales and use tax receivable was reduced by the fiscal year 2019 collections of the COFINA Revenues. As collections for fiscal year 2019 amounted to approximately \$420 million, the Corporation's future sales and use tax receivable (fiscal year 2019 ending balance) is approximately \$7.738 billion. The COFINA Revenues that the Corporation receives every fiscal year will reduce the future sales and use tax receivable until, in approximately fiscal year 2032, it equals \$0. After that, the COFINA Revenues that the Corporation receives each fiscal year will be recorded as revenue.

Act No.91, as amended, provides for the establishment of the COFINA Revenues Fund, which is held in the name of the indenture trustee for the benefit of the holders of the New COFINA Bonds and may not be owned or controlled in any way by the Commonwealth or any government entity other than the Corporation. The COFINA Revenues Fund is maintained in one or more mainland U.S. banks.

Any and all ownership interests and rights to the COFINA Revenues were or have been transferred to the Corporation. The transfer described is an absolute transfer of all legal and equitable right, title and interest, and not a pledge or other financing. By the Confirmation Order, the Title III Court determined that the Corporation has title to the COFINA Revenues and definitively resolved as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Corporation is and will be sole and exclusive owner of the COFINA Revenues until such time as the New COFINA Bonds, together with any interest thereon, and all amounts and obligations under all ancillary agreements, have been completely paid in cash in full or have otherwise been discharged in accordance with their terms.

Persons designated as withholding agents for purposes of the imposition and collection of the sales tax pursuant to Act No. 1-2011, as amended, also known as the *Internal Revenue Code for a New Puerto Rico*,

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shall be deemed to collect any portion of the sales taxes in which the Corporation has an ownership interest on behalf of the Corporation. Any such withholding agent will continue to be subject to any and all obligations and responsibilities imposed by the Internal Revenue Code for a New Puerto Rico on withholding agents in relation to the imposition and collection of sales taxes. The COFINA Revenues do not constitute “available resources” or “available revenues” of the Government of Puerto Rico as used in Section 8 of Article VI of the Puerto Rico Constitution or as otherwise used in the Puerto Rico Constitution.

As of June 30, 2019, in each fiscal year, the first collections of the 5.5% SUT are deposited in the COFINA Revenues Fund and applied to fund the COFINA Revenues. The COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year and all legal and equitable rights, title and interest thereto. The Fixed Income Amount for the fiscal year ended June 30, 2019, was \$783,197,251 and, pursuant to the provisions of Act 91, it increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. Regardless of the level of 5.5 % SUT collections, Act 91 requires that in each fiscal year all collections of the 5.5% SUT be deposited in the COFINA Revenues Fund until an amount equal to the COFINA Revenues is deposited before any collections of the 5.5% SUT are deposited in the Commonwealth’s General Fund.

Collections of SUT are recognized as revenue in the fund financial statements upon collection or when the withholding agents are obligated to make the payments. In the government-wide financial statements, these payments reduce the future sales and use tax receivable.

**(8) Investments**

At June 30, 2019, as provided by Act No. 241-2018, the Corporation may invest the funds on deposit with the Trustee as provided for in the Ancillary Agreements, which include the Master Trust Indenture. Any other funds are held by the Corporation in bank accounts and may not be otherwise invested.

Investments held by the Trustee are made in Eligible Investments in accordance with the provisions of Section 6.02 of the Master Trust Indenture, which include interest-bearing general obligations of the United States of America; United States treasury bills and other non-interest bearing general obligations of the United States of America and certain short-term discount United States government obligations that, in each case, mature no later than the next Monthly Disbursement Date in the case of investments held in the Revenue Fund and not later than the date required to pay principal and interest when due on the New COFINA Bonds in the case of moneys held in the Debt Service Fund.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2019, the Corporation’s board of directors is responsible for implementing and monitoring the interest rate risk policies and strategies. At June 30, 2019, the practice of the board of directors was to meet on a regular basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the corresponding laws and the board of directors’ objectives.

The following table summarizes the type and maturities of investments held by the Corporation at June 30, 2019:

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<u>Investment type</u>	<u>Due within one year</u>	<u>Credit Risk Rating</u>
Debt securities:		
U.S. Treasury State and Local Government Series (SLGs)	\$ 12,832,869	AAA
Total investments	<u>\$ 12,832,869</u>	

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation’s investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor’s or equivalent rating by Moody’s or Fitch, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Corporation’s board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment procedures.

Investments in U.S. Treasury SLGs carry the explicit guarantee of the U.S. government.

**Concentration of Credit Risk** – The Corporation places no limits on the amount it may invest in any one issuer. As of June 30, 2019, 100% of the Corporation’s investments are in debt securities. The following table shows the investments by fair value level held by the Corporation at June 30, 2019:

<u>Investments by fair value level</u>	<u>Fair Value Measurement Levels</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Debt securities:				
U.S. Treasury State and Local Government Series (SLGs)	\$ —	12,832,869	—	12,832,869
Total investments by fair value level	<u>\$ —</u>	<u>12,832,869</u>	<u>—</u>	<u>12,832,869</u>

The debt securities classified in Level 2 of the fair value hierarchy are valued using inputs other than quoted prices under Level 1 that are observable for the assets, either directly or indirectly on the measurement date.

**(9) Relationship with FAFAA**

The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016 (the Moratorium Act), as amended, created FAFAA as an independent public corporation to assume GDB’s role as fiscal agent, financial advisor and reporting agent for the Commonwealth and its instrumentalities. Act No. 2 of 2017 subsequently repealed and replaced the provisions of the Moratorium Act regarding FAFAA. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth’s financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant PROMESA.

During the year ended June 30, 2019, FAFAA provided certain management and administrative services to the Corporation under a memorandum of understanding.

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**(10) Bonds Payable**

As of June 30, 2019, bonds payable of the Corporation consists of the following (in thousands)<sup>12</sup>:

<u>Description</u>	<u>Face/Effective interest rate</u>	<u>Amount</u>
New COFINA Bonds, Series 2019A-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	\$ 5,412,723
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	2,999,182
New COFINA Bonds, Series 2019A-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.55%–5.00%	3,591,809
New COFINA Bonds, Series 2019B-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	69,318
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	38,410
New COFINA Bonds, Series 2019A-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.55%–5.00%	45,570
Bonds payable - net		<u>\$ 12,157,012</u>

All current interest bonds have fixed interest rates.

Bonds payable activity for the year ended June 30, 2019 is as follows (in thousands):

<u>Description</u>	<u>Balance at June 30, 2018</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Other Additions/ Reductions</u>	<u>Balance at June 30, 2019</u>
Bonds payable	\$ 12,136,840	9,119,420	(12,136,840)	—	9,119,420
Capital appreciation bonds – principal	23,004,336	9,638,251	(23,004,336)	—	9,638,251
Discount on capital appreciation bonds	(17,241,446)	(6,736,349)	17,035,266	341,870	(6,600,659)
Less:					
Unamortized bond premium (discount), net	(30,999)	—	31,651	(652)	—
Bonds payable – net	<u>\$ 17,868,731</u>	<u>12,021,322</u>	<u>(18,074,259)</u>	<u>341,218</u>	<u>12,157,012</u>

<sup>12</sup> For purposes of this Statement, the term “New COFINA Bonds” has the same meaning as “Restructured Sales Tax Bonds” as used in the COFINA bond documents.

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In February 2019, the consummation of the COFINA Plan of Adjustment together with the enactment of Act 241-2018 provided for the restructuring of COFINA's then-existing bonds. COFINA's existing senior and subordinated bondholders received New COFINA Bonds worth approximately \$12 billion on account of their approximately \$18 billion in claims discharged by the Plan.

The New COFINA Bonds are secured by a statutory lien on the COFINA Pledged Taxes subject to the Commonwealth's right to substitute "New Collateral" (as defined) in accordance with the terms of the COFINA Plan of Adjustment. The "New Collateral" is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the COFINA Plan of Adjustment.

The New COFINA Bonds include (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. Notwithstanding the timing of the effective date of the COFINA Plan of Adjustment, interest on the New COFINA Bonds commenced to accrue or accrete, as the case may be, as of August 1, 2018. Interest payments and interest accretion terms for current interest bonds and capital appreciation bonds, respectively, are as follows:

- (a) The current interest bonds or CIBs will bear interest from August 1, 2018 until paid (whether at maturity, prior to redemption or after maturity following payment default by the Corporation), payable on the effective date and semiannually thereafter on each payment date at the corresponding interest rates. Interest on current interest bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will accrue on overdue interest and principal at the corresponding interest rate and will compound on each interest payment date. All overdue interest and principal (and any interest accruing thereon) will remain due and payable until paid.
- (b) Interest on capital appreciation bonds or CABs will accrue and accrete from August 1, 2018 until paid (whether at maturity, prior to redemption or after maturity following payment default by the Corporation). Interest on capital appreciation bonds will not be paid on a current basis, but will be added to the principal thereof in the form of accretion on the effective date and semiannually thereafter on each valuation date, and will be treated as if accruing on the basis of a 360-day year consisting of twelve 30-day months between valuation dates, until paid (whether at maturity, prior to redemption or after maturity following payment default following payment default by the Corporation).

The New COFINA Bonds will be subject to redemption at the option of the Corporation, in whole or in part, in any order of maturity, at par plus accrued interest thereon or accreted value as applicable, upon thirty (30) days prior to written notice as follows:

***Current Interest Bonds (CIBs)***

<b>Maturity</b>	<i>Optional Redemption</i>
2034	Redeemable at Par commencing July 1, 2025
2040	Redeemable at Par commencing July 1, 2028
2053	Redeemable at Par commencing July 1, 2028
2058	Redeemable at Par commencing July 1, 2028

***Capital Appreciation Bonds (CABs)***

<b>Maturity</b>	<i>Optional Redemption</i>
2024 & 2027	Not subject to redemption prior to maturity
2029	Redeemable at 103% of Accreted Value ("AV") commencing July 1, 2028

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2031	Redeemable at 105% of AV commencing July 1, 2028 and at 103% of AV commencing on July 1, 2029
2033	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2031 and 103% of AV commencing July 1, 2032
2046 & 2051	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2038, at 103% of AV commencing July 1, 2038 and at 100% of AV commencing July 1, 2043

The New COFINA Bonds are also subject to mandatory redemption prior to their respective maturity dates from sinking fund installments. All such mandatory redemptions of CIBs will be at a redemption price equal to par and mandatory redemptions of CABs will be at a redemption price equal to 100% of the then current Accreted Value.

The New COFINA Bonds will not have a debt service reserve fund nor have rights of acceleration.

Also, on August 1, 2019 certain New COFINA Bonds were exchanged for New COFINA Bonds, the interest on which is excluded from gross income for federal tax purposes under Section 103 of the Tax Code (as defined below) through an invitation to exchange restructured sales tax bonds discussed in the subsequent events in the notes to the basic financial statements. As of June 30, 2019,<sup>13</sup> debt service requirements for bonds outstanding were as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 19,606,660	\$ 430,633,450	\$ 450,240,110
2021	17,479,550	430,056,019	447,535,569
2022	35,660,811	430,056,019	465,716,830
2023	54,565,877	430,056,019	484,621,896
2024	74,225,000	430,056,019	504,281,019
2025-2029	694,726,700	2,150,280,094	2,845,006,794
2030-2034	1,320,995,745	2,147,896,444	3,468,892,189
2035-2039	2,351,720,000	1,883,443,341	4,235,163,341
2040-2044	3,479,334,611	1,438,370,542	4,917,705,153
2045-2049	3,543,673,457	1,410,164,489	4,953,837,946
2050-2054	3,646,267,565	1,307,751,954	4,954,019,519
2055-2058	3,519,415,000	447,236,617	3,966,651,617
	18,757,670,976	\$ 12,936,001,007	\$ 31,693,671,983
Less: Unaccreted interest	(6,600,658,550)		
	\$	<u>12,157,012,426</u>	

On July 1, 2019, the Corporation made its scheduled payments of principal and interest of \$18.9 million and \$168.8 million, respectively, of its New COFINA Bonds from the approximately \$420.2 million on deposit in the COFINA Revenues Fund. The amount on deposit in the COFINA Revenues Fund was collected during fiscal year 2019 and, as a result, the principal balance of \$19.6 million (accreted value) paid in fiscal 2020 with COFINA Revenues from fiscal year 2019 must be deducted from the approximately \$450 million in total debt service payments due during the year ending June 30, 2020.

<sup>13</sup> Adjusted to reflect the reduction in interest on the converted bonds resulting from the August 1, 2019 exchange. See Note 15 - Invitation to Exchange Newly Issued Sales Tax Bonds.



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The interest in the table of debt service requirements above has been incorporated in the terms of the New COFINA Bonds modified pursuant to the exchange (as described in Note 15).

The first collections of the 5.5% SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. The Fixed Income Amount for the fiscal year ended June 30, 2019, was \$783,197,251 (\$814,525,141 for fiscal year 2020). Under Act No. 91, as amended, as of June 30, 2019, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year is as follows:

Year ending June 30	Amount
2020	\$ 436,992,738
2021	454,472,448
2022	472,651,346
2023	491,557,399
2024	511,219,696
2025-2029	2,879,688,000
2030-2034	3,503,580,765
2035-2039	4,262,641,705
2040-2044	4,927,604,902
2045-2049	4,962,625,000
2050-2054	4,962,625,000
2055-2058	3,970,100,000
	\$ 31,835,758,999

**(11) Inter-fund Transfers**

The following table includes a summary of inter-fund transfers for the year ended June 30, 2019. These inter-fund transfers were made to comply with the requirements of the Settlement Order and Confirmation Order (as defined in Note 4).

Transfer out	Transfer in	Transfer for	Amount
Debt Service Fund	General Fund	Excess funds transferred to Commonwealth	\$ 5,215,836
Debt Service Fund	General Fund	Deposit to Commonwealth Accounts	44,239,561
Debt Service Fund	General Fund	Deposit to COFINA Operating Reserve Fund	15,000,000
Debt Service Fund	General Fund	Interest on investments transferred to COFINA Operating Reserve Fund	312,925
		Total	\$ 64,768,322

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**(12) Advance Refunding and Defeased Debt**

On November 23, 2011, the Corporation issued \$397.7 million Series 2011A-1 bonds. Part of the proceeds from the Series 2011A-1 bonds was used to advance part of the outstanding Series 2009A bonds aggregating \$52,780,000 and bearing interest ranging from 4.00% to 6.125%. The Corporation used approximately \$65,867,000 from the net proceeds of the issued Series 2011A-1 bonds and other funds to purchase U.S. government securities, which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt services payments of the refunded Series 2009A bonds. On November 23, 2011, the Corporation also issued its Series 2011 B bonds amounting to approximately \$45.6 million to advance part of the outstanding Series 2009 B bonds aggregating \$38,490,000 and bearing interest at 6.05%. The Corporation used the net proceeds of the issued Series 2011B bonds and other funds to purchase U.S. government securities, which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt services payments of the refunded Series 2009 B bonds. Accordingly, the Series 2009A and the Series 2009B refunded bonds are considered to be defeased and the liabilities have therefore been removed from the statement of net position. The outstanding balance of the advance refunded bonds was \$21,015,000 at June 30, 2019.

**(13) Swap Agreement Settlement**

On February 11, 2019, the Title III Court ordered the approval of a settlement regarding a Swap Agreement, as amended (Swap Agreement), originally entered into on July 12, 2007 between COFINA and Goldman Sachs (GS) and with a fair value of approximately \$65.9 million at February 12, 2019. In connection with the Swap Agreement, COFINA posted with GS collateral in a designated account that, as of February 6, 2019, contained approximately \$49.9 million. From February 2, 2017, up to and including the date hereof, periodic payments in the aggregate amount of approximately \$8 million became due and owed pursuant to the Swap Agreement. The COFINA Plan of Adjustment provided for the allowance of a claim relating to the Swap Agreement and alternative treatments for such claim depending upon the priority of GS's claim. Also, the COFINA Plan of Adjustment specified that all executory contracts and unexpired leases that exist between COFINA and any entity, and which have not expired by their own terms on or prior to the confirmation date of the COFINA Plan of Adjustment, would be deemed rejected by COFINA as of the Effective Date. Pursuant to this provision, the Swap Agreement was deemed rejected on the Effective Date and COFINA and GS agreed to the following: (1) the rejection of the Swap Agreement pursuant to the terms hereof, (2) the quantification of damages associated with such rejection, and (3) the treatment of such claims in accordance with the provisions of the COFINA Plan of Adjustment. As part of the settlement, any and all of the collateral was determined to be for GS's benefit, free from any claim or right of any nature whatsoever and on February 12, 2019, COFINA paid to GS an additional amount of \$11 million. Upon payment, COFINA and GS have no further obligation to each other pursuant to the COFINA Plan of Adjustment or the Swap Agreement, and each party was discharged and released of any claims and liabilities to the other arising from or relating to the Swap Agreement.

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**(14) Litigation Related to the COFINA Title III Case**

***a. Civil Actions Filed by Several Bondholder Groups and Other Creditors against the Corporation Prior to the Commencement of the COFINA Title III Case***

***Lex Claims, LLC v. Garcia-Padilla, Case No. 16-2374-FAB (D.P.R.)***

On July 20, 2016, certain holders of general obligation bonds issued by the Commonwealth (the GO Bonds) commenced an action (the Lex Claims Litigation) in the United States District Court for the District of Puerto Rico (the District Court, and having jurisdiction over the Corporation's Title III case and related proceedings discussed below, the Title III Court) against the Commonwealth and several of its officials, including the Governor, seeking (a) declaratory relief that the Moratorium Act, which authorized the Governor to, among other things, declare a temporary moratorium on debt service and stay creditor remedies, and an executive order issued pursuant to the Moratorium Act announcing a moratorium on payment of the Commonwealth's GO Bonds, are preempted by PROMESA section 204(c)(3); and (b) an injunction to prevent certain measures taken by the Commonwealth permitting transfers outside of the ordinary course. On November 4, 2016, plaintiffs filed a Second Amended Complaint, adding the Corporation as a defendant in their action against Commonwealth officials. The Second Amended Complaint requested two declaratory judgments that challenge the legal validity of the Corporation: (1) a declaration that the Pledged Sales Tax constitutes "available resources" under Article VI, Section 8 of the Puerto Rico Constitution and that such funds cannot be deposited with the Corporation or its Bondholders; and (2) a declaration that the Commonwealth is obligated to afford the General Obligation debt absolute priority, including priority over required deposits with the Corporation and its Bondholders. On May 17, 2017, after the Corporation's Title III case had been commenced, the Title III Court stayed the Lex Claims Litigation until further court order.

On June 7, 2017, the UBS Family of Funds and the Puerto Rico Family of Funds (together, the Puerto Rico Funds), and mutual funds managed by Oppenheimer Funds, Inc., Franklin Advisers, Inc., and the First Puerto Rico Family of Funds (collectively, the Movants) filed the Puerto Rico Funds and Mutual Funds Group's Motion for Relief from the Automatic Stay in the Corporation's Title III case [ECF No. 270] (the Lex Claims Motion) seeking an order lifting that automatic stay to allow the Lex Claims Litigation, before the District Court, to proceed in order for the District Court to decide the Puerto Rico Funds' motion to certify the question of the constitutionality of COFINA to the Puerto Rico Supreme Court (the Certification Motion), and if the Certification Motion is granted, to allow the Puerto Rico Supreme Court to consider and decide the certified questions. In the alternative, Movants requested that the Lex Claims Litigation be transferred pursuant to PROMESA section 306(d)(3) to the Commonwealth's and the Corporation's Title III cases as an adversary proceeding.

The Title III Court denied the Lex Claims Motion without prejudice, holding that (1) the Movants did not show that lifting the stay would result in a partial or complete resolution of the issues where it was uncertain that the District Court would grant the certification if the stay was lifted or, if the Certification Motion was granted, that the Puerto Rico Supreme Court would accept certification; (2) judicial economy would not be achieved by lifting the automatic stay because the Title III Court had before it various adversary proceedings pending to address the very issues raised in the certified questions; (3) the certification had not been fully briefed in the Lex Claims Litigation, and the parties in the Lex Claims Litigation were not better positioned to litigate the issues in the certified questions than the parties to the

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Title III proceedings; and (4) the Movants have not demonstrated a particular harm that they are likely to suffer in the absence of relief from the automatic stay.

On February 5, 2019, the Title III Court issued a Confirmation Order (discussed below), confirming the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. Pursuant to article 1.4 of the COFINA Plan of Adjustment, the Lex Claims Litigation is defined as one of several "Actions"; and pursuant to article 2.1(c), "on the Effective Date, pursuant to the Settlement Order and the Confirmation Order . . . the Actions shall be dismissed, with prejudice, and Claims and causes of action asserted therein by any party to the Actions shall be deemed dismissed, with prejudice." Accordingly, the Lex Claims Litigation has been dismissed as to COFINA.

***Rodriguez-Perello, et al. v. Rosselló-Nevares, Case No. 17-1566-FAB (D.P.R.).***

On May 2, 2017, certain COFINA bondholders commenced an action in the District Court for declaratory and injunctive relief against COFINA, FAFAA, GDB, the Governor and certain other governmental officials. Plaintiffs asserted that their interest in the Corporation's securities provided them with contract and property rights protected by the Constitutions of the United States and the Commonwealth, as well as federal and Puerto Rico statutes. Plaintiffs further asserted that the defendants had unlawfully and unconstitutionally impaired these contractual rights and taken plaintiffs' property. In the action, plaintiffs sought protection and vindication of their alleged rights through a declaratory judgment that defendants had breached plaintiffs' constitutional, statutory, and contractual obligations to COFINA bondholders, and injunctive relief against defendants' continuation of those breaches.

Following the commencement of the Corporation's Title III case, the Title III Court entered an order staying the litigation on May 17, 2017. On February 5, 2019, the Title III Court issued its Confirmation Order, confirming the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. Pursuant to article 1.4 of the COFINA Plan of Adjustment, *Rodriguez-Perello, et al. v. Rosselló-Nevares* is defined as one of several "Actions"; and pursuant to article 2.1(c), "on the Effective Date, pursuant to the Settlement Order and the Confirmation Order . . . the Actions shall be dismissed, with prejudice, and Claims and causes of action asserted therein by any party to the Actions shall be deemed dismissed, with prejudice." Accordingly, this case has been dismissed with prejudice.

***b. Oversight Board Commencement of Title III Cases, Mediation in the Title III Case, and Key Contested Matters in the Title III Case***

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title II of PROMESA in the Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, followed with a similar filing for the Corporation in the Title III Court.

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***Bank of New York Mellon v. COFINA, et al., Adv. Proc. No. 17-00133 (D.P.R.)***

On May 16, 2017, plaintiff the Bank of New York Mellon (BNYM), in its capacity as trustee for the sales tax revenue bonds issued by COFINA, commenced an adversary proceeding against COFINA and certain creditors in COFINA's Title III case (the Interpleader Action) for interpleader to preserve the funds generated from the Pledged Sales Tax held by BNYM in trust pending resolution by the Title III Court of all disputes with respect to ownership of the funds (the Disputed Funds). On May 30, 2017, the Title III Court issued an order [Adv. Proc. No. 17-133, Docket No. 110] (the Interpleader Order) in which it ordered BNYM, commencing with the \$16.3 million bond payment due on June 1, 2017, to interplead and hold all disputed funds in the accounts into which they had been deposited, on behalf of the party or parties ultimately determined by the Court to be entitled to such funds. The Title III Court's order allowed creditors to litigate competing claims to the funds held by BNYM. Through the Interpleader Action, parties and parties in interest asserted claims to the Disputed Funds based on, among other things, the existence or non-existence of an uncured default arising from certain actions of the Commonwealth and COFINA, including the passage of a fiscal plan compliance law enabling the Governor to use Pledged Sales Taxes to cover deficiencies in the Commonwealth's cash flow under certain circumstances.

From June to September 2017, several parties and parties in interest, including BNYM and certain creditors, served document requests and deposition subpoenas on various Puerto Rico Government entities, affiliates, and officials, including COFINA, GDB, the Commonwealth, FAFAA, and the Oversight Board. The subpoenaed entities and individuals produced documents, but FAFAA and the Oversight Board (on behalf of itself and COFINA) each agreed to a set of stipulated facts in lieu of depositions. On November 6, 2017, several parties in interest, including BNYM and certain creditors, filed motions for summary judgment. Briefing on the summary judgment motions was completed on January 5, 2018. On September 27, 2018, in light of the agreements and compromises under the Amended PSA (discussed above), the Title III Court, *sua sponte*, entered an order terminating the pending summary judgment motions without prejudice to restoration of the motions on or after October 1, 2018. [Adv. Proc. No. 17-00133, ECF. No. 518]. On November 27, 2018, BNYM moved to reinstate its motion for partial summary judgment, in which BNYM requested declaratory relief relating to the existence or non-existence of a default or an event of default under the Corporation's bond resolution (the Motion to Reinstate).

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Disputed Funds have been distributed in accordance with the terms and provisions of the COFINA Plan of Adjustment. On February 19, 2019, the parties that have appeared in the Interpleader Action filed the Stipulation and Agreed Order of Dismissal of Interpleader Action (the Stipulation of Dismissal) [Adv. Proc. No. 17-00133, ECF No. 549], in which they stipulated and agreed that the Motion to Reinstate is withdrawn by BNYM and that the Interpleader Action and all claims and causes of action asserted or that could have been asserted in the Interpleader Action be dismissed, with prejudice, effective as of February 12, 2019; provided, however, that the dismissal of certain claims, counterclaims or causes of action for gross negligence, willful misconduct, or intentional fraud asserted or that could have been asserted by BNYM against Ambac, or by Ambac against BNYM, is without prejudice; and provided, further, that the dismissals without prejudice shall have no effect under Rule 41(a)(1) of the

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Federal Rules of Civil Procedure in the Ambac Action (as defined in the COFINA Plan of Adjustment). On February 20, 2019, the Title III Court issued an order in accordance with the Stipulation of Dismissal.

As discussed in Note 4 to the basic financial statements, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity of the amendments made by Act No. 241-2018 and the validity or enforceability of the COFINA Plan of Adjustment, including the dismissal of this adversary proceeding.

***Official Committee of Unsecured Creditors of the Commonwealth of Puerto Rico v. Whyte, Adv. Pro. No. 17-00257-LTS (D.P.R.)***

On August 10, 2017, the Title III Court issued an order (the Procedures Order) to approve a protocol for resolving the disputes between the Commonwealth and COFINA. The Procedures Order defined the “Commonwealth-COFINA Dispute” as “whether, after considering all procedural and substantive defenses and counterclaims, including constitutional issues, the portion of the Sales and Use Tax purportedly pledged by COFINA to secure debt are property of the Commonwealth or COFINA under applicable law [ . . .]” The Procedures Order provided for the appointment of (1) an agent for the Oversight Board as representative of the Commonwealth in its Title III Case (the Commonwealth Agent); and (2) an agent for the Oversight Board as representative of COFINA in its Title III Case (the “COFINA Agent and together, the Agents).

On September 8, 2017, the Commonwealth Agent filed a complaint asserting that, *inter alia*, the SUT revenue pledged by COFINA to secure its bond debt (referred to in the complaint as the “Pledged Sales Tax”) are “the exclusive property of the Commonwealth.” The complaint alleged that Act 91 “did not transfer to [COFINA] present ownership of future SUT revenues” and did not assign to COFINA the Commonwealth’s right to receive such revenues. The complaint argued that the transfer of the Pledged Sales Tax to COFINA was at most an unsecured promise to transfer revenues in the future. The complaint further alleged that even if the transfer of future SUT revenues to COFINA had any legal effect, such transfers are merely a grant of a security interest in after-acquired property governed by Article 9 of the Uniform Commercial Code. The complaint alleged that any security interest of COFINA in Pledged Sales Tax is unenforceable against the Commonwealth or, in the alternative, is unperfected and therefore avoidable and otherwise subordinate to the rights of the Oversight Board as trustee. The complaint further asserted that the Commonwealth’s Title III case cuts off any security interest and that COFINA’s structure is unconstitutional because it circumvents the Puerto Rico Constitution’s debt limitations.

In addition to the claims asserted by the Commonwealth Agent and the COFINA Agent, multiple groups of COFINA and Commonwealth bondholders, as well as other parties that had been permitted to intervene in the adversary proceeding, filed counterclaims and cross-claims regarding ownership of the applicable portion of the SUT.

Concurrently with the litigation in the adversary proceeding, the Agents participated in court-sanctioned mediation to settle the Commonwealth-COFINA Dispute. Through the auspices of a court-appointed mediation team, the Agents reached an understanding set forth in that certain Agreement in Principle (the Agreement in Principle) on a settlement of the Commonwealth-COFINA Dispute. On June 5, 2018, the Agents filed a joint motion to hold the Title III Court’s decision on the pending motions for summary judgment in abeyance for 60 days due to their agreement in principle to settle the Commonwealth-

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COFINA Dispute. On June 7, 2018, the Agents publicly announced the terms of their Agreement in Principle.

Under the Agreement in Principle, a portion of the 5.5% SUT revenue formerly allocated to COFINA—which portion is referred to as the Pledged Sales Tax Base Amount (PSTBA)—would be shared between COFINA and the Commonwealth. The Agreement in Principle proposed to, among other things, divide the PSTBA so that COFINA receives 53.65% of the PSTBA starting in fiscal year 2019 while the Commonwealth receives the other 46.35%, subject to certain restrictions and exceptions.

On November 7 and 8, 2018, respectively, new legislation to amend and restate Act No. 91 to establish the legal framework for the restructuring of COFINA's issued and outstanding bonds was passed in the Puerto Rico House of Representatives and the Puerto Rico Senate. On November 15, 2018, the Governor signed into law the new legislation as Act 241-2018.

On January 9, 2019, the Oversight Board filed COFINA Plan of Adjustment, as discussed in Note 4 to the basic financial statements. On January 16 and 17, 2019, the Title III Court held a hearing to confirm the COFINA Plan of Adjustment and to approve a motion proposing a settlement of the Commonwealth-COFINA Dispute (the Settlement Motion) pursuant to a settlement agreement consistent with the Agreement in Principle (the Settlement Agreement). On February 4, 2019, the Title III Court entered an order granting the Settlement Motion and approving the Settlement Agreement. On February 5, 2019, the Title III Court entered its Findings and Conclusions and Confirmation Order. Pursuant to the Findings and Conclusions and Confirmation Order, the Title III Court confirmed the COFINA Plan of Adjustment, which was substantially consummated and became effective on February 12, 2019, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

Pursuant to the Settlement Motion approved in the Commonwealth's Title III case by the Settlement Order and through the COFINA Plan of Adjustment confirmed in the Title III Case, the Title III Court found the split of the COFINA Pledged Taxes up to the Pledged Sales Tax Base Amount into a 53.65% portion (i.e., the COFINA Revenues), which the Corporation receives, and a 46.35% portion, which the Commonwealth receives, to be consistent with the Agreement in Principle. Moreover, pursuant to articles 1.4 and 2.1(c) of the COFINA Plan of Adjustment, several litigation actions and claims and causes of action asserted therein have been dismissed with prejudice on the Effective Date of the Plan of Adjustment (February 12, 2019) pursuant to the Settlement Order and the Confirmation Order, including the Commonwealth-COFINA Dispute.

***Cooperativa de Ahorro y Crédito Abraham Rosa v. Commonwealth of Puerto Rico, Case No. 18-00028-LTS (D.P.R.).***

On March 22, 2018, several credit unions chartered under Puerto Rico law, known as the cooperativas (the Cooperativas), filed an adversary complaint against the Commonwealth, the Oversight Board, and other Commonwealth's instrumentalities (including COFINA), seeking a declaratory judgment that their Puerto Rico debt holdings are not dischargeable and seeking monetary damages for alleged fraud in issuing and encouraging local credit unions to purchase Puerto Rico debt service instruments. On August 6, 2018, the Oversight Board, for itself and as representative of COFINA, the Commonwealth and certain other instrumentalities, moved to dismiss the complaint. Also, on August 6, 2018, GDB filed a

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separate motion to dismiss. In addition, several parties filed joinders to the motions to dismiss or were granted leave from the Title III Court to file joinders.

On February 5, 2019, the Title III Court issued its Confirmation Order, confirming the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. Pursuant to paragraph 30 of the Confirmation Order, "the plaintiffs in that certain adversary proceeding before the Title III Court, captioned *Cooperativa de Ahorro y Credito Abraham Rosa, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Proc. No. 18-00028, shall be entitled to continue pursuit of such litigation against all parties other than COFINA and Reorganized COFINA, subject to all available rights and defenses with respect to claims and causes of action asserted therein."

The Cooperativas filed a Notice of Appeal in the Title III Court and amended their previously filed adversary complaint in response to the confirmation of the COFINA Plan of Adjustment and after their motion to reconsider the confirmation of the COFINA Plan of Adjustment was denied by the Title III Court. The appeal is docketed with the First Circuit under case number 19-1391. For further information, refer to the COFINA Plan of Adjustment discussion above.

On July 22, 2019, defendants filed motions to dismiss the amended complaint. On December 6, 2019, plaintiffs filed their Motion for Leave to File Second Amended Complaint, which the defendants objected to on February 4, 2020. The plaintiffs filed their reply to the defendants' objection on February 21, 2020. The Title III Court considered the motion for leave to amend on submission, and on April 14, 2020 entered an order granting the plaintiffs' motion. On April 16, 2020, the plaintiffs filed their Second Amended Complaint. Pursuant to the schedule the Title III Court entered on April 14, 2020, the defendants' motions to dismiss the Second Amended Complaint are due on April 20, 2020 and briefing on any such motions will be completed by June 5, 2020. The court will take the motions to dismiss on submission.

***Manuel Natal-Albelo, et al. v. The Fin. Oversight and Mgmt. Bd. for Puerto Rico, Case No. 19-00003-LTS (D.P.R. Jan. 14, 2019)***

On December 6, 2018, Manuel Natal Abelo, at-large independent representative in the House of Representatives of Puerto Rico, Rene Pinto-Lugo, and others, including VAMOS and various unions, filed a complaint in the Commonwealth of Puerto Rico Court of First Instance, San Juan Superior Court (the Superior Court) (Civil No. SJ2018cv01569), against the Commonwealth and Carlos Mendez Nunez, in his official capacity as President of the House of Representatives of Puerto Rico (the Civil Action).

On December 17, 2018, the complaint was served on the Puerto Rico Department of Justice. The complaint contains two causes of action. The first cause of action alleges that the legislative process leading to the passing of Puerto Rico House Bill 1837 and the enactment of Act 241-2018, which created the legal structure necessary to execute the Corporation's restructuring, was flawed and violated Puerto Rico House regulations as well as Natal's constitutional and civil rights under the Puerto Rico and United States Constitutions because he was not allowed to participate in debate prior to the bill's approval. The first cause of action seeks a declaration that Act 241 is unconstitutional. The second cause of action alleges that Act No.91 (the COFINA legislation, as amended) and Act No. 241-2018 (which is an amendment to the COFINA legislation, and which was signed into law by the Governor on November 15, 2018), violate the Commonwealth's Constitution's debt-limit and balanced-budget provisions.



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On January 14, 2019, the Oversight Board, on behalf of the Commonwealth and the Corporation, filed a notice of removal of the Civil Action to the Title III Court, where it became Adversary Proceeding No. 19-00003-LTS (D.P.R.), captioned Manuel Natal-Albelo, et al. v. Financial Oversight and Management Board for Puerto Rico, et al. (the Adversary Proceeding). On January 15, 2019, the Title III Court referred the Adversary Proceeding to Magistrate Judge Judith Dein for general pre-trial management.

On February 5, 2019, the Title III Court issued its Confirmation Order, confirming the COFINA Plan of Adjustment, and its Findings and Conclusions. In Paragraph 3 of the Findings and Conclusions, the Title III Court took judicial notice of Act 241 (defined as the New Bond Legislation; see Exhibit A of the Findings and Conclusions) and found that the Act “has been duly enacted.” See also Paragraph 120 of the Findings and Conclusions (concluding that “[t]he Commonwealth’s Legislative Assembly passed, and its Governor signed, the New Bond Legislation” and that “pursuant to Puerto Rico case law, legislation of the Commonwealth is presumed to be valid if enacted by the Legislative Assembly of Puerto Rico and signed into law by the Governor.”); n.14 of the Findings and Conclusions (overruling the objections by Manuel Natal-Albelo and his co-objectors to the constitutionality of the New Bond Legislation under the United States and Commonwealth’s Constitutions). On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation’s title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation’s sole and exclusive ownership of them.

On February 18, 2019, Manuel Natal-Albelo, Rene Pinto-Lugo, and others, including VAMOS and various unions, filed a Notice of Appeal in the Title III Court [Case No. 17-03283, ECF No. 5155]. On February 22, 2019, the appeal was docketed with the United States Court of Appeals for the First Circuit under case number 19-1181 (the Appeal). The Appeal remains pending with briefing currently expected to be concluded by April 30, 2020.

On March 21, 2019, the plaintiffs filed motions to remand the Adversary Proceeding to the Superior Court, asserting that (i) the Title III Court lacks subject matter jurisdiction over the complaint because it pertains solely to violations of the Commonwealth’s Constitution and Puerto Rico statutory law—not federal law—which do not involve rights created by Title III of PROMESA, and (ii) the Title III Court lacks subject matter jurisdiction over the complaint because the Oversight Board itself is unconstitutional. As a result, the plaintiffs claim that the complaint can only be adjudicated by a local Puerto Rico court. On March 24, 2019, the Oversight Board moved to strike plaintiffs’ remand motions. On April 18, 2019, Magistrate Judge Dein allowed the Oversight Board’s motion to strike and permitted plaintiffs to file one consolidated motion to remand, which they filed on May 10, 2019. The Oversight Board filed an opposition brief on May 31, 2019. Also, on May 31, 2019, AAFAF filed a motion to intervene in the Adversary Proceeding and an opposition to the pending remand motion. On July 31, 2019, Magistrate Judge Dein denied plaintiffs’ motion to remand. On August 13, 2019, Magistrate Judge Dein took note of the agreement among the parties and ordered that the stay of the Adversary Proceeding is continued in effect until the final resolution of the Appeal.

***c. Appointments Clause Litigation***

On August 7, 2017, a group of GO bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the “Appointments Clause” of the United States Constitution, which requires that “principal officers” of the United States be appointed by the President and confirmed by the Senate. The Title III

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Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the members of the Oversight Board in accordance with the United States Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing a petition for a writ of certiorari. On April 24, 2019, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case.

On May 30, 2019, Aurelius filed a cross petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's validation of the Oversight Board's past actions under the de facto officer doctrine. On June 6, 2019, the Solicitor General of the United States and the Creditors' Committee each filed separate petitions for writs of certiorari in the United States Supreme Court to address whether the members of the Oversight Board are "Officers of the United States" within the meaning of the Appointments Clause. On June 14, 2019, Unión de Trabajadores de la Industria Eléctrica y Riego (UTIER)—the plaintiff in a related adversary proceeding against the Commonwealth under Case Nos. 17-00228-LTS—filed its own separate petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's application of the de facto officer doctrine.

On June 18, 2019, the President of the United States re-nominated all seven original Oversight Board members to complete the remainder of their terms, and these nominations are currently pending before the United States Senate.

On June 20, 2019, the United States Supreme Court granted the Oversight Board, Aurelius, Solicitor General, Creditors' Committee, and UTIER petitions for writs of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019. As of the date hereof, the Supreme Court has not yet entered its decision on the appeal.

***d. The Oversight Board Investigation***

On August 2, 2017, the Oversight Board announced its intention, pursuant to its authority under PROMESA, to conduct an investigation to review the fiscal crisis and its contributors, and examine Puerto Rico's debt and its issuance, including disclosure and selling practices. To that end, the Oversight Board named a special investigation committee (the Special Investigation Committee) and conducted a competitive process to identify and select an independent firm to conduct the investigation. On September 13, 2017 the Oversight Board announced that the Special Investigation Committee retained an independent investigator to carry out a review of the Commonwealth's debt and its connection to the current financial crisis. The Special Investigation Committee considers this investigation an integral part of the Oversight Board's mission to restore fiscal balance and economic opportunity and to promote the Commonwealth's reentry to the capital markets. The independent investigator's work concluded, and the Oversight Board published the independent investigator's final report on August 20, 2018 (the Debt

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Investigation Report). The Debt Investigation Report provides an analysis of the historical and more recent macroeconomic and political factors contributing directly and indirectly to the Commonwealth's fiscal and economic crisis, the Commonwealth's municipal bond issuance process, and legislative efforts to restructure the debt, as well as the Oversight's Board investigative findings, policy recommendations, and identification of potential claims and matters for regulatory attention.

The Debt Investigation Report presented findings and recommendations on the following areas:

- GDB
- Puerto Rico Public Utilities (PREPA and PRASA)
- The Corporation or COFINA
- Employee's Retirement System of the Commonwealth (ERS)
- Puerto Rico's Budgeting, External Reporting, and Accounting Functions
- Calculation of the Constitutional Debt Limit
- Credit Rating Agencies (CRAs)
- Selling Practices for Puerto Rico-Related Bonds
- Puerto Rico's Government Ethics Framework
- Issuers' Use of Interest Rate Swaps
- Puerto Rico's Lack of a Clear Mechanism for Validating Puerto Rico-Related Bonds Before They Issue
- Possession Tax Credit

Finally, the independent investigator presented an overview of potential causes of action. The Debt Investigation Report in its entirety can be found on the Oversight Board's website.

On August 28, 2018, the Oversight Board appointed its special claims committee (the Special Claims Committee) and delegated to the Special Claims Committee any and all authority of the Oversight Board to review the findings in the Debt Investigation Report and to take any appropriate steps, including, but not limited to, recommending and/or initiating the negotiation and/or prosecution of claims based on the findings in the Debt Investigation Report on behalf of the Title III debtors for the benefit of all creditors and parties in interest in the Title III cases. The Special Claims Committee is entitled, in its full discretion, to determine the scope of any further action, including, but not limited to, additional investigation, as well as claims to be pursued, and to retain such advisors, consultants, attorneys or other advisors as it in its sole discretion sees fit. On October 25, 2018, the Oversight Board requested proposals for counsel to assist the Special Claims Committee regarding consideration of potential claims described in the Debt Investigation Report. On November 28, 2018, the Special Claims Committee signed the contract with the firm that will provide those services. The Special Claims Committee did not pursue any claims related to COFINA bond issuances.

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**(15) Subsequent Events**

Subsequent events were evaluated through May 1, 2020 to determine if any such events should either be recognized or disclosed in the 2019 basic financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Corporation. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

***Internal Revenue Service Administrative Claim Dispute***

Under former sections of the U.S. Internal Revenue Code of 1986 (the Tax Code), COFINA was permitted to issue Build America Bonds (BABs) during 2009 and 2010. Under applicable Tax Code sections, with respect to each interest payment date, holders of BABs are entitled to a tax credit equal to 35 percent of the interest payable by the issuer of the BABs (i.e., COFINA) with respect to the interest payment date. In lieu of bondholders receiving a tax credit, however, the Tax Code permitted issuers of BABs such as COFINA to instead elect to receive with respect to each interest payment date a direct subsidy payment from the Internal Revenue Service (the IRS) equal to 35 percent of the interest payable to the holder under that BAB for that date. Under applicable rules issued by the IRS, issuers of direct payment BABs are required to submit to the IRS requests for payment of the direct subsidy.

Similarly, the Tax Code permitted COFINA to issue recovery zone economic development bonds (RZEDBs) during 2009 and 2010. RZEDBs were similar to BABs except that the IRS's direct subsidy payments were established at 45 percent of the interest payable, rather than 35 percent. RZEDBs, like BABs, provided the issuer with the ability to elect to receive direct subsidies from the IRS.

On June 30, 2010, COFINA issued both BABs and RZEDBs and elected to treat those bonds as direct payment bonds. For each interest payment date on the BABs, through and including February 1, 2019, COFINA submitted the request for the direct payment, and the IRS made all requested payments except for the February 1, 2019 payment. For each interest payment date on the RZEDBs, COFINA submitted the request for the direct payment, but the IRS ceased making payments to COFINA beginning with the May 1, 2018 payment. The direct payments that COFINA requested, but which the IRS did not pay, total \$2.6 million (the Unpaid Subsidies).

After the commencement of COFINA's Title III Case on May 5, 2017, the Title III Court ordered BNYM, as trustee, to hold the pledged sales taxes used to pay interest on the bonds and not pay them to the COFINA bondholders, including holders of the COFINA BABs and RZEDBs. As a result, throughout the pendency of COFINA's Title III Case, all required interest payments, including with respect to the BABs and RZEDBs, were deposited by the Corporation into the appropriate BNYM accounts. BNYM, however, was ordered not to distribute those interest payments to the COFINA bondholders, although the order decreed the Corporation not to be in payment default.

By letter dated February 14, 2019, the IRS notified the Corporation that it is examining a Form 8038-CP for the August 1, 2017 interest payment date of its Sales Tax Revenue Bonds, First Subordinate Series 2010D (Issuer Subsidy Build America Bonds) (the Series 2010D). By letter dated March 18, 2019, the IRS notified the Corporation that it is examining a Form 8038-CP for the August 1, 2017 interest payment date of its Sales Tax Revenue Bonds, First Subordinate Series 2010E (Issuer Subsidy Recovery Zone Economic Development Bonds) (the "Series 2010E). Subsequently, the IRS expanded the examinations to include all interest payment dates occurring after the Petition Date. The Corporation responded and intends to respond

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to all correspondence from the IRS and intends to cooperate with the IRS in connection with the examinations.

The Corporation is not aware of any potential violation of the Form 8038-CP related to the Series 2010D and 2010E or federal taxes and/or events that may negatively impact the holders' tax status of such bonds or any other bonds. As of the date hereof, neither the IRS nor any other entity has asserted that the Corporation has committed any such violation. The Corporation has been advised by counsel that the IRS examination for which notices were recently received will have no negative impact on the tax-exempt status of the Restructured Sales Tax Bonds issued as tax-exempt bonds by the Corporation.

On April 10, 2019, the IRS filed an administrative expense claim against the Corporation seeking the return of \$2,520,731 in post-petition direct subsidy payments made to COFINA in connection with the Series 2010D Bonds and \$1,677,625 in post-petition direct subsidy payments related to the Series 2010E Bonds, totaling \$4,198,357. Specifically, the claim seeks the return of direct subsidy payments made to COFINA for August 2017, November 2017, February 2018, May 2018, August 2018, and November 2018 (collectively, the Paid Subsidies). In June 2019, the IRS administrative expense claim was amended to total \$4,201,956.

On June 12, 2019, FAFAA, on its own behalf and on behalf of the Corporation, filed an objection to the IRS's request for an administrative expense claim, arguing that the IRS is not entitled to a refund of the payments as COFINA had fully complied with its obligations under the applicable bond documents and tax laws, and thus the claims should be disallowed and expunged in their entirety.

On July 30, 2019, FAFAA, on its own behalf and on behalf of the Corporation, responded directly to the IRS' letter of February 12, 2019 of COFINA stating that the \$4,201,956 was properly paid and that the IRS had improperly failed to pay COFINA direct subsidy payments with respect to post-petition interest in the amount of \$2,663,705 with respect to the Series 2010D Bonds and the Series 2010E Bonds and requested that the IRS pay these amounts to the Corporation (collectively the Direct Subsidy Underpayments).

The current dispute between the Corporation and the IRS concerns the IRS's claim for return of the Paid Subsidies through both the filing of an administrative expense claim and an IRS audit, and a potential demand by COFINA that the IRS pay the Unpaid Subsidies.

On October 25, 2019, the IRS responded to COFINA's objection. On December 24, 2019, the Corporation filed its reply to the IRS's response. Negotiations between the Corporation and the IRS regarding settlement of the IRS claim are ongoing. A hearing before the Title III Court is scheduled for June 3, 2020.

On March 24, 2020, the IRS sent to the Corporation with respect to each of the Series 2010D Bonds and the Series 2010E Bonds, Form 886-A, Explanation of Items, and Form 4549-T, Adjustments to Credits Under Section 6431 (collectively, the 30 Days Letters). The 30 Day Letters contain the IRS's conclusions that the post-petition direct subsidy payments described above (i.e., the \$4,201,956) is required to be returned to the IRS. In addition, the IRS determined that it was not required to pay COFINA the Direct Subsidy Underpayments. Under the applicable IRS procedures, the Corporation has the ability to appeal these determinations to the IRS Office of Appeals not later than August 15, 2020. FAFAA, on behalf of itself and the Corporation, intends to appeal these IRS determinations. As of June 30, 2019, the Corporation established an accrual of \$4.2 million for the potential loss related to this matter. This amount is presented as accounts payables and accrued liabilities in the accompanying statement of net deficit. The Corporation intends to vigorously defend itself.

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***Invitation to Exchange Newly Issued Sales Tax Bonds***

On June 10, 2019, COFINA launched an invitation to exchange and consent to amendments, towards bondholders owning aggregate principal amount of approximately \$3.6 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 of its New COFINA Bonds (collectively, the Invited Bonds) originally issued on February 12, 2019 as part of the COFINA Plan of Adjustment. COFINA provided the opportunity to exchange all or a portion of the Invited Bonds to bondholders for an equal aggregate principal amount of Converted Bonds that will have the same terms as the Invited Bonds, except for: (1) interest rate on Converted Bonds have 25 basis points lower than the Invited Bonds exchanged (2) interest on Converted Bond is excluded from gross income for federal tax purposes under Section 103 of the Tax Code.

On August 1, 2019 (settlement date), COFINA exchanged aggregate principal amount of approximately \$3.1 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 and accrued interest of approximately \$12.1 million and \$177 thousand, respectively, with bondholders who accepted the exchange. Also, bondholders who accepted the invitation consented to certain amendments to certain documents described in the invitation.

As a result of the exchange described above, the Series 2019A-2 consisted of (i) \$3,108,661,000 aggregate principal amount series 2019A-2 converted bonds and (ii) \$483,148,000 aggregate principal amount of Series 2019A-2 unconverted bonds.

In November 2019, COFINA received communication from FAFAA notifying that the Puerto Rico Infrastructure Financing Authority (PRIFA), a public corporation and instrumentality of the Commonwealth intended to sell a portion of the \$139,355,000 aggregate principal amount of the Series 2019 A-2 maturing on July 1, 2040, with CUSIP 74529JQY4 it held (the PRIFA Series 2019A-2 Bonds) and requested to qualify interest on a portion of such bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Tax Code.

COFINA, after consultation with bond counsel, clarified and amended certain provisions of the first supplemental indenture to reflect the new tax status of the portion of PRIFA Series 2019A-2 Bonds that qualify to be sold. All terms and conditions of the PRIFA Series 2019A-2 Bonds, including interest rate and maturity, remained equal to the Invited Bonds except that will be dated July 1, 2019.

***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

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municipalities in the south of Puerto Rico that were principally affected by the seismic activity. This exemption was in effect until February 29, 2020.

***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 15, 2020, the Governor issued Executive Order 2020-20 to implement the closure of governmental and private sector operations in order to combat the effects of COVID-19 in Puerto Rico. This order has been modified and extended until May 3, 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 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.

***Impact on the Corporation***

As the Corporation had previously announced, on November 21, 2019, BNYM, as Trustee for the COFINA Bonds, had received sales and use taxes totaling \$436,992,738, which equals the amount of the COFINA Revenues for fiscal year 2020. Consistent with the COFINA Plan of Adjustment, upon BNYM's receipt of the COFINA Revenues for fiscal year 2020, the Government is entitled to receive all collections from the COFINA Pledged Taxes until the end of fiscal year 2020 (June 30, 2020). As a result, the above-described temporary measures have not had any effect on the Corporation's receipt of sales and use tax collections for

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fiscal year 2020. On July 1, 2020, BNYM will begin to receive collections from the COFINA Pledged Taxes until it receives all COFINA Revenues for fiscal year 2021, which amount to \$454,472,448.

Because of the evolving nature of the COVID-19 pandemic and the federal and local responses thereto, the Corporation cannot predict the extent or duration of the outbreak or what impact it may have, if any, on the Corporation's receipt of sales and use tax collections for fiscal year 2021. While the effects of COVID-19 may be temporary, they may alter the behavior of businesses and people in a manner that may have negative impacts on global, national and local economies, including the collection of sales and use taxes by the Commonwealth.