

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

Basic Financial Statements and
Required Supplementary Information

June 30, 2021

(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:

Report on the Financial Statements

We have audited the accompanying basic 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, 2021, and the related notes to the basic 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund, of the Puerto Rico Sales Tax Financing Corporation, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
October 15, 2021

Stamp No. E453559 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, 2021

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, 2021. Please read it in conjunction with the Corporation's basic financial statements, including the notes thereto, which follow this section.

Financial Highlights

- The Corporation's net deficit in the statement of net position (deficit) increased to \$5,560 million at June 30, 2021, from \$4,961 million at June 30, 2020, an increase of approximately \$599 million, or 12.1%. The increase in net deficit is due to the Corporation recording interest on its bonds payable of approximately \$592.6 million, of which \$162 million represent the accretion of interest on capital appreciation bonds during the year ended June 30, 2021. Also, during the year ended June 30, 2021, the Corporation accrued the amount of \$5.3 million representing the remaining sales and use tax (SUT) collections deposited free and clear of the statutory lien and that will be paid to the Commonwealth of Puerto Rico (the Commonwealth) in accordance with Section 5.10 of the Master Trust Indenture.
- COFINA Revenues increased to \$454 million in fiscal year 2021 from \$437 million in fiscal year 2020, an increase of approximately \$17 million, or 4%. This increase was due to a statutory rate increase of 4% provided by Act No.91, as amended. For further information, refer to Note 6 to the basic financial statements. The term "COFINA Revenues" refers to 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, which is a statutorily determined amount that increases by four percent each fiscal year. See Note 9 to the basic financial statements.
- In February 2019, the Corporation completed a debt restructuring pursuant to the Third Amended Plan of Adjustment (Plan) confirmed under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). In connection with the consummation and effectiveness of the Plan, the Corporation issued its Puerto Rico Sales Tax Financing Corporation Restructured Sales Tax Bonds, Series 2019 Bonds (the COFINA Bonds) under a certain Master Trust Indenture, as supplemented and amended. The Plan became effective in accordance with its terms of February 12, 2019, and COFINA emerged from Title III of PROMESA. On August 1, 2019, COFINA exchanged approximately \$3.1 billion aggregate principal amount of Series 2019 A-2 Bonds and approximately \$45.6 million aggregate principal amount of Series 2019B-2 Bonds and the first and second supplemental Master Trust indenture became effective. For additional information, refer to Notes 3 and 9 to the basic financial statements.
- On March 2, 2021, the United States Court of Appeals for the First Circuit affirmed Judge Laura Taylor Swain's order confirming the COFINA Plan of Adjustment under PROMESA. As decided in a similar case on February 8, 2021, the First Circuit again concluded that efforts to revoke the COFINA Plan of Adjustment were barred under the doctrine of equitable mootness because the plan has already been implemented. These appeals were brought by different plaintiffs yet presented similar issues. On April 2, 2021, a group that held the Corporation's subordinate bonds filed a petition for writ of certiorari seeking U.S. Supreme Court review of the First Circuit's decision. On October 4, 2021, the Supreme Court denied the petition; as a result, as of the date of these financial statements, there are no further cases pending challenging the validity of COFINA's Plan of Adjustment.

Overview of the Financial Statements

These basic financial statements include 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 provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

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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 Notes 1 and 6 to the basic financial statements), and the COFINA Plan of Adjustment, the Findings and Conclusions, and the Confirmation Order. 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 position (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 obligations is solely dependent on the portion of the SUT collected and used to fund the debt service fund. The confirmation of the COFINA Plan of Adjustment ended the Corporation's restructuring under Title III of PROMESA and included sweeping changes to its financial situation. It should be noted that one matter in the Corporation's Title III case remain ongoing (see note Note 12, Contingent Liability - Internal Revenue Service Administrative Claim Dispute).

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Government-Wide Financial Analysis

The following is a condensed summary of the assets, liabilities, and net position (deficit) for the Corporation as of June 30, 2021, and June 30, 2020 (in thousands), presented from an accounting perspective:

	June 30		Change	
	2021	2020	Amount	Percent
Assets:				
Future sales and use tax receivable	\$ 6,846,923	\$ 7,301,400	\$ (454,477)	(6.2)%
Other assets	273,651	259,222	14,429	5.6%
Total assets	<u>7,120,574</u>	<u>7,560,622</u>	<u>(440,048)</u>	<u>(5.8)%</u>
Liabilities:				
Accounts payable and other	220,224	220,687	(463)	(0.2)%
Due to Commonwealth of Puerto Rico	5,346	8,483	(3,137)	(37.0)%
Liabilities payable from restricted assets	12,454,510	12,291,953	162,557	1.3%
Total liabilities	<u>12,680,080</u>	<u>12,521,123</u>	<u>158,957</u>	<u>1.3%</u>
Net deficit - unrestricted	<u>\$ (5,559,506)</u>	<u>\$ (4,960,501)</u>	<u>\$ (599,005)</u>	<u>12.1%</u>

Future SUT collections are recognized as revenue in the fund financial statements upon the Corporation's receipt of such collections, but these payments reduce the future sales and use tax receivable in the government-wide financial statements. The Corporation's receipt of COFINA Revenues for fiscal year 2021 of approximately \$454 million reduced the balance of the future SUT receivable as of June 30, 2021. Also, as of June 30, 2021, the Corporation had \$12,454 million of bonds payable issued and outstanding, an increase of approximately \$162 million (or 1.3%) from \$12,292 million as of June 30, 2020. The increase of \$162 million was the result of the accretion of interest on capital appreciation bonds.

The increase in other assets when compared to the previous year is due to the COFINA Revenues increasing annually by a statutorily determined 4% and those resources are accumulated in the trustee's cash management accounts to cover scheduled debt service payments. On July 1, 2021, debt service payments amounting to approximately \$232 million were due on COFINA bonds while accrued interest of approximately \$215 million were paid on July 1, 2020, because no principal payments were scheduled.

Pursuant to Section 5.10 of the Master Trust Indenture, dated as of February 12, 2019 (the Master Trust Indenture), by and between the Corporation and The Bank of New York Mellon (BNYM), as trustee (the Trustee), remaining amounts deposited free and clear of the statutory lien in the Remainder Fund will be paid to the Commonwealth of Puerto Rico. As of June 30, 2021, the Corporation established an accrual due to the Commonwealth of \$5.3 million (\$8.5 million as of June 30, 2020) in accordance with this provision of the Master Trust Indenture.

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Condensed revenues, expenses, and change in net position (deficit) for the year ended June 30, 2021, and June 30, 2020, are presented below (in thousands):

	June 30		Change	
	2021	2020	Amount	Percent
Expenses:				
Payments to the Commonwealth of Puerto Rico	\$ (5,346)	\$ (8,483)	\$ 3,137	(37.0)%
Interest on long-term debt	(592,613)	(585,181)	(7,432)	1.3%
Other	(1,092)	(1,945)	853	(43.9)%
Total expenditures	(599,051)	(595,609)	(3,442)	0.6%
Program revenues:				
Investment earnings	47	3,040	(2,993)	(98.5)%
Other	—	3	(3)	(100.0)%
Total revenues	47	3,043	(2,996)	(98.5)%
Change in net deficit	\$ (599,004)	\$ (592,566)	\$ (6,438)	1.1%

Total interest expense on long-term debt for the fiscal year ended June 30, 2021, was approximately \$592.6 million, an increase of \$7.4 million (or 1.3%) when compared to 2020. The increase in the interest expense on long-term debt is mainly related to the impact of the discount on capital appreciation bonds.

Pursuant to Section 5.10 of the Master Trust Indenture, on November 30, 2020, at the request of the Secretary of the Treasury of the Commonwealth, approximately \$8.5 million was transferred from the trustee to the Commonwealth. As of June 30, 2021, an account payable was accrued for approximately \$5.3 million representing the free and clear remainder funds corresponding to fiscal year 2021 to be paid promptly by the trustee to the Secretary of Treasury subsequent to year end.

In fiscal year 2019, the Corporation recorded approximately \$4.2 million to cover any unfavorable outcome related to an administrative claim dispute with the Internal Revenue Service (IRS) which seeks the return of post-petition direct subsidy payments with respect of certain pre-petition bonds (discussed in Note 12 to the basic financial statements). During the year ended June 30, 2021, management accrued interest of \$143 thousand that the IRS asserted would be owed if its claim is successful, increasing the contingent liability to \$4.9 million.

Interest income on investments decreased from \$3 million in fiscal year 2020 to \$47,000 in fiscal year 2021 due to the low interest environment as monetary authorities cut interest rates to effectively 0% as the world economy fights its way back from the coronavirus pandemic.

Governmental Fund Financial Analysis

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Corporation uses to keep track of specific sources of funding and spending for a particular purpose. Governmental fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The Corporation maintains two governmental funds which are considered major funds: the general fund and the debt service fund. Information is presented separately in the governmental funds balance sheets and in the governmental funds statements of revenues, expenditures, and changes in fund balances. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of expendable resources, as well as on balances of

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expendable resources available at the end of the fiscal year. This information may be useful in evaluating the Corporation's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Corporation's governmental activities. Both the governmental funds balance sheets and the governmental funds statements of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation's governmental funds reported a total fund balance as of June 30, 2021, and June 30, 2020, of \$268.0 million and \$249.8 million, respectively. For the years ended June 30, 2021, and June 30, 2020, the receipts of sales and use tax amounted to approximately \$454.5 million and \$437.0 million, respectively.

Pursuant to the Master Trust Indenture, remaining amounts deposited in the Remainder Fund free and clear of the statutory lien will be paid to the Commonwealth of Puerto Rico. A subsequent payment of approximately \$5.3 million (\$8.5 million in 2020) to the Commonwealth was accrued as of June 30, 2021. The debt service fund is funded with the receipt of sales and use tax and interest thereon.

At the Plan of Adjustment's effective date (February 12, 2019), the Corporation's general fund received \$15 million, available for its operating expenses, plus additional funds remaining prior to the closing date that were held at the Corporation. The current balance as of June 30, 2021, was approximately \$21.8 million, of which \$15 million is currently on deposit in an operational account at a Puerto Rico banking institution (the Operations Account), and the remainder is on deposit in the Corporation's general account. In addition to these funds, operating expenses will be covered by investment earnings derived from interest income generated by funds deposited in the Corporation's bond trustee accounts held for the benefit of the Corporation prior to distribution. These amounts will be transferred to the Corporation's Operations Account, subject to the annual operating account cap amount of \$15 million.

Debt Administration

As of June 30, 2021, the Corporation's outstanding bonds balance was approximately \$12,454 million compared to \$12,292 million as of June 30, 2020. The net increase of \$162 million was the result of the accretion in the discount on capital appreciation bonds. No scheduled principal debt service payments were due in fiscal year 2021.

The COFINA Bonds include: (i) current interest bonds (CIB) entitled to receive interest payments on a current basis 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.

In June 2019, COFINA invited holders of the Series 2019A-2 Bonds and the Series 2019B-2 Bonds (the Invited Bonds) to exchange those bonds for bonds of the Corporation, the interest on which is excluded from gross income for federal tax purposes under Section 103 of the Tax Code with a yield that is no more than twenty-five (25) basis points lower than the Invited Bonds so exchanged (the Converted Bonds), and to consent to certain amendments of the First Supplemental Indenture and the Second Supplemental Indenture. On August 1, 2019, (i) COFINA exchanged \$3,108,661,000 aggregate principal amount of Series 2019A-2 Bonds and \$45,570,000 aggregate principal amount of Series 2019B-2 Bonds and (ii) the amendments to the First Supplemental Indenture and the Second Supplemental Indenture became effective.

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

COFINA's Credit Ratings

Prior to the Corporation's debt restructuring discussed above, COFINA's bonds were subject to certain credit downgrades by the major credit rating agencies. Currently, the outstanding bonds of the Corporation are not rated. With respect to the Plan of Adjustment's ratings covenant on the COFINA Bonds, the Corporation has determined that it is not in the best interests of the Corporation to obtain a rating on the bonds at this time. In making this determination, the Corporation considered, among other things, the current instability in the macroeconomic environment, the pending restructuring of the Commonwealth's public debt under Title III of PROMESA and ongoing litigation.

Currently Known Facts and Events

COFINA's Emergence from Title III of PROMESA

The Corporation completed a judicially supervised restructuring proceeding under Title III of 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) 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 was the subject of various appeals before the United States Court of Appeals for the First Circuit; the First Circuit, however, affirmed the Title III Court's order confirming the COFINA Plan of Adjustment. Certain bondholders filed a petition for writ of certiorari, seeking U.S. Supreme Court review of the First Circuit's decision. On October 4, 2021, the Supreme Court denied the petition; as a result, as of the date of these financial statements, there are no further cases pending that challenge the validity of COFINA's Plan of Adjustment.

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.

For more information on PROMESA and the Corporation's Title III proceedings, please refer to Note 3 of the basic financial statements. The COFINA Plan of Adjustment can be found at: www.cofina.pr.gov.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders,

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including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

On October 19, 2020, BNYM, as trustee for the COFINA Bonds, had received sales and use taxes totaling \$454,472,448, which equals the amount of the COFINA Revenues for fiscal year 2021. Consistent with the COFINA Plan of Adjustment, upon BNYM's receipt of the COFINA Revenues for fiscal year 2021, the Government is entitled to receive all collections from the COFINA Pledged Taxes until the end of fiscal year 2021 (June 30, 2021). 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 fiscal year 2021. On July 1, 2021, BNYM began to receive collections from the COFINA Pledged Taxes for fiscal year 2022; BNYM will continue to receive these collections until it receives all COFINA Revenues for fiscal year 2022, which will amount to \$472,651,346.

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.

PUERTO RICO SALES TAX FINANCING CORPORATION
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Governmental Funds Balance Sheets and Statement of Net Position (Deficit)

June 30, 2021

	Governmental Funds Balance Sheets				Statement of Net Position (Deficit)
	General Fund	Debt Service Fund	Total	Adjustments	
Assets:					
Deposits placed with commercial bank	\$ 21,785,070	\$ -	\$ 21,785,070	\$ -	\$ 21,785,070
Cash held by trustee	-	1,009,826	1,009,826	-	1,009,826
Future sales and use tax receivable	-	6,846,923,369	6,846,923,369	-	6,846,923,369
Prepaid expenses and other assets	169,369	-	169,369	-	169,369
Investments	-	250,686,409	250,686,409	-	250,686,409
Total assets	<u>21,954,439</u>	<u>7,098,619,604</u>	<u>7,120,574,043</u>	<u>-</u>	<u>7,120,574,043</u>
Liabilities:					
Accounts payable and accrued liabilities	311,189	-	311,189	4,884,522	5,195,711
Accrued interest payable	-	-	-	215,028,009	215,028,009
Due to Commonwealth of Puerto Rico	5,345,981	-	5,345,981	-	5,345,981
Unearned revenue - sales and use tax	-	6,846,923,369	6,846,923,369	(6,846,923,369)	-
Bonds payable					
Due within one year	-	-	-	53,140,361	53,140,361
Due in more than one year	-	-	-	12,401,369,680	12,401,369,680
Total liabilities	<u>5,657,170</u>	<u>6,846,923,369</u>	<u>6,852,580,539</u>	<u>5,827,499,203</u>	<u>12,680,079,742</u>
Fund balance/net position (deficit):					
Fund balance:					
Restricted	-	251,696,235	251,696,235	(251,696,235)	-
Unassigned	16,297,269	-	16,297,269	(16,297,269)	-
Total fund balance	<u>16,297,269</u>	<u>251,696,235</u>	<u>267,993,504</u>	<u>(267,993,504)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 21,954,439</u>	<u>\$ 7,098,619,604</u>	<u>\$ 7,120,574,043</u>		
Net deficit:					
Unrestricted				(5,559,505,699)	(5,559,505,699)
Net deficit				<u>\$ (5,559,505,699)</u>	<u>\$ (5,559,505,699)</u>

See accompanying notes to basic financial statements.

PUERTO RICO SALES TAX FINANCING CORPORATION
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Reconciliation of Governmental Funds Balance Sheets to the
Statement of Net Position (Deficit)
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Total fund balances - governmental funds:		\$ 267,993,504
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		(215,028,009)
Contingent liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(4,884,522)
Bonds and notes payable are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(12,454,510,041)
Future sales and use tax receivable does not constitute current financial resources, and, therefore, is unearned in the fund financial statements		<u>6,846,923,369</u>
Net deficit of governmental activities		<u><u>\$ (5,559,505,699)</u></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

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	Governmental Funds Statements of 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	\$ 5,345,981	\$	\$ 5,345,981	\$	\$ 5,345,981
Other	948,475	-	948,475	143,829	1,092,304
Debt service:					
Principal	-	-	-	-	-
Interest	-	430,056,019	430,056,019	162,556,697	592,612,716
Total expenditures/expenses	6,294,456	430,056,019	436,350,475	162,700,526	599,051,001
Program revenues:					
Collections of sales and use tax	-	454,476,298	454,476,298	(454,476,298)	-
Investment earnings	909	45,787	46,696	-	46,696
Total revenues	909	454,522,085	454,522,994	(454,476,298)	46,696
Net program revenue (expenses)	(6,293,547)	24,466,066	18,172,519	(617,176,824)	(599,004,305)
Other financing sources (uses):					
Transfers (out) in	10,123,077	(10,123,077)	-	-	-
Total other financing sources (uses)	10,123,077	(10,123,077)	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	3,829,530	14,342,989	18,172,519	(18,172,519)	-
Change in net deficit	-	-	-	(599,004,305)	(599,004,305)
Fund balance/net deficit:					
At beginning of year	12,467,739	237,353,246	249,820,985	(5,210,322,379)	(4,960,501,394)
At end of year	\$ 16,297,269	\$ 251,696,235	\$ 267,993,504	\$ (5,827,499,203)	\$ (5,559,505,699)

See accompanying notes to basic financial statements.

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

June 30, 2021

Net changes in fund balances - total governmental funds:	\$ 18,172,519
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	(143,829)
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	(162,556,697)
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	(454,476,298)
Change in net deficit of governmental activities	\$ <u>(599,004,305)</u>

See accompanying 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 (the 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 (collectively, Act No. 91). 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 COFINA Bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment.

The Corporation is an independent and separate legal entity from the Government of Puerto Rico and any other government entity of the Commonwealth. The Corporation is operated independently, and its business and affairs are governed by or under the direction of its board of directors.

For more information on the sales and use tax (SUT) and COFINA's ownership rights over certain portions of the SUT, see Note 6 to the basic financial statements.

(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 position (deficit) during the reporting period. Actual results could differ from those estimates.

The accounting and reporting policies of the Corporation conform to U.S. GAAP, as applicable to governmental entities. The Corporation follows the Governmental Accounting Standards Board (GASB) under the hierarchy established by GASB Statement No. 55, *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 position (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 position (deficit). Governmental activities are financed through revenue of the SUT deposited in the COFINA Revenues Fund, which is the segregated fund owned by the Corporation into which the COFINA Revenues are deposited and held by the Trustee (COFINA Revenues Fund), and other financing sources.

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The statement of net position (deficit) presents the Corporation's assets and liabilities, with the difference reported as net position (deficit). Net position (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 - Consists 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. 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.
- 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, 2021.
- 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, 2021.

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- 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. 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.

(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, except for money market instruments with a remaining maturity at the time of purchase of one year or less and investment positions in 2a7 (Securities and Exchange Commission Rule 2a7 of the Investment Company Act of 1940) like external investment pools, which are carried at amortized cost pursuant GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. There are no limitations nor restrictions on withdrawals related to the external investment pools held by the Corporation. 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. GASB Statement No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

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Level 1 - inputs whose values are based on 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. In the government-wide financial statements, these payments reduce the future sales and use tax receivable. Refer to Note 6 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.

(h) *New Accounting Standards Adopted and Accounting Pronouncements Issued but Not Yet Effective*

New Accounting Standards Adopted

- *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, but were postponed by GASB 95 by one year. See further information in this section below. This statement did not have an impact on the basic financial statements.
- *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 GASB 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 GASB Statement 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. GASB Statement 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the

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applicability of certain requirements of GASB 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. This statement did not have an impact on the basic financial statements.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. This statement did not have an impact on the basic financial statements.

New Accounting Pronouncements Issued But Not Yet Effective

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed by one year or eighteen months in certain instances, the implementation of several pronouncements. Refer to GASB 95 below in this section.

- *GASB Statement No. 87, Leases*. The objective of this Statement is to better meet the informational 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, but postponed by GASB 95 until periods beginning after June 15, 2021. 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.

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

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, but postponed by GASB 95 until periods beginning after December 15, 2021. Earlier application is encouraged.

- *GASB Statement No. 95 Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders considering the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

- *Statement No. 83, Certain Asset Retirement Obligations*
- *Statement No. 84, Fiduciary Activities*
- *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
- *Statement No. 90, Majority Equity Interests*
- *Statement No. 91, Conduit Debt Obligations*
- *Statement No. 92, Omnibus 2020*
- *Statement No. 93, Replacement of Interbank Offered Rates*
- *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- *Implementation Guide No. 2018-1, Implementation Guidance Update—2018*
- *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
- *Implementation Guide No. 2019-2, Fiduciary Activities.*

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

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

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

- *GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). This Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (i.e., governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use a subscription asset -an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87 Leases, as amended. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. 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 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; (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). 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 President of the United States 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.

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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. On May 27, 2021, the Oversight Board certified the 2021 Corporation’s fiscal plan.

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.

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, and the Corporation emerged from Title III of PROMESA, 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.

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. Refer to Note 9.

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.

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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 latest updated report on June 30, 2021.

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.

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.”

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(4) Deposits and Custodial Credit Risk

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 Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amounts deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Corporation's name.

Deposits maintained by the Corporation as of June 30, 2021, represent the balance of interest and non-interest-bearing accounts in commercial banks and cash held by the Trustee under the Master Trust Indenture. The table presented below discloses the level of custodial credit risk assumed by the Corporation as of June 30, 2021. As of June 30, 2021, \$759,826 of the depository bank balance of \$22,794,896 was uninsured and/or uncollateralized as follows:

		Carrying amount		Depository bank balance		Amount uninsured and uncollateralized
Deposits placed with bank	\$	21,785,070	\$	21,785,070		—
Cash held by trustee		1,009,826		1,009,826		759,826
Total	\$	22,794,896	\$	22,794,896	\$	759,826

(5) Deposits Claim Receivable from Public Entity Trust (PET)

On August 10, 2018, the Government Development Bank for Puerto Rico (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 *i.e.*, November 29, 2018, (the Closing Date), the balance of liabilities owed between the Commonwealth and its agencies, 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 Corporation held deposits at GDB of approximately \$26.6 million. A custodial credit loss on these deposits was recorded in previous years resulting in a reserve of the entire balance. As result of the GDB Qualifying Modification, COFINA received beneficial units of the PET amounting to approximately \$26.6 million in exchange of deposits held at GDB. The units received from PET and the custodial credit loss

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were reclassified to deposits claim receivable from PET and into an allowance for doubtful accounts, respectively, with a net carrying amount of zero.

The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$578 million against the Commonwealth (the "PET Claim"), which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of, the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. 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 result units received from PET are fully reserved.

(6) Future Sales and Use Tax Receivable

The Commonwealth imposes a sales and use tax (SUT) on a broad range of goods and services. As of June 30, 2021, 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.

Over the course of fiscal year 2021, the future sales and use tax receivable was reduced by the fiscal year 2021 collections of the COFINA Revenues. As collections for fiscal year 2021 amounted to approximately \$454 million, the Corporation's future sales and use tax receivable is approximately \$6.8 billion. The COFINA Revenues that the Corporation receives every fiscal year will reduce the future sales and use tax receivable until it equals \$0. Based on the schedule of the COFINA Revenues presented in Note 9 to the basic financial statements, in fiscal year 2033 the Corporation should reach the outstanding future sale and use tax receivable balance of \$6.8 billion as of June 30, 2021. 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 Trustee for the benefit of the holders of the 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 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*, 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.

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As of June 30, 2021, 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, 2021, was \$847,106,147 (\$880,990,393 for fiscal year 2022) 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. In the government-wide financial statements, these payments reduce the future sales and use tax receivable.

(7) Investments

As of June 30, 2021, 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 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. As of June 30, 2021, the Corporation's board of directors is responsible for implementing and monitoring the interest rate risk policies and strategies. As of June 30, 2021, 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 as of June 30, 2021:

Investment type	Due within one year	Credit Risk Rating
Debt securities:		
U.S. Treasury State and Local Government Series (SLGs)	\$ 12,832,869	AAA
External Investment Pools:		
Dreyfus Government Cash Management	237,853,540	AAAm
Total investments	\$ 250,686,409	

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As of June 30, 2021, investments in external investments pools consisted of \$237,853,540 invested in Dreyfus Government Cash Management (Dreyfus), which is an external investment pool registered with the Securities and Exchange Commission.

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 an 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. As of June 30, 2021, the credit rating of Dreyfus was "AAAm" by Standard & Poor's as shown in the table above. The "AAAm" is the Standard & Poor's highest rating defined as extremely strong capacity to maintain principal stability and limit exposure to principal losses due to credit market and liquidity risks. The investments in Dreyfus were held by BNYM, as trustee, in the name of the Corporation.

Concentration of Credit Risk - The Corporation places no limits on the amount it may invest in any one issuer. As of June 30, 2021, 5% of the Corporation's investments are in debt securities, 95% are in external investment pools. The following table shows the investments by fair value level held by the Corporation as of June 30, 2021:

Investments by fair value level	Fair Value Measurement Levels			Total
	Level 1	Level 2	Level 3	
Debt securities:				
U.S. Treasury State and Local Government Series (SLGs)	\$ -	12,832,869	-	12,832,869
Total investments by fair value level	\$ -	12,832,869	-	12,832,869
Investments not measured at fair value:				
External Investment Pools:				
Dreyfus Government Cash Management				237,853,540
Total investments			\$	250,686,409

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

(8) Relationship with FAFAA and the Commonwealth of Puerto Rico

Puerto Rico Fiscal Agency and Financial Advisory Authority (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, 2021, FAFAA provided certain management and

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administrative services to the Corporation under a memorandum of understanding. FAFAA charged the Corporation \$72,000 for management and administrative services during the year ended June 30, 2021.

Also, FAFAA made payments amounting to approximately \$49,300 on behalf of COFINA to cover certain legal expenses incurred related to the Internal Revenue Service Administrative Claim Dispute discussed in Note 12. FAFAA assumed responsibility for covering legal expenses during the administrative claim dispute between COFINA and the IRS.

Commonwealth of Puerto Rico

Pursuant to Section 5.10 of the Master Trust Indenture, remaining amounts deposited free and clear of the statutory lien in the Remainder Fund will be paid to the Commonwealth. As of June 30, 2021, the Corporation established an accrual of \$5,345,981 in accordance with this provision of the Mater Trust Indenture. This amount is presented as Due to Commonwealth of Puerto Rico in the fund financial statements as it was due and payable as of June 30, 2021.

As a result of the COFINA Plan of Adjustment, the Commonwealth became legally obligated to pay the expenses associated with the Commonwealth-COFINA adversary proceeding during the pendency of the COFINA Title III case.

The Corporation also leases office space from the Puerto Rico Buildings Authority, a component unit of the Commonwealth of Puerto Rico. Refer to Note 12 for further information.

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(9) Bonds Payable

As of June 30, 2021, bonds payable of the Corporation consists of the following (in thousands)¹²:

Description	Face/Effective interest rate	Amount
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%	3,292,918
COFINA Bonds, Series 2019A-2, Series 2091A-2A:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%-5.00%	3,591,809
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%	42,172
COFINA Bonds, Series 2019B-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%-4.784%	45,570
Bonds payable - net		<u>\$ 12,454,510</u>

All current interest bonds have fixed interest rates.

Bonds payable activity for the year ended June 30, 2021, is as follows (in thousands):

Description	Balance at June 30, 2020	Additions	Reductions	Balance at June 30, 2021	Due within one year
Bonds payable	\$ 9,119,420	—	—	9,119,420	—
Capital appreciation bonds - principal	9,618,644	—	—	9,618,644	53,140
Discount on capital appreciation bonds	16,446,111	162,557	—	(6,283,554)	—
Bonds payable - net	<u>\$ 12,291,953</u>	<u>162,557</u>	<u>—</u>	<u>12,454,510</u>	<u>53,140</u>

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

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The 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 defined as 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 COFINA Bonds include (i) current interest bonds (CIB) entitled to interest payments as a current basis 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 COFINA Bonds commenced to accrue or accrete 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 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 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 by the Corporation).

The 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)

Maturity Optional Redemption

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)

Maturity Optional Redemption

2024 & 2027	Not subject to redemption prior to maturity
2029	Redeemable at 103% of Accreted Value ("AV") commencing July 1, 2028
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

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The 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 COFINA Bonds have neither a debt service reserve fund nor rights of acceleration.

On August 1, 2019, certain taxable COFINA Bonds were exchanged for tax-exempt COFINA Bonds (i.e., interest on such bonds is excluded from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Tax Code)), through an invitation to exchange. At that date, COFINA exchanged \$3,108,661,000 aggregate principal amount of Series 2019A-2 Bonds and \$45,570,000 aggregate principal amount of Series 2019B-2 Bonds. The term "COFINA Bonds" refers to the Corporation's Restructured Sales Tax Bonds, issued on February 12, 2019.

As of June 30, 2021, debt service requirements for bonds outstanding were as follows:

Year ending June 30	Principal	Interest	Total
2022	\$ 53,140,361	\$ 430,056,019	\$ 483,196,380
2023	54,565,877	430,056,019	484,621,896
2024	74,225,000	430,056,019	504,281,019
2025	94,674,754	430,056,019	524,730,773
2026	115,941,475	430,056,019	545,997,494
2027-2031	929,709,554	2,150,280,094	3,079,989,648
2032-2036	1,657,341,662	2,098,079,282	3,755,420,944
2037-2041	2,922,905,024	1,665,420,314	4,588,325,338
2042-2046	3,543,672,003	1,410,164,489	4,953,836,492
2047-2051	3,543,673,607	1,410,164,489	4,953,838,096
2052-2056	3,902,720,000	1,052,442,717	4,955,162,717
2057-2058	1,845,495,000	138,480,059	1,983,975,059
	<u>18,738,064,317</u>	<u>\$ 12,075,311,539</u>	<u>\$ 30,813,375,856</u>
Less: Unaccreted interest	(6,283,554,276)		
	<u>\$ 12,454,510,041</u>		

The scheduled principal payments of approximately \$53.1 million for the year ended June 30, 2022, consists of approximately \$17.5 million payable on July 1, 2021 (fiscal year 2022), and approximately \$35.6 million payable on July 1, 2022 (fiscal year 2023). The scheduled principal payments of approximately \$17.5 million are payable from the COFINA Revenue Fund deposited during fiscal year 2020 and the scheduled principal payments of approximately \$35.6 million are payable from the COFINA Revenue Fund deposited during fiscal year 2021. Therefore, the principal balance of approximately \$17.5 million paid on July 1, 2021, must be deducted from the approximately \$483.2 million in total debt service payments due during fiscal year ending June 30, 2022, when compared to the COFINA Revenues (below) for such ending year.

The first collections of the 5.5% SUT are deposited in the COFINA Revenues Fund and applied to fund the COFINA Revenues. The Fixed Income Amount for the fiscal year ended June 30, 2021, was \$847,106,147 (\$880,990,393 for fiscal year 2022). Under Act No. 91, as amended, 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

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an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year, follows:

Year ending June 30	Amount
2022	\$ 472,651,346
2023	491,557,399
2024	511,219,696
2025	531,668,483
2026	552,935,223
2027-2031	3,114,670,541
2032-2036	3,789,472,955
2037-2041	4,607,193,170
2042-2046	4,962,625,000
2047-2051	4,962,625,000
2052-2056	4,962,625,000
2057-2058	1,985,050,000
	\$ 30,944,293,813

(10) The Operating Reserve Fund Cap

On the Plan of Adjustment's effective date, the Corporation's general fund received \$15 million, available for its operating expenses, plus additional funds remaining prior to the closing date that were held at the Corporation. In addition to these funds, operating expenses will be covered by investment earnings derived from interest income generated by funds deposited in the Corporation's bond trustee accounts held for the benefit of the Corporation prior to distribution. In each fiscal year, an authorized officer of the Corporation will certify in writing to the Trustee the necessary amounts to deposit in the operating reserve fund established pursuant to the Trust Agreement, which amounts may not exceed the operating reserve fund cap of \$15 million established in the Trust Agreement. During the year ended June 30, 2021, the amount of \$1,640,072 was transferred to the general fund from the debt service fund to comply with this requirement. The aggregate current balance as of June 30, 2021, of deposits placed with commercial banks was approximately \$21.8 million, of which \$15 million are currently on deposit in an operational account at a Puerto Rico banking institution (the Operations Account), and the remainder is on deposit in the Corporation's general account.

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(11) Inter-fund Transfers

The following table includes the inter-fund transfers for the year ended June 30, 2021. These inter-fund transfers were made to comply with the requirements of the Master Trust Indenture. Refer to Notes 8 and 10 to the basic financial statements for further information.

Transfer out	Transfer in	Transfer for	Amount
Debt Service Fund	General Fund	Deposit to COFINA Operating Reserve Fund	\$ 1,640,072
Debt Service Fund	General Fund	Remainder Fund for fiscal year 2020	\$ 8,483,004

(12) Commitments and Contingencies

Lease Commitments

COFINA leases office space from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico, in what is known as Roberto Sanchez Vilella Government Center in the municipality of San Juan Puerto Rico. The office space is leased under an operating lease agreement that expires on July 1, 2042. Rent charged to operations for the year ended June 30, 2021, amounted to approximately \$17,925. As of June 30, 2021, the minimum annual future rentals under the lease are approximately as follows:

Year Ending June 30:		
2022	\$	17,925
2023		17,925
2024		17,925
2025		17,925
2026		17,925
Thereafter		286,800
	\$	<u>376,425</u>

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Contingent Liability - Internal Revenue Service Administrative Claim Dispute

Under former sections of 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, totaled \$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 those taxes to the COFINA bondholders, including holders of the COFINA BABs and RZEDBs, pending resolution of the interpleader adversary proceeding filed by BNYM (the interpleader) and the COFINA-Commonwealth dispute adversary proceeding (the COFINA-Commonwealth Dispute). 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. Under the Title III Court's order, the Corporation was deemed not to be in payment default despite interest payments being withheld from COFINA bondholders during the pendency of the interpleader and the COFINA-Commonwealth Dispute.

By letter dated February 14, 2019, the IRS notified the Corporation that it was examining 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 was examining 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 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.

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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's letter of February 12, 2019, 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 was scheduled for October 6, 2021.

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) are 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 had the ability to appeal these determinations to the IRS Office of Appeals not later than August 14, 2020, which it did on that date. FAFAA, on behalf of itself and the Corporation, intends to appeal these IRS determinations. During fiscal year 2019, the Corporation established an accrual of \$4.2 million for the potential loss related to this matter. During the year ended June 30, 2021, management accrued interest of \$143 thousand, for the interest that would be owed to the IRS if its claim is successful, increasing the contingent liability to \$4.9 million. In March 2021, COFINA and IRS consented to extend the time to assess federal taxes to June 30, 2022. This amount is presented as accounts payables and accrued liabilities in the accompanying statement of net position (deficit). The Corporation intends to vigorously defend itself.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain

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economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

On October 19, 2020, BNYM, as trustee for the COFINA Bonds, had received sales and use taxes totaling \$454,472,448, which equals the amount of the COFINA Revenues for fiscal year 2021. Consistent with the COFINA Plan of Adjustment, upon BNYM's receipt of the COFINA Revenues for fiscal year 2021, the Government is entitled to receive all collections from the COFINA Pledged Taxes until the end of fiscal year 2021 (June 30, 2021). 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 fiscal year 2021. On July 1, 2021, BNYM began to receive collections from the COFINA Pledged Taxes for fiscal year 2022; BNYM will continue to receive these collections until it receives all COFINA Revenues for fiscal year 2022, which will amount to \$472,651,346.

Litigation related to or Resolved by the COFINA Title III Case

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, 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 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 confirmed the COFINA Plan of Adjustment. The confirmation order provides that "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 the 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 was docketed with the First Circuit under case number 19-1391 (the Cooperativas Appeal). On March 2, 2021, the First Circuit dismissed the Cooperativas Appeal, holding that it was equitably moot.

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 Albelo, at-large independent representative of the House of Representatives of Puerto Rico, Rene Pinto-Lugo, and others, including VAMOS and various unions (collectively, the Pinto-Lugo Plaintiffs), 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

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Commonwealth and Carlos Mendez Nunez, in his official capacity as President of the House of Representatives of Puerto Rico (the Civil Action). The complaint seeks declaratory relief that (1) the legislative process leading to the enactment of Act No 241-2018, which created the legal structure necessary to execute the COFINA restructuring, was flawed, violated Puerto Rico House regulations, and thus was unconstitutional; and (2) Act No. 91-2006 (the COFINA legislation, as amended) and Act No. 241-2018 (which is an amendment to the COFINA legislation), violate the Commonwealth's Constitution's debt limit and balanced-budget provisions.

After years of litigation, on April 9, 2021, the plaintiffs filed a voluntary request to withdraw the complaint as to all remaining claims.

(13) Subsequent Events

Subsequent events were evaluated through October 15, 2021, to determine if any such events should either be recognized or disclosed in the June 30, 2021 basic financial statements. The subsequent event disclosed below is a matter that management believes is intrinsically related to the basic financial statements of the Corporation and is of public interest.

Exchange of COFINA Bonds

On July 27, 2021, the Oversight Board approved an exchange regarding the Mental Health Infrastructure Revenue Bonds (the "MEPSI Bonds") issued on October 1, 2007, by the Puerto Rico Infrastructure Authority (PRIFA), a component unit of the Commonwealth, for certain COFINA Bonds maturing on July 1, 2040, held by PRIFA. The exchange consists of the MEPSI Bonds with a principal balance outstanding and accrued interest of approximately \$44.1 million to be exchanged for the COFINA bonds with a principal value of approximately \$26.4 million. Upon the completion of the exchange, PRIFA will be free and clear of all obligations and liabilities associated with the MEPSI Bonds subject to the COFINA Bonds qualifying as tax exempt, which could require an increase in the number of COFINA Bonds transferred to creditors of the MEPSI Bonds. PRIFA owns additional COFINA Bonds which can be used to compensate creditors if the COFINA bonds, fail to qualify as tax exempt.