Kevane Grant Thornton

PUERTO RICO MUNICIPAL
FINANCE AGENCY
(A Component Unit of the
Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Municipal Finance Agency

Report on the Financial Statements

We have audited the accompanying statement of net position of the **Puerto Rico Municipal Finance Agency** (the "Agency") as of June 30, 2020, and the statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these basic 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 Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Kevane Grant Thornton

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Commonwealth Assistance

As further discussed in Note 5 to the financial statements, Act No. 29 of June 30, 1972, provides for the Commonwealth's general fund to fund any deficiencies from the municipalities in the Agency's debt service coverage. The Agency has never required the assistance of the Commonwealth to cover such debt service requirements. If the Commonwealth's assistance is required in the future, there is no assurance that the Commonwealth's general fund will be able to cover such deficiency, as such ability is dependent on the availability of funds from the Commonwealth, which in turn depends on budgetary appropriations made by the Legislature and the certification of such allocation by the Oversight Board. The Legislature has no obligation to make such appropriation.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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, which 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements as a whole. The Schedule I – Investments Held by Trustees by Bond Series, on page 34, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Juan, Puerto Rico
May 3, 2022.

Kevane Grant Thornton LLP

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This management's discussion and analysis section ("MD&A") provides an analysis of the financial activities of the Puerto Rico Municipal Finance Agency's (the "Agency") for the fiscal year ended June 30, 2020. The MD&A is presented as a narrative overview and analysis in conjunction with the Agency's basic financial statements.

The Agency was created to assist Puerto Rico's municipalities in financing their public improvement programs. The Agency's activities consist of servicing its bond obligations and disbursing escrow deposits arising from the acquisition of investments in Puerto Rico municipal bonds and notes from the Government Development Bank for Puerto Rico ("the GDB"). Escrow liabilities to municipalities are undisbursed loan deposits directly related to municipal public improvement projects. These deposits are disbursed based on the municipalities' necessities. The balance of the escrow liabilities to municipalities is reduced with the disbursements made for each related project and is increased with the acquisition of Puerto Rico municipal bonds and notes.

1. Financial Highlights

- As of June 30, 2020, the Agency's total assets and net position were approximately $441.2 million and $69.3 million, respectively.
- During the fiscal year ended June 30, 2020, principal payments on Agency bonds amounted to approximately $66.4 million.
- The fair market value of the Agency's investment portfolio decreased by approximately $4.7 million during the fiscal year ended June 30, 2020.
- The Agency's interest expense for the fiscal year ended June 30, 2020, decreased by approximately $3.4 million.

2. Financial Statements Overview

The financial statements include the MD&A section, the independent auditors' report, and the basic financial statements of the Agency. The notes to the basic financial statements explain in more detail some of the information in the financial statements.

3. Required Financial Statements

The financial statements of the Agency are prepared using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Agency. The statement of net position presents the Agency's assets, deferred outflow of resources, and liabilities, providing information about the nature and amount of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Agency's operations over the past fiscal year and can be used to determine whether the Agency has successfully recovered its costs from the revenues it has generated.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operating, investing, and capital and non-capital financing activities and provides answers to questions such as where cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

4. Financial Analysis

Net position may serve, over time, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. As of June 30, 2020, the Agency's total assets and deferred outflow of resources exceeded total liabilities by approximately $69.3 million, representing a decrease of approximately $779,000 over the prior fiscal year net position of approximately $70.1 million.

Condensed financial information of the Agency's assets, deferred outflow of resources, liabilities, operating revenues, operating expenses and change in net position is as follows (in thousands):

	June 30,		Change	
	2020	2019	Amount	Percent
Current assets	$ 137,801	$ 171,074	$ (33,273)	-19.4%
Other assets	303,364	339,368	(36,004)	-10.6%
Total assets	441,165	510,442	(69,277)	-13.6%
Deferred outflow of resources	195	381	(186)	-48.8%
Current liabilities	82,603	100,091	(17,488)	-17.5%
Noncurrent liabilities	289,410	340,606	(51,196)	-15.0%
Total liabilities	372,013	440,697	(68,684)	-15.6%
Interest, dividend and investment income	16,377	31,773	(15,396)	-48.5%
Interest and other income (expenses)	(17,156)	(19,503)	2,347	-12.0%
Change in net position	(779)	12,270	(13,049)	-106.3%
Net position, beginning of year	70,126	57,856	12,270	21.2%
Net position, end of year	$ 69,347	$ 70,126	$ (779)	-1.1%

For fiscal year 2020, total assets, deferred outflow of resources and liabilities decreased by approximately $69.3 million, $186 thousand, and $68.7 million, respectively, when compared with the prior fiscal year. These reductions are associated mostly with the principal payments on Agency bonds amounting to approximately $66.4 million and $186,000 of current year amortization of deferred loss on bond refunding.

Interest, dividend and investment income decreased by approximately $15.4 million mainly due to the net effect of the following:

- During the fiscal year ended June 30, 2020, there was an unrealized loss of approximately $4.7 million on the fair market value of investments when compared to an unrealized gain of approximately $7.5 million during the fiscal year ended on June 30, 2019, that had a net effect of decreasing investment income by approximately $12.2 million in 2020.

- Decrease in interest income of approximately $3.1 million during the fiscal year ended June 30, 2020, when compared to the fiscal year ended June 30, 2019. The reduction in interest income is due to the decrease in the investment portfolio during the year.

Interest expense and other income (expenses) decreased by approximately $2.3 million during the fiscal year ended June 30, 2020, mainly due to a reduction in interest expense on bonds payable of approximately $3.4 million netted by an increase in other expense of approximately $1.1 million. The lower interest expense is the result of a lower bond payable base amount after the payment made during fiscal year 2020.

5. Debt Administration

As of June 30, 2020, outstanding bonds of the Agency amounted to approximately $339.6 million. Debt repayments amounted to approximately $66.4 million during the year ended June 30, 2020.

6. Currently Known Facts

On July 31, 2020, the Agency entered into a closing agreement with the IRS pursuant to which the Agency paid amounts owed in connection to arbitrage rebate liability with respect to the debt-service reserve account of the 2005 Series B Bonds under Section 148 of the U.S. Internal Revenue Code of 1986 in the approximate amount of $1.2 million. The IRS closed the audit without requiring the holders include interest on the 2005 Series B Bonds in gross income for federal income tax purposes.

Commonwealth Plan of Adjustment

As described in Note 12, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law [ECF No. 19812] (the Findings of Fact) in connection with the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19813] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities including laws providing appropriations to the Agency (in any) are deemed preempted and the Commonwealth has no obligations to transfer additional amounts pursuant to those laws.

In, addition the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the Public Entity Trust. For further information on the Commonwealth Plan of Adjustment refer to Note 12 and the Commonwealth Plan of Adjustment, Findings of Fact, and Commonwealth Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

7. Request for Information

This financial report is designed to provide all interested parties with a general overview of the Agency's finances and to facilitate the Agency's accountability for the resources it manages. If you have questions about this report or need additional information, contact the Puerto Rico Municipal Finance Agency, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2020
(In thousands)

ASSETS	
CURRENT ASSETS:	
Other	$ 28
Restricted:	
Cash	38,442
Accrued interest receivable	9,110
Investments	90,221
Total current assets	137,801
NON-CURRENT ASSETS:	
Prepaid insurance	1,181
Restricted Investments	302,183
Total non-current assets	303,364
Total assets	$ 441,165
DEFERRED OUTFLOW OF RESOURCES:	
Deferred loss on bonds refunding	$ 195
LIABILITIES	
CURRENT LIABILITIES:	
Accrued expenses and other liabilities	$ 1,291
Escrow liability to municipalities	23,969
Total current liabilities	25,260
CURRENT LIABILITIES FROM RESTRICTED ASSETS:	
Accrued interest payable	7,158
Bonds payable	50,185
Total current liabilities from restricted assets	57,343
NON-CURRENT LIABILITIES FROM RESTRICTED ASSETS:	
Bonds payable, net	289,410
Total non-current liabilities from restricted assets	289,410
Total liabilities	$ 372,013
NET POSITION:	
Restricted for debt service	93,203
Unrestricted	(23,856)
Total net position	$ 69,347

See notes to basic financial statements.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(In thousands)

INVESTMENT INCOME:	
Interest and dividend income	$ 21,094
Unrealized loss on changes in fair value of investments	(4,717)
Total operating and investment income	16,377
INTEREST EXPENSE	17,114
NET INVESTMENT EXPENSE	(737)
NON-INVESTMENT REVENUES (EXPENSES):	
Professional services and other fees	(138)
Other income	96
Total non-investment expenses	(42)
OPERATING LOSS AND CHANGE IN NET POSITION	(779)
NET POSITION, beginning of year	70,126
NET POSITION, end of year	$ 69,347

See notes to basic financial statements.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash paid for general and administrative expenses	$ (121)
Net cash used in operating activities	(121)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Payments of bonds payable	(66,355)
Interest paid on bonds payable	(18,813)
Net cash used in non-capital financing activities	(85,168)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investment securities	(205,679)
Proceeds from sales and redemptions of investment securities	218,190
Proceeds from sales and redemptions of municipal bonds and notes	51,557
Collections of interest income	22,383
Net cash provided by investing activities	86,451
NET INCREASE IN CASH	1,162
CASH - Beginning of year	37,280
CASH - End of year	$ 38,442
RECONCILIATION OF CASH AT END OF YEAR TO STATEMENT OF NET POSITION:	
Unrestricted cash	$ -
Restricted cash	38,442
TOTAL CASH AT END OF YEAR	$ 38,442

See notes to basic financial statements.

(Continued)

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(In thousands)

RECONCILIATION OF OPERATING LOSS AND CHANGE IN NET POSITION TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss and change in net position	$	(779)
Adjustments to reconcile operating loss and change in net position to net cash used in operating activities:		
Investment income		(16,377)
Interest expense		17,114
Changes in assets and liabilities:		
Decrease in accrued expenses and other liabilities		(79)
Net cash used in operating activities	$	(121)

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

The Puerto Rico Municipal Finance Agency (the "Agency") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 29 of June 30, 1972, as amended, (the "Act 29-1972") and later substituted by Act 107-2020 of August 14, 2020, as amended, (the "2020 Municipal Code"). The Agency is an affiliate of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA") and was previously an affiliate of the Government Development Bank for Puerto Rico ("GDB").

The Agency was created to assist municipalities of Puerto Rico in financing their public improvement programs. The Agency's activities consist of servicing its bond obligations and disbursing escrow deposits arising from the acquisition of investments in Puerto Rico municipal bonds and notes from the GDB. Escrow liabilities to municipalities are undisbursed loan funds, the use of which is restricted to specific municipal public improvement projects. These deposits are disbursed based on the municipalities' needs. The balance of the escrow liabilities to municipalities is reduced with the disbursements made for each related project and is increased with the acquisition of Puerto Rico municipal bonds and notes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Agency conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB"), specifically, under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Measurement Focus, Basis of Accounting and Financial Statements Presentation - The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Net investment income is the excess of amounts earned by the Agency on its interest-earning assets over the interest incurred on its interest-bearing liabilities. The Agency's net investment income is subject to interest rate risk due to the re-pricing and maturity relationship of the Agency's assets and liabilities. Revenues and expenses not meeting these criteria are reported as non-interest income and expenses.

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

(a) Restricted component of net position consists of restricted assets reduced by liabilities related to those assets. 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.

(b) Unrestricted component of net position consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of revenues, expenses, and changes in net position demonstrates the degree to which the 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 include: (1) interest income investments and changes in fair value of investments. Operating expenses are those that relate to the administration of the Agency. Other items not meeting the definition of program revenues or operating expenses are reported as non-operating revenues or expenses.

Income Tax - The Agency is exempt from taxation in Puerto Rico.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments and investment contracts are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and non-participating investment contracts, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations, except for investments in Puerto Rico municipal bonds and notes. Puerto Rico municipal bonds and notes fair values are estimated by management based on quoted market prices for the debt these investments collateralize. Such quoted market prices are obtained from independent sources.

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 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Except for investments in Puerto Rico municipal bonds and notes, and bonds payable, the carrying values of the Agency's financial instruments are substantially similar to their fair value at June 30, 2020, because such instruments have either short-term maturities or bear interest at rates that vary with the market.

Bond Premium/Discount - Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts.

Bond Issue Costs **-** Bond issue costs are recorded as expenditures when paid.

Refunding - Refunding involves the issuance of new debt, the proceeds of which are used to repay previously issued debt immediately (current refunding), or at a future time (advance refunding). The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life or the new debt, whichever is shorter. The deferred amount is reported on the statement of net position as a deferred outflow of resources.

During the fiscal year ended on June 30, 2020, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations or in the presentation of the financial statements of the Agency.

Recently Issued Accounting Guidance:

The GASB has issued the following accounting pronouncements that have an effective date after June 30, 2020:

(a) GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(b) GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(c) GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement 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 the Statement are effective for reporting periods after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(d) GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and *Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of 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 Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(e) GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of 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, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(f) GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (“SCA”) which requires that: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (“APAs”). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

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

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

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.

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

(i) GASB Statement No. 97, *Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other than postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for

Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

(j) GASB Statement No. 98, *The Annual Comprehensive Financial Report* - This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management is evaluating the impact that these statements will have, if any, on the Agency's financial statements.

3. DEPOSITS PLACED WITH BANK

Custodial credit risk is the risk that in the event of a financial institution's failure, the Agency's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

As of June 30, 2020, none of the Agency's depository balance is uninsured or uncollateralized, as indicated in the following table:

	Carrying Amount	Bank Balance	Amount uninsured and uncollateralized
Commercial bank	$ 38,441,903	$ 38,441,903	$ -
	$ 38,441,903	$ 38,441,903	$ -

4. CLAIM RECEIVABLE FROM THE PUBLIC ENTITY TRUST

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered and its unencumbered cash. In addition, pursuant to Act No. 109 of 2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the execution of the Qualifying Modification, the Agency received beneficial units of the PET amounting to $4.9 million in exchange for the deposits held at GDB.

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of $578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. 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.

As discussed in Note 12, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET.

The Agency's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case which has not yet been determined. As a result, units received from the PET were accounted for with a carrying value of zero.

The PET Claim balance as of June 30, 2020, is explained as follows:

	Balance as of June 30, 2020	Allowance	Carrying Value
PET Claim Receivable	$ 4,914,617	$ (4,914,617)	$ -

5. INVESTMENTS

GDB developed investment guidelines for the Government of Puerto Rico and their respective agencies and instrumentalities under the Act 113 of August 3, 1995, and Executive Order 1995-50A (the “Investment Guidelines”). Pursuant to, the Investment Guidelines, the Agency is authorized to purchase or enter into the following investment instruments:

- Obligations of the U.S. government, its agencies and sponsored agencies
- Certificates of Deposit
- Bankers’ acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations and instrumentalities
- Obligations of state and local governments in the U.S.
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools

The Investment Guidelines establish restrictions for investment instruments, such as maturities, investment limits, issuer or counterparty, exposure by country, and defines eligible financial institutions.

The Investment Guidelines provide that only counterparties rated BBB+/A-1 or better by Standard & Poor’s or equivalent ratings by Moody’s Investors Service or Fitch Ratings are used to enter into investment transactions. These guidelines also provide that investment purchases and sales need to be executed using the delivery versus payment method. Any exception from these guidelines must be approved by the Agency’s board of directors.

As of June 30, 2020, the fair value of the Agency's investments, based on the hierarchy of inputs, is determined as follows (in thousands):

Investment Type	Level 1	Level 2	Level 3	Total
Puerto Rico municipal bonds and notes	$ -	$ 304,013	$ -	$ 304,013
U.S. government, agencies and sponsored agencies obligations	-	8,051	-	8,051
Guaranteed investments contracts	-	28,963	-	28,963
Corporate debt	6,264	-	-	6,264
Money market	-	45,113	-	45,113
Total investment	$ 6,264	$ 386,140	$ -	$ 392,404

As of June 30, 2020, restricted investment securities held by trustees for repayment of bond issuances and other liabilities consist of the following (in thousands):

	Amount
Puerto Rico municipal bonds and notes	$ 304,013
U.S government, agencies and sponsored agencies obligations	8,051
Guaranteed investment contracts	28,963
Corporate debt	6,264
Money Market	45,113
	$ 392,404

As of June 30, 2020, contractual maturities by investment securities consist of the following (in thousands):

	Contractual Maturities				
	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
Puerto Rico municipal bonds and notes	$ 30,793	$ 108,772	$ 161,202	$ 3,246	$ 304,013
U.S. government, agencies and sponsored agencies obligations	8,051	-	-	-	8,051
Guaranteed investments contracts	-	15,863	13,100		28,963
Corporate debt	6,264	-	-	-	6,264
Money market	45,113	-	-	-	45,113
	$ 90,221	$ 124,635	$ 174,302	$ 3,246	$ 392,404

Fixed income securities from external investment pools mature within 60 days or less. Such securities are presented as investments with an expected maturity within one year or less.

Expected maturities differ from contractual maturities when issuers or counterparties have the right-to-call or prepay such obligations with or without call or prepayment penalties.

As of June 30, 2020, the credit ratings of the investment securities portfolio are as follows (in thousands):

	Credit Rate Risk		
	AAA to A	BBB	Total
Puerto Rico municipal bonds and notes	$ 304,013	$ -	$ 304,013
U.S. government, agencies and sponsored agencies obligations	8,051	-	8,051
Guaranteed investments contracts	15,863	13,100	28,963
Corporate debt	6,264	-	6,264
Money market	45,113	-	45,113
	$ 379,304	$ 13,100	$ 392,404

As required by the indentures and Act 29-1972, the municipal bonds and notes are general obligations of each municipal issuer secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the boundaries of the applicable municipal issuer. Each issuing municipality’s good faith, credit, and unlimited taxing power are pledged for the payment of its general obligation municipal bonds and notes. Interest rates on general obligation municipal bonds and notes range from 4.45% to 7.71%. Act 29-1972 also provides for the Commonwealth's general fund to fund municipalities' deficiencies in the Agency's debt service coverage. The Agency has never required the assistance of the Commonwealth to cover such debt service requirements, though there are no assurances that the Commonwealth's general fund will be able to cover future deficiencies. The availability of funds from the Commonwealth depends on budgetary appropriations made pursuant to a certified budget. The Legislature has no obligation to make such appropriation.

6. DEFERRED OUTFLOW OF RESOURCES

Deferred outflows of resources are a consumption of net assets by the Agency that is applicable to a future reporting period. Deferred outflows of resources increase net position similar to assets.

Changes in deferred outflows of resources for the year ended June 30, 2020, are summarized as follows (in thousands):

	Balance as of July 1, 2019	Amortization	Balance as of June 30, 2020
Deferred outflow of resources – deferred loss on bond refunding	$ 381	$ (186)	$ 195

7. BONDS PAYABLE

As of June 30, 2020, bonds payable consists of the following (in thousands):

	Interest Rate	Amount	Due within One Year
2002 Series A Bonds, including unamortized premium of $202, maturing at various dates through August 1, 2027.	4.75% - 5.25%	$ 130,607	$ 18,405
2005 Series A, B, and C Bonds, including unamortized premium of $2,613, maturing at various date through August 1, 2030.	3.60% - 5.25%	208,988	31,780
		$ 339,595	$ 50,185

As of June 30, 2020, debt services requirements for outstanding bonds are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2021	$ 50,185	$ 15,116	$ 65,301
2022	44,860	12,762	57,622
2023	45,140	10,488	55,628
2024	22,400	8,214	30,614
2025	19,800	5,940	25,740
2026-2030	95,755	11,861	107,616
2031	58,640	6,101	64,741
	336,780	$ 70,482	$ 407,262
Plus:			
Unamortized premium	2,815		
	$ 339,595		

Bonds activity for the year ended June 30, 2020 was as follows (in thousands):

	Balance at June 30, 2019	Issuances	Other Increases	Other Reductions	Payments	Balance at June 30, 2020
Bonds payable	$ 403,135	$ -	$ -	$ -	$ (66,355)	$ 336,780
Plus (less): Unamortized Premium	3,826	-	-	(1,011)	-	2,815
	$ 406,961	$ -	$ -	$ (1,011)	$ (66,355)	$ 339,595

The 2002 Series A Bonds, maturing after August 1, 2012, may be redeemed at the option of the Agency, upon not less than 30 days prior notice, either in whole or in part, as directed by the Agency. The bonds may be redeemed not earlier than August 1, 2012, at a redemption price equal to the principal amount to be redeemed, together with accrued interest thereon, and without premium. As of June 30, 2020 there are $130.4 million of these bonds outstanding.

The 2005 Series A Bonds, Series B, and C Refunding Bonds were issued on December 22, 2005. The 2005 Series A Bonds and Series C Refunding bonds maturing on or after August 1, 2015, may be redeemed prior to their maturity, at the option of the Agency, upon not less than 30 days prior notice at a redemption price equal to the principal amount to be redeemed plus accrued interest at par.

The 2005 Series A Bonds maturing on August 1, 2030, with principal amounts of $58,025,000 and $615,000, are subject to redemption to the extent of the respective amortization requirements, upon not less than 30 days prior notice to registered owners starting on August 1, 2026, and thereafter at a redemption price equal to the principal amount to be redeemed plus accrued interest. As of June 30, 2020 there are $163.6 million of these bonds outstanding.

The 2005 Series A Bonds amortization requirements are as follows (in thousands):

Amortization requirement for 2005 Series A
Bonds Maturing on August 1

	Principal	Interest	Total
2026	$ 14,085	$ 145	$ 14,230
2027	16,335	165	16,500
2028	13,685	140	13,825
2029	7,885	95	7,980
2030	6,035	70	6,105
	$ 58,025	$ 615	$ 58,640

The 2005 Series B Refunding Bonds are not subject to redemption. The bonds issued were used, together with other moneys, to refund some of the outstanding 1997 Series A Bonds. The reacquisition price exceeded the net carrying amount of the old debt by approximately $3.5 million. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of the interest expense over the remaining life of the old debt or the life of the net debt, whichever is shorter. The remaining unamortized amount is reported on the accompanying statement of net position as a deferred outflow of resources. The 2005 Series B Refunding Bonds matures on July 1, 2021. As of June 30, 2020 there are $7.8 million of the refunded bonds outstanding.

The 2005 Series C Refunding Bonds were used, together with other moneys, to refund some of the outstanding 1999 Series A Bonds and 1999 Series B Refunding Bonds. The reacquisition price exceeded the net carrying amount of the old debt by approximately $15.9 million. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of the interest expense over the remaining life of the old debt or the life of the net debt, whichever is shorter. The remaining unamortized amount is reported on the accompanying statement of net position as a deferred outflow of resources. As of June 30, 2020, approximately $35 million of refunded bonds remained outstanding.

As of June 30, 2020, the Agency's bond series 2002 A and 2005 were rated CC without considering existing credit enhancements. Over 90% of the Agency bonds carry insurance enhancement, thus raising their corresponding rating to AA.

TRUST INDENTURE EVENTS OF DEFAULT

Agency trust indenture contains events of default which are summarized as follows:

- Miss payment of principal and interest when they become due.
- Failure to retire bonds by purchase or redemption in any fiscal year in a principal amount at least equal to the Amortization Requirement for such fiscal year.
- The amount on deposit to the credit of the Reserve Account shall be less than the Required Debt Service Reserve and the Executive Director of the Agency with the Trust indenture which fail or refuse to comply, which require him to certify the amount of such deficiency to the Secretary of the Treasury of Puerto Rico, or the Commonwealth shall fail to apportion and pay to the Agency, in conformity with the Trust Indenture, for deposit in the Reserve Account such amount or amounts as shall be certified by the Executive Director pursuant to such provisions of the Enabling Act.
- The Agency shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the bonds or in this Indenture on the part of the Agency to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall, subject to the provisions of Article XIII hereof of the Trust Indenture, have been given to the Agency by the holders of not less than ten per centum (10%) in aggregate principal amount of the bonds then outstanding.

ENFORCEMENT OF REMEDIES

Upon the happening and continuance of any event of default specified in the Trust Indenture, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty-five per centum (25%) in aggregate principal amount of the bonds then outstanding shall, proceed to protect and enforce its rights and the rights of the bondholders under the laws of the Commonwealth or under this Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

8. ARBITRAGE

Bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America (“IRS”), requiring a rebate to the federal government of excess investment earnings on tax exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated at least once every five years or upon maturity of the debt whichever is earlier. For computation dates other than the final computation date, the issuer must pay at least 90% of the rebate owed.

By letter dated March 28, 2019, the IRS notified the Agency that it was examining the 2005 Series B Refunding Bonds (the "2005 Series B Bonds") issued by the Agency. On July 31, 2020, the Agency entered into a closing agreement with the IRS pursuant to which the Agency paid amounts owed in connection to arbitrage rebate liability with respect to the 2005 Series B Bonds under Section 148 of the U.S. Internal Revenue Code of 1986 in the approximate amount of $1.2 million. The IRS closed the audit without requiring that the holders include interest on the 2005 Series B Bonds in gross income for federal income tax purposes.

Management of the Agency is actively reviewing the accounting records and legal documentation of the remaining bonds outstanding and unspent bond proceeds usage to ascertain compliance with applicable IRS regulations. Bonds of this type are subject to compliance audits from the IRS which may result in possible discoveries.

9. DEBT SERVICE RESERVE FUND

The Agency's outstanding bonds have their respective debt-service reserve fund accounts ("DSRF") that were set-up to cover any potential principal or interest debt-service shortfalls for those bonds. The DSRF for the Agency's outstanding bonds are with the trustee banks for those bonds and are governed by the terms and conditions of the applicable bond trust agreements

The Series 2002A's DSRF requires an amount equal to the sum of (i) the higher of (a) 50% of the maximum principal and interest payments requirements for any fiscal year on all 2002 indenture bonds then outstanding and (b) the largest amount of the maximum principal and interest payments requirements for any fiscal year on the 2002 municipal bonds of any 2002 municipal issuer, and (ii) 50% of the annual earnings for such fiscal year on the larger of the amounts in clauses (a) and (b) above based on the assumption that said amount is invested in investment instrument in accordance with the United States Internal Revenue Code of 1986, as amended. Pursuant to the Series 2002A indenture bonds, the required DSRF is approximately $14 million. At June 30, 2020, the Agency maintains approximately $14.6 million in the DSRF of the Series 2002A bonds.

The Series 2005 A, B and C DSRF requires an amount equal to the sum of (i) the higher of (a) 50% of the maximum principal and interest payments requirements for any fiscal year on all of the Series 2005 A, B and C indenture bonds then outstanding and (b) the largest amount of the maximum principal and interest payments requirement for any fiscal year on the 2005 municipal bonds of any 2005 municipal issuer, and (ii) 50% of the annual earnings for such fiscal year on the larger for the amounts in clauses (a) and (b) above based on the assumption that said amount is invested in investment instrument in accordance with the United States Internal Revenue Code of 1986, as amended. Pursuant to the Series 2005 A, B and C indenture bonds, the required combined DSRF is approximately $17 million. At June 30, 2020, the Agency maintains approximately $13.8 million, $15.9 million, and $6.3 million in the DSRF of the Series 2005 A, B and C bonds, respectively.

10. MUNICIPAL REVENUE COLLECTION CENTER

On November 2, 2015, the Municipal Revenue Collection Center (CRIM) and GDB executed a deed of trust that established the mechanics of where the funds that are collected by the CRIM are deposited and used for debt service payments of the general obligations bonds of the municipalities that are borrowers of the Agency. On November 28, 2018, the CRIM as settlor, FAFAA as Trustee and Banco Popular as custody bank, entered into a second amended and restated trust account custody agreement in which FAFAA replaced GDB as trustee of the Trust.

All monies going in the Trust are subject to Law 80 and Law 64 ("Municipal Finance Act"). The Trust is composed of three funds:

- Municipal Public Debt Redemption Fund – This fund is used to pay bonds and loans payable from the Special Additional Tax (CAE). There are four main creditors: private banks, the Agency, the Debt Recovery Authority (DRA) and the Commonwealth Employees Association (AEELA for its Spanish acronym).

- Matching Fund – These are the Commonwealth's General Fund contributions to the municipalities. These funds will be invested in a financial institution.

- State Redemption Fund – This is comprised of the 1.03% of the property tax that is dedicated to the payment of the General Obligation Bonds (GOs). Before the Trust was formed, CRIM transferred these funds directly to the Department of the Treasury of the Commonwealth. Now they will remain in a financial institution for the benefit of the State Redemption Fund.

11. COMMITMENT AND CONTIGENCY

The COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. As a result of the health threat and to contain the virus's spread across the island, the Governor 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 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.

Management has not yet identified the extent of the impact, if any, that the COVID-19 pandemic may have had (or will have in the future) on the Agency's bond repayment capacity and to what extent revenue sources have been adversely depleted.

12. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 3, 2022, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the June 30, 2020 financial statements.

(a) Commonwealth of Puerto Rico Municipal Code

On August 14, 2020, the Governor enacted Act No. 107-2020, as amended, establishing the Municipal Code of Puerto Rico (the "Code"). The Code revokes, among others, Act No. 19-2014, as amended, known as the "Municipal Financing Corporation Law. It also stipulates the norms, rules and laws related to income and financing the operation of municipalities.

(b) Commonwealth Plan of Adjustment

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and PRCCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of $3.5 billion, with maximum annual payments of $200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding $400 million. Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefit freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at: https://cases.primeclerk.com/puertorico/Home-DocketInfo.

SUPPLEMENTAL SCHEDULE

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE I – INVESTMENTS HELD BY TRUSTEES BY BOND SERIES
AS OF JUNE 30, 2020
(In thousands)

	2005 Series A, B and C Bonds	2002 Series A Bonds	Total
Puerto Rico municipal bonds and notes	$ 185,110	$ 118,903	$ 304,013
U.S. government, agencies and sponsored agencies obligations	5,582	2,469	8,051
Guaranteed investment contracts	15,863	13,100	28,963
Corporate debt	6,264	-	6,264
Money Market	45,113	-	45,113
Total invesments	$ 257,932	$ 134,472	$ 392,404
Cash	$ 19,362	$ 19,080	$ 38,442