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, 2022

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

TABLE OF CONTENTS


| | Pages |
|---|---|
| Independent Auditors' Report | 1-3 |
| Management's Discussion and Analysis (Unaudited) | 4-7 |
| Statement of Net Position | 8 |
| Statement of Revenue, Expenses, and Changes in Net Position | 9 |
| Statement of Cash Flows | 10-11 |
| Notes to Basic Financial Statements | 12-26 |
| Schedule I - Investments Held by Trustees by Bond Series | 27 |

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INDEPENDENT AUDITORS' REPORT

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**To the Board of Directors of**
**Puerto Rico Municipal Finance Agency:**

**Opinion**

We have audited the accompanying financial statements of **Puerto Rico Municipal Finance Agency** as of and for the year ended June 30,2022, and the related notes to the financial statements, which collectively comprise **Puerto Rico Municipal Finance Agency**'s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Puerto Rico Municipal Finance Agency**, as of June 30,2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Puerto Rico Municipal Finance Agency** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matter**

*Commonwealth Assistance*

As further discussed in Note 5 to the financial statements, Act No. 29 of June 30, 1972, as amended and later substituted by Act 107-2020 of August 14, 2020, provides for the Commonwealth's general fund to fund any deficiencies from the municipalities in **Puerto Rico Municipal Finance Agency**'s debt service coverage. **Puerto Rico Municipal Finance 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 Puerto Rico Fiscal Oversight and Management Board. The Legislature has no obligation to make such appropriation.

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**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Puerto Rico Municipal Finance Agency**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**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 **Puerto Rico Municipal Finance Agency**'s basic financial statements as a whole. The Schedule I – Investments Held by Trustees by Bond Series, on page 27, 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, 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.

Kevane Grant Thornton LLP

San Juan, Puerto Rico
July 5, 2023.

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This management's discussion and analysis section ("MD&A") provides a narrative overview and analysis of the financial activities of the Puerto Rico Municipal Finance Agency's (the "Agency") during the fiscal year ended June 30, 2022. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Agency's financial condition, the basic financial statements, notes and required supplementary information should be reviewed in their entirety.

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 that were issued by the Government Development Bank for Puerto Rico (the "GDB"). Escrow liabilities to municipalities are undisbursed loan deposits directly related to municipal public improvement projects. 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, 2022, the Agency's total assets and net position were approximately $349.4 million and $76.4 million, respectively.

- During the fiscal year ended June 30, 2022, principal payments on Agency bonds amounted to approximately $44.9 million.

- The Agency's interest and dividend income, and interest expense were $13.3 million and $12.4 million, respectively, for the fiscal year ended June 30, 2022.

- The fair market value of the Agency's investment portfolio decreased by approximately $4.1 million for the fiscal year ended June 30, 2022.

## 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 basic financial statements also include notes that explain in more detail some of the information in the basic 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, 2022, the Agency's total assets and deferred outflow of resources exceeded total liabilities by approximately $76.4 million, representing a decrease of approximately $3.3 million over the prior fiscal year net position of approximately $79.7 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 | |
|---|---|---|---|---|
| | 2022 | 2021 | Amount | Percent |
| Current assets | $ 146,268 | $ 150,860 | $ (4,592) | -3.0% |
| Other assets | 203,093 | 247,889 | (44,796) | -18.1% |
| Total assets | 349,361 | 398,749 | (49,388) | -12.4% |
| Deferred outflow of resources | 21 | 82 | (61) | -74.4% |
| Current liabilities | 74,860 | 75,360 | (500) | -0.7% |
| Noncurrent liabilities | 198,172 | 243,821 | (45,649) | -18.7% |
| Total liabilities | 273,032 | 319,181 | (46,149) | -14.5% |
| Interest, dividend and investment income | 9,195 | 25,073 | (15,878) | -63.3% |
| Interest and other expense | (12,495) | (14,770) | 2,275 | -15.4% |
| Change in net position | (3,300) | 10,303 | (13,603) | -132.0% |
| Net position, beginning of year | 79,650 | 69,347 | 10,303 | 14.9% |
| Net position, end of year | $ 76,350 | $ 79,650 | $ (3,300) | -4.1% |

For fiscal year 2022, total assets, deferred outflow of resources, and total liabilities decreased by approximately $49.4 million, $61,000, and $46.1 million, respectively, when compared with the prior fiscal year. These reductions are associated mostly with the bonds principal payments amounting to approximately $44.9 million and $61,000 of current year amortization of deferred loss on bond refunding.

Interest, dividend and investment income decreased by approximately $15.9 million due to the following:

- During the fiscal year ended June 30, 2022, there was an unrealized loss of approximately $4.1 million on the fair market value of investments when compared to an unrealized gain of approximately $8.6 million for the fiscal year ended June 30, 2021.

- Decrease in interest income of approximately $3.2 million during the fiscal year ended June 30, 2022, when compared to the fiscal year ended June 30, 2021. The reduction in interest income is due to the decrease in the investment portfolio during the year.

Interest expense and other expenses decreased by approximately $2.3 million during the fiscal year ended June 30, 2022, due to a reduction in interest expense on bonds payable of approximately $2.2 million, and a decrease in non-investment expense of approximately $62,000. The lower interest expense is the result of a lower bond payable base amount after the payment made during fiscal year 2022.

## 5. Debt Administration

The Agency has two outstanding bond issuances (each of which are described in note 7). As of June 30, 2022, outstanding bonds of the Agency amounted to approximately $243.3 million. Debt repayments amounted to approximately $44.9 million during the year ended June 30, 2022.

## 6. Currently Known Facts

*2005 Series C Refunding Bonds Defeasance*

On July 27, 2022, the Agency entered into an Escrow Agreement for the defeasance of the 2005 Series C Refunding Bonds with U.S. Bank Trust National Association as Trustee, in which the Agency deposited $16.1 million in a trust, which will be sufficient to pay all the 2005 Series C Refunding Bonds upon maturity on August 1, 2023.

*2005 Series A Bond Redemption*

On November 15, 2022, the Agency partially redeemed 2005 Series A bonds with principal and accrued interest amounting to approximately $8.9 million and $135,000, respectively.

*2002 Series A Bond Partial Redemption*

On February 1, 2023, the Agency partially redeemed 2002 Series A bonds with principal amounting to $7,430,000.

*Escrow Liability to Municipalities*

On June 30, 2023, the Agency Board of Directors approved the disbursement of approximately $24 million in unrestricted cash to certain municipalities that previously held escrow accounts with the Agency. Management expects to disburse the funds to the municipalities during fiscal year 2024.

## 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, 2022**
**(In thousands)**

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS:** | |
| Other accounts receivable | $ 20 |
| Prepaid insurance | 153 |
| Restricted: | |
| Cash | 55,619 |
| Accrued interest receivable | 5,853 |
| Investments | 84,623 |
| Total current assets | 146,268 |
| **NON-CURRENT ASSETS:** | |
| Prepaid insurance | 499 |
| Restricted investments | 202,594 |
| Total non-current assets | 203,093 |
| Total assets | $ 349,361 |
| **DEFERRED OUTFLOW OF RESOURCES:** | |
| Deferred loss on bonds refunding | $ 21 |
| **LIABILITIES** | |
| **CURRENT LIABILITIES:** | |
| Accrued expenses and other liabilities | $ 225 |
| Escrow liability to municipalities | 24,409 |
| Total current liabilities | 24,634 |
| **CURRENT LIABILITIES FROM RESTRICTED ASSETS:** | |
| Accrued interest payable | 5,086 |
| Bonds payable | 45,140 |
| Total current liabilities from restricted assets | 50,226 |
| **NON-CURRENT LIABILITIES FROM RESTRICTED ASSETS:** | |
| Bonds payable, net | 198,172 |
| Total non-current liabilities from restricted assets | 198,172 |
| Total liabilities | $ 273,032 |
| **NET POSITION:** | |
| Restricted for debt service | $ 100,291 |
| Unrestricted | (23,941) |
| Total net position | $ 76,350 |

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**
**JUNE 30, 2022**
**(In thousands)**

| | |
|---|---|
| **INVESTMENT INCOME:** | |
| Interest and dividend income | $ 13,299 |
| Unrealized loss on changes in fair value of investments | (4,104) |
| Total investment income | 9,195 |
| **INTEREST EXPENSE** | 12,398 |
| **NET INVESTMENT EXPENSE** | (3,203) |
| **NON-INVESTMENT EXPENSES:** | |
| Management fees | (40) |
| Professional services and other fees | (57) |
| Total non-investment expenses | (97) |
| **OPERATING LOSS AND CHANGE IN NET POSITION** | (3,300) |
| **NET POSITION, beginning of year** | 79,650 |
| **NET POSITION, end of year** | $ 76,350 |

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, 2022
## (In thousands)

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Cash paid for general and administrative expenses | $ (123) |
| Net cash used in operating activities | (123) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:** | |
| Payments of bonds payable | (44,860) |
| Interest paid on bonds payable | (13,363) |
| Net cash used in non-capital financing activities | (58,223) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Purchases of investment securities | (162,744) |
| Proceeds from sales and redemptions of investment securities | 163,918 |
| Proceeds from redemptions of municipal bonds and notes | 44,349 |
| Collections of interest income | 14,896 |
| Net cash provided by investing activities | 60,419 |
| **NET INCREASE IN CASH** | 2,073 |
| CASH - Beginning of year | 53,546 |
| CASH - End of year | $ 55,619 |

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, 2022**
**(In thousands)**

| | | |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS AND CHANGE IN NET POSITION TO NET CASH USED BY OPERATING ACTIVITIES:** | | |
| Operating loss and change in net position | $ | (3,300) |
| Adjustments to reconcile operating loss and change in net position to net cash used in operating activities: | | |
| Investment income | | (9,195) |
| Interest expense | | 12,398 |
| Changes in assets and liabilities: | | |
| Decrease in accrued expenses and other liabilities | | (26) |
| Net cash used in operating activities | $ | (123) |

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 subsequently substituted by Act 107-2020 of August 14, 2020, as amended, (the "2020 Municipal Code"). The 2020 Municipal Code stipulates the norms, rules, and laws related to the income and financing of the operation of municipalities.

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 that were issued by the Government Development Bank for Puerto Rico (GDB). Escrow liabilities to municipalities are undisbursed loan deposits directly related to municipal public improvement projects. 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, (2) 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. Except for investments in Puerto Rico municipal bonds and notes, fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. 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. By 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 as of June 30, 2022, 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.

***Recently Issued Accounting Guidance -*** GASB has issued the following accounting pronouncements that have an effective date after June 30, 2022:

(a) **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 beginning after December 15, 2021.

(b) **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 interbank offered rate (IBOR), most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, and 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*.

(c) **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.

(d) **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. 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.

(e) **GASB Statement No. 99, *Omnibus 2022***. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

(f) **GASB Statement No. 100, *Accounting Changes and Error Corrections*.** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

That preference should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(g) **GASB Statement No 101, *Compensated Absences***. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. 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, 2022, none of the Agency's depository balance is uninsured or uncollateralized, as indicated in the following table:

| | Carrying Amount | Bank Balance |
|---|---|---|
| Commercial bank | $ 55,619,117 | $ 55,619,117 |
| | $ 55,619,117 | $ 55,619,117 |

## 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 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 Agency (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 Agency, 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. The Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET. 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 a result, units received from the PET were accounted for with a carrying value of zero.

## 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, 2022, 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 | $ - | $ 214,605 | $ - | $ 214,605 |
| U.S. government, agencies and sponsored agencies obligations | - | 5,070 | - | 5,070 |
| Guaranteed investments contracts | - | 13,100 | - | 13,100 |
| Corporate debt | - | 18,858 | - | 18,858 |
| Money market | - | 35,584 | - | 35,584 |
| Total investments | $ - | $ 287,217 | $ - | $ 287,217 |

As of June 30, 2022, 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 | $ 214,605 |
| U.S government, agencies and sponsored agencies obligations | 5,070 |
| Guaranteed investment contracts | 13,100 |
| Corporate debt | 18,858 |
| Money Market | 35,584 |
| | $ 287,217 |

As of June 30, 2022, 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 | $ 25,111 | $ 150,187 | $ 39,307 | $ - | $ 214,605 |
| U.S. government, agencies and sponsored agencies obligations | 5,070 | - | - | - | 5,070 |
| Guaranteed investments contracts | - | - | 13,100 | | 13,100 |
| Corporate debt | 18,858 | - | - | - | 18,858 |
| Money market | 35,584 | - | - | - | 35,584 |
| | $ 84,623 | $ 150,187 | $ 52,407 | $ - | $ 287,217 |

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, 2022, the credit ratings of the investment securities portfolio are as follows (in thousands):

| | Credit Rate Risk | | | |
|---|---|---|---|---|
| | AAA / Aaa | AA / Aa | BBB / Baa | Total |
| Puerto Rico municipal bonds and notes | $ - | $ 214,605 | $ - | $ 214,605 |
| U.S. government, agencies and sponsored agencies obligations | 5,070 | - | - | 5,070 |
| Guaranteed investments contracts | - | - | 13,100 | 13,100 |
| Corporate debt | 18,858 | - | - | 18,858 |
| Money market | 35,584 | - | - | 35,584 |
| | $ 59,512 | $ 214,605 | $ 13,100 | $ 287,217 |

As required by the indentures and Act 29-1972, as amended, and subsequently substituted by the 2020 Municipal Code, 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, as amended, and subsequently substituted by the 2020 Municipal Code, 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 by the Fiscal Oversight and Management Board.

## 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, 2022 are summarized as follows (in thousands):

| | July 1, 2021 | Amortization | June 30, 2022 |
|---|---|---|---|
| Deferred outflow of resources – deferred loss on bond refunding | $ 82 | $ (61) | $ 21 |

## 7. BONDS PAYABLE

As of June 30, 2022, bonds payable consists of the following (in thousands):

| | Interest Rate | Amount | Due within One Year |
|---|---|---|---|
| 2002 Series A Bonds, including unamortized premium of $105, maturing at various dates through August 1, 2027. | 4.75% - 5.25% | $ 95,010 | $ 17,030 |
| 2005 Series A, B, and C Bonds, including unamortized premium of $1,472, maturing at various date through August 1, 2030. | 4.45% - 5.25% | 148,302 | 28,110 |
| | | $ 243,312 | $ 45,140 |

As of June 30, 2022, debt services requirements for outstanding bonds are as follows (in thousands):

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 45,140 | $ 10,488 | $ 55,628 |
| 2024 | 22,400 | 8,432 | 30,832 |
| 2025 | 19,800 | 6,466 | 26,266 |
| 2026 | 17,880 | 4,648 | 22,528 |
| 2027 | - | 856 | 856 |
| 2028-2031 | 136,515 | - | 136,515 |
| | 241,735 | $ 30,890 | $ 272,625 |
| Plus: | | | |
| Unamortized premium | 1,577 | | |
| | $ 243,312 | | |

Bonds activity for the year ended June 30, 2022 was as follows (in thousands):

| | Balance at June 30, 2021 | Issuances | Other Increases | Other Reductions | Payments | Balance at June 30, 2022 |
|---|---|---|---|---|---|---|
| Bonds payable | $ 286,595 | $ - | $ - | $ - | $ (44,860) | $ 241,735 |
| Plus (less): | | | | | | |
| Unamortized Premium | 2,086 | - | - | (509) | - | 1,577 |
| | $ 288,681 | $ - | $ - | $ (509) | $ (44,860) | $ 243,312 |

The 2002 Series A Bonds, maturing at various dates through August 1, 2027, 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, 2022, principal outstanding on these bonds amounted to $94.9 million.

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 mature on or after August 1, 2015. Such bonds 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.

As of June 30, 2022, principal outstanding on the 2005 Series A Bonds amounted to $131.2 million. The 2005 Series A Bonds outstanding include bonds maturing on August 1, 2030, with principal amounts of $58,025,000 and $615,000 that 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.

The amortization requirements of the 2005 Series A Bonds subject to redemption 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 2005 Series B Refunding 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, 2022, the 2005 Series B Refunding Bonds were paid in full.

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, 2022, approximately $15.6 million of 2005 Series C Refunding Bonds remained outstanding and were subsequently fully defeased. Refer to the subsequent events in note 11 for more information.

As of June 30, 2022, the Agency's 2002 Series A Bonds and 2005 Series A Bonds, Series B, and C Refunding Bonds were rated AA by Standard & Poor's.

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 the Trust 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 in the Trust Indenture or in aid or execution of any power granted by the Trust Indenture 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.

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 from time to time 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 2002 Series A Bond'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, 2022, the Agency maintains approximately $14.6 million in the DSRF of the 2002 Series A Bonds.

The Series 2005 A, B and C Bond'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 of the Series 2005 A, B and C 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. The Series 2005 B Bonds were paid in full as of June 30, 2022; therefore, no reserve account is maintained. Pursuant to the Series 2005 A and C Bonds, the required combined DSRF is approximately $20.4 million.

## 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, the Puerto Rico Fiscal Agency and Financial Advisory Authority (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 GDB 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 Commonwealth's 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. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 5, 2023, 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, 2022 financial statements.

### *(a) 2005 Series C Refunding Bond Defeasance*

On July 27, 2022, the Agency entered into an Escrow Agreement for the defeasance of the 2005 Series C Refunding Bonds with U.S. Bank Trust National Association as Trustee, in which the Agency deposited $16.1 million, which will be sufficient to pay all the 2005 Series C Refunding Bonds outstanding upon maturity on August 1, 2023.

### *(b) 2005 Series A Bond Redemption*

On November 15, 2022, the Agency redeemed 2005 Series A bonds with principal and accrued interest amounting to approximately $8.9 million and $135,000, respectively.

### *(c) 2002 Series A Bond Partial Redemption*

On February 1, 2023, the Agency partially redeemed 2002 Series A bonds with principal amounting to $7,430,000.

### *(d) Escrow Liability to Municipalities*

On June 30, 2023, the Agency Board of Directors approved the disbursement of approximately $24 million in unrestricted cash to certain municipalities that previously held escrow accounts with the Agency. Management expects to disburse the funds to the municipalities during fiscal year 2024.

# 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, 2022**
**(In thousands)**

| | 2005 Series A, B and C Bonds | 2002 Series A Bonds | Total |
|---|---|---|---|
| Puerto Rico municipal bonds and notes | $ 132,253 | $ 82,352 | $ 214,605 |
| U.S. government, agencies and sponsored agencies obligations | 2,850 | 2,220 | 5,070 |
| Guaranteed investment contracts | - | 13,100 | 13,100 |
| Corporate debt | 18,858 | - | 18,858 |
| Money Market | 35,584 | - | 35,584 |
| Total invesments | $ 189,545 | $ 97,672 | $ 287,217 |
| Cash | $ 34,857 | $ 20,762 | $ 55,619 |